

Introduction

Understanding Informal Institutions in Kazakhstan

Over the past two and a half decades Kazakhstan has experienced a number of landmark changes, such as transition to market economy, the emergence of private property, and rapid urbanization, to name a few. Scholars and market economy advocates, particularly in the West, have argued that formal institutions should structure political life and dominate the social fabric of transitioning economies. In contrast, informal institutions, defined as “socially shared rules, usually unwritten, that are created, communicated, and enforced outside officially sanctioned channels,”¹ should disappear or, at least, decline under conditions of liberal markets, urbanization, and industrialization. This, however, has not happened in Kazakhstan. Informal rules—clientelism, informal payments and help, and corruption—are the “rules of the game” that continue to shape state-society relations and determine people’s everyday life in the country.

Given the importance of informal institutions for various economic and political outcomes, it is crucial to understand what happened to the Soviet legacy of informal reciprocal exchanges in the post-independence period. This book offers answers to the following questions: Why do informal exchanges continue to exist despite market reforms? And how have the Soviet-era informal institutions changed over time? I argue that the under-provision and unequal access to quality welfare goods make informal institutions critical channels for citizens to gain access to scarce resources in Kazakhstan. State retrenchment from the welfare sphere coupled with partial decentralization in the 1990s has negatively affected the provision of public goods, which in turn has influenced informal exchanges. In the past, the Soviet state provided universal health care, free education, and housing to everyone, but these public goods have become less accessible to citizens in the post-independence period. Today informal exchanges are used to gain access to

quality health services, public housing, good jobs, or education, rather than to gain access to *basic* consumer goods and foodstuffs, as it was in the Soviet Union.² The market economy helped to overcome the shortage of consumer goods that existed in the Soviet period; however, state benefits have become scarce and less accessible. State retrenchment and partial decentralization decreased both the quantity and quality of public goods and services available to the population. To cope with the under-provision of public goods, people resort to “access networks,”³ make informal payments, and rely on informal interpersonal relations with their family members, friends, and acquaintances. Citizens help each other through informal financial transfers and loans as well as provide foodstuff and other material goods. While informal payments are often utilized to compensate state underinvestment in education, connections are widely used to gain access to good jobs in the state, private companies, and civil service, and to receive quality medical services, bank loans, and subsidized housing. Thus informal exchanges perform an important function in providing and mediating access to quality goods and services for the population. The reduction of the state role in the provision of various goods, liberalization, and privatization led to a Kazakhstani society that was more fragmented than it was in the Soviet Union. Scarcity and unequal access to goods and services, in turn, increased the need for informal exchanges and “access networks.”⁴

Scholars have identified weak state capacity and market deficiencies as the main reasons for the poor provision of welfare goods.⁵ The effective delivery of quality goods and services by the state is subverted when government officials prefer to divert “state revenues to the private bank accounts of officials or their families.”⁶ Bureaucrats may also distribute public goods and services unevenly, rewarding those who are affiliated with them through kinship or familial ties and loyalty, and thus undermining equity of access to welfare goods. Finally, incomplete markets and market failures can also lead to the under-provision of social benefits in a country.⁷ In the case of Kazakhstan, despite the dismantling of the “economy of shortages” and the introduction of market mechanisms in the 1990s, people have continued to experience scarcity and unequal access to *quality* goods and services. As will be shown later, after deep state retrenchment from the social sphere, the market and the state have failed to provide both an adequate quantity of welfare goods and equal access to public resources. As a corollary, people resort to informal channels and informal payments to obtain quality goods and services in demand.

This book examines the nature and dynamics of informal reciprocal relations, focusing on micro-experiences of people who seek to gain access to quality public goods—medical services, education, and housing. It compares the Soviet and post-Soviet periods to reveal the different patterns in informal

reciprocal exchanges over time. I look at the impact of state retrenchment and decentralization on informal institutions in health care, education, and housing, which are important spheres of people's lives. While healthcare and education sectors are largely characterized by institutionalized informal payments and informal horizontal mechanisms of gaining access to quality medical services, the housing sector reveals mostly *clientelist* exchanges. In addition, the selection of these sectors provides a more systematic overview of the mechanisms at work between state retrenchment and decentralization, on one hand, and informal institutions on the other. The book also traces the emergence of new, nonstate actors who replaced the state in the provision of public goods in 1991. Through statistical analysis, I define factors that determine the frequency with which people are involved in informal exchanges.

WHY KAZAKHSTAN?

The objective of this book is to explain and test hypotheses on the linkage between public goods provision and frequency of informal exchanges. Kazakhstan presents a case of particular interest for that purpose. First, mainstream research on informal institutions has largely focused on Africa, Latin America, South East Asia, and Eastern Europe, while little attention has been paid to Central Asia.⁸ Second, the country offers a particularly rich terrain for the investigation of informal institutions. It is characterized by dense informal networks, patronage, corruption, clientelism, clans, and many other informal practices. It thus represents a good testing site for various theories and provides a good opportunity for scholars to generate theoretical propositions on informal institutions. A number of scholars have discussed informal institutions such as clans, tribes, and corruption; however, most of them focused on the elite level. This book offers a "from-below" perspective by looking at informal help and daily practices of ordinary people.

Third, the country is an excellent candidate for a "quasi-experiment" since it has undergone profound economic and political changes since 1991. Tracing the evaluation of informal institutions before and after the collapse of the Soviet Union provides a good opportunity to control and compare different contextual factors and identify their impact on informal institutions.

Next, although Kazakhstan is similar to other Central Asian states such as Uzbekistan and Kyrgyzstan in terms of its colonial history, cultural and institutional legacies, and market reforms (in the case of Kyrgyzstan), it differs in the type of informal exchanges that take place and particularly in terms of patron-client relations. For instance, post-independence Kyrgyzstan, due to its different political trajectory, has produced so-called subversive

clientelism.⁹ In that country, the autonomous business and political elites, particularly members of the parliament, had an incentive to establish close ties with local communities through the provision of patronage goods in order to gain political support of the people. This kind of informal exchange is absent in Kazakhstan due to the lack of vibrant political competition—both at the national and regional levels—and the lack of resource endowments, as well as weakened ties between legislators and their constituencies. At the same time, the emergence of an independent business class in Kazakhstan has allowed for the diversification of informal clientelist relations beyond the state. In contrast to Kazakhstan and Kyrgyzstan, Uzbekistan has maintained a centrally planned economy that does not allow for the development of informal clientelist relations involving independent business elites. Most important, Kazakhstan differs from other ex-Soviet states in its degree of state retrenchment from the social sphere in the post-independence period.¹⁰ In comparison to other post-Soviet states, the Kazakh government conducted the most radical social reforms and carried out deep cuts in state expenditures in the 1990s (see Table 0.1). For instance, according to the World Health Organization (WHO) report, Kazakhstan’s total health expenditures as a share of gross domestic product (GDP) were among the lowest in the WHO European regions (except for Turkmenistan and Azerbaijan). This, in turn, affected the provision of state benefits and influenced the level of informal reciprocal exchanges at the micro-level.

Table 1.1. Total health expenditure as share (%) of GDP in the WHO European Region, WHO estimates, 2008

Moldova	10.7
Georgia	8.7
Ukraine	6.8
Kyrgyzstan	6.6
Belarus	6.5
Tajikistan	5.6
Russian Federation	5.2
Uzbekistan	5.0
Armenia	3.8
Kazakhstan	3.7
Azerbaijan	3.6
Turkmenistan	1.8

Source: Alexander Katsaga, Maksut Kluzhanov, Marina Kranaikolos, and Berni Rechel, “Kazakhstan: Health System Review,” *Health Systems in Transition* 14, no. 4 (2012): 43.

LESSONS FROM KAZAKHSTAN

Undoubtedly, informal institutions are, at least partly, a legacy of the Soviet era. They did not emerge from scratch in the post-Soviet period. Informal reciprocal exchanges among the nuclear and extended families, friends, colleagues, co-ethnics, or neighbors were an important part of the survival system under the economy of shortages in the Soviet Union. The scarcity of material goods, hierarchical political structures, and the high level of discretion in the distribution of goods by low-ranking officials produced “the economy of favors,” institutionalized patron-client relations, and “the system of *blat*.”¹¹ The importance of personal connections and networks of “friends of friends” to gain access to goods in shortage has been widely recognized in the Soviet period.¹² These types of informal institutions and practices were adapted to the new environment of post-independence Kazakhstan. This, however, does not mean that the very same Soviet-era informal networks endured after 1991. In fact, Soviet-era networks were weakened in the post-independence period due to the emergence of new economic and political elites. The new political and economic system has also produced new kinds of informal practices—such as kickbacks or parental payments—that did not exist in the Soviet period. Indeed, informal institutions are not exactly the same. They were not merely copied from the previous Soviet setting and then pasted to a modern context,¹³ despite the fact that Central Asian “leaders have consciously employed templates from their Soviet past.”¹⁴ The continuity of informal institutions is observed not only through their “fixed” or static elements, which existed under old economic and political conditions and endured in the new environment, but also through their novel elements, which were developed to adjust to the new economic and political conditions.¹⁵ Therefore, identifying changed elements in informal institutions is, “in effect, the flip side of specifying the mechanisms of institutions’ reproduction or stability.”¹⁶

This book provides a number of valuable insights into the impact of state-building on the nature and level of informal reciprocal institutions. Modern informal exchanges share similar characteristics and patterns with those that existed under the Soviet Union. As elsewhere, the defining features of informal exchanges are reciprocity, inequality of status, asymmetry, and the personal enduring relationship, “a kind of lopsided friendship.”¹⁷ The same features are present in the post-Soviet model of informal networks based on bilateral exchange of resources, information, mutual help, services, and other responsibilities. Informal exchanges in the Soviet Union were based both on hierarchical structures connecting individuals of higher socioeconomic status with those of lower status and non-hierarchical horizontal networks connecting friends of the same status and wealth. Similar vertical and horizontal

structures continue to shape state-society linkages in post-independence Kazakhstan. Patrons provide resources and protection in exchange for support and loyalty, while brokers regulate and control the flow of goods from patrons to clients. Currently, informal exchanges—like those that existed in the Soviet Union—exploit friendships and state resources.¹⁸

Although there is much continuity between the two periods, there are also important distinctions between the Soviet- and post-Soviet-era patterns of informal exchanges. Overall, the scope of informal exchanges involving informal payments based on clientelist and kinship ties has increased¹⁹ in the post-independence period due to state retrenchment, which brought about a more fragmented society and inequality of access to scarce resources. As quantitative and qualitative analyses reveal, informal reciprocal institutions, particularly monetary exchanges rather than in-kind payments, have become more prevalent and institutionalized in the post-independence period than they were in the Soviet era.

The failure of the state to provide a sufficient quantity of welfare goods led to the emergence of non-state providers—independent businessmen, foreign oil companies, and non-governmental organizations (NGOs)—thereby making informal ties more diversified in the post-independence period than in the Soviet era and changing the dynamics of informal reciprocity. One of the distinctions of these non-state actors is that businessmen offer collective goods to various communities below market price. While in the Soviet time, the provision of goods and services was highly centralized, it became more decentralized during the post-independence period.

Finally, empirical evidence suggests that there is a variation in frequency of reciprocal exchanges across social groups. Citizens are not engaged in informal reciprocity in the same way across different social categories. Age, gender, or residency impact the level of citizens' involvement in informal exchanges in important ways. In contrast to the cultural approach portraying informal institutions as static and unchanging, this research shows that informal institutions are not fixed across time and space. The same context might yield different levels of people's engagement in informal reciprocal relations. Thus, it is important to look at informal institutions from various dimensions and different levels of analysis to better understand their complex nature and dynamics.

Hence, this book makes both empirical and theoretical contributions to the study of informal institutions. It builds on prior research that links state-building processes and informal reciprocal institutions. It investigates the impact of formal institutions on informal rules. In contrast to previous research,²⁰ I argue that it is not only the failure of the market but also the failure of the state to deliver quality public goods to the population that forces people to

engage in reciprocal informal exchanges. Most importantly, informal institutions in Kazakhstan do not serve only as “survival kits” or “safety nets,” as they do in African or Latin American contexts, but also as “access networks” to quality goods and services. Therefore, this book does not focus primarily on the impoverished citizens of Kazakhstan, as other research works do;²¹ rather, it examines *various* social groups involved in reciprocal informal exchanges.

An empirical contribution of the book is its focus on Central Asia. Previous research of informal reciprocal exchanges has centered on Africa and Latin America, while the Central Asian region has been largely neglected. Although scholars recognize that informal institutions matter in Kazakhstan and other Central Asian states, there have been no systematic attempts to study informal reciprocal institutions per se using mixed method research.²² This study provides unique data from two original surveys on informal reciprocal exchanges conducted in Kazakhstan in 2011 and 2013, as well as qualitative data gathered from in-depth interviews.

CONCEPTUALIZATION OF INFORMAL EXCHANGES

Before proceeding further, it is necessary to provide definitions of key concepts and terms that will be used in this book. One such concept is informal reciprocal exchanges. More broadly, informal reciprocal exchanges are defined as “long-term ties of exchange, or give-and-take, between individuals or groups over time.”²³ Informal reciprocal exchanges can be vertical and asymmetrical or horizontal and symmetrical.²⁴ The “asymmetrical, vertical exchanges of targeted benefits for support”²⁵ differ from other types of informal institutions in the way that they can be *simultaneously* reciprocal, asymmetrical, voluntary, exploitative, and personal in nature and involve complex networks composed of patrons, brokers, and clients. Reciprocity is not necessarily based on equal status of the participants.²⁶ James Scott in his seminal work claimed that “the obligation of reciprocity is the moral principle par excellence” that is applied equally to the relationship between equals and non-equals.²⁷ Reciprocal relations may include various types of actors, including close and extended family members, colleagues, friends, and members of the same or different kinship and ethnic group.²⁸ Vertical ties thus are based on inequality and develop among people of different socioeconomic status, while reciprocal horizontal relations comprise individuals of similar status, power, and wealth.²⁹ Friendship, for instance, is based on informal horizontal exchanges because friends, as a rule, belong to the same class but can have access to different types of goods and services that can be exchanged.³⁰

It is notable that although informal exchanges involve both horizontal and vertical networks, the latter are more important since people seek help from those who have access to more resources and thus occupy higher political or economic status. In a society with growing inequality, low social mobility, and restricted access to resources, vertical linkages become particularly critical to gain access to goods and services. Vertical ties might exist not only between people of higher political or economic status such as government officials or businessmen and their subordinates, but also among close and extended family members, colleagues, friends, and other actors.

Informal exchanges serve a number of important functions in various polities; however, they are particularly vital in developing countries and countries in transition. First, informal exchanges provide social mechanisms of survival and safety nets by spreading risk among individuals in difficult times. The types of exchanges that people use to share risks can vary from gift-giving to transferring financial resources to sharing important information and providing access to jobs. Second, informal reciprocal institutions provide and mediate access to both basic and higher-quality welfare goods. Under conditions of state retrenchment and low public goods provision, people seek both direct and indirect access to scarce state resources through the informal system of reciprocity and personal networks. To put it simply, informal clientelist exchanges help solve problems that different people encounter in their lives.³¹

For the purpose of this study, it is also important to define what public goods are. The types of goods and services delivered by government officials can be divided in terms of “the degree of ‘publicness’ of the goods delivered.”³² Public goods are universal goods that are provided to all citizens without exclusion, “regardless whether they contributed to the production or not.”³³ Public goods include external and internal security, low inflation, macroeconomic growth, and welfare state benefits, such as universal health care and universal education. If, for instance, under the Soviet Union, all Soviet citizens were entitled to free medical care, in the post-independence period, access to free public health care and education has shrunk significantly due to state retrenchment, decentralization, and growing inequality. The provision of medical services and access to quality education have largely become uneven across regions. The difference is particularly sharp between rural and urban areas of the country.

In contrast to public goods, private goods are delivered to specific groups and individuals rather than to all citizens. This type of goods favors some groups and excludes others from consumption. The difference between private goods and other types, particularly public goods, is that they are based on the contingency of actions of specific groups.³⁴ Politicians target private

goods to those who already delivered or have promised to deliver support. Private goods include public sector jobs and preferential access to highly subsidized housing, land, or social insurance benefits, to name a few. In this book, I focus both on public and private goods. Public goods include state medical services and education, because they are (at least theoretically) available to all citizens; on the other hand, subsidized housing is a private good because it is targeted to specific groups, including civil servants, public sector employees, and young families.

RESEARCH DESIGN AND METHODOLOGY

To investigate informal institutions, “within-case” research design was employed. It allowed me to compare informal institutions in the former Soviet Union and post-Soviet Kazakhstan (before and after 1991) and establish variation of informal exchanges across social groups. One of the main advantages of the “within-case” design is an opportunity to make viable controlled comparisons that help to validate causal inferences.³⁵ By analyzing a single country diachronically, I was able to maximize comparability and greatly increase control over potential explanatory variables.³⁶ The “before-after” research design allowed controlling for cultural, historical, and other characteristics at the local and national levels and helped to increase the number of observations.

Recent studies of informal institutions have employed a wide range of methodological tools, including ethnographic research,³⁷ small-*n* comparison,³⁸ and statistical analysis.³⁹ Although scholars have used a variety of tools to investigate informal institutions, the research is mostly based on application of a single method—either quantitative or qualitative. However, the application of one approach is inadequate to explore informal institutions. In this study, a combination of both quantitative and qualitative research techniques—a survey and in-depth interviews⁴⁰—has been employed to acquire different data.⁴¹ A concurrent embedded strategy—simultaneous collection of quantitative and qualitative data—was also used.⁴²

Data Collection

A recent turn in the study of informal institutions has been the application of survey methodology. Susan Stokes employed a subnational survey to explain the differences in the level of clientelism in various regions of Argentina.⁴³ Lauren MacLean applied the survey technique to investigate the structure, type, and quantity of reciprocal exchange relations among the rural population

of African states.⁴⁴ Other scholars, utilizing survey methodology, examined the impact of income on informal risk-sharing institutions.⁴⁵

The purpose of two surveys conducted in 2011 and 2013 was to capture the difference between the Soviet and post-Soviet periods as well as the variation in frequency of informal exchanges in Kazakhstan. The first survey (N = 400) was conducted during the period from September to October 2011 in three cities—Almaty, Astana, and Petropavlovsk—and rural areas of corresponding regions. The second survey (N = 700) was carried out during the period from January to February 2013 in five regions of Kazakhstan with the help of a private firm called Strategy. The advantage of the surveys was rapid data collection⁴⁶ from a large number of respondents. I gathered information on frequency of informal reciprocal exchanges and other dimensions, including people's background, their attitudes and perceptions toward the government, healthcare provision, education, and the State Housing Program.

Qualitative techniques were employed to identify particular factors, contextual features, and actors engaged in informal exchanges. Through in-depth interviews, I collected detailed information on the nature and dynamics of informal practices.⁴⁷ The snowball sample technique was employed to make new contacts with potential interviewees. In total, eighty extensive in-depth interviews were conducted with rank-and-file citizens, experts and political analysts, journalists, government officials, medical workers, and teachers across different regions.

Secondary resources included various books and scholarly and newspaper articles. National-level newspapers included *Central Asian-Monitor*, *Kazakhstanskaya Pravda*, *Svoboda Slova*, *Liter*, *Vzglyad*, *Kazakhstan Today*, *Uchitelskaya Gazeta*, *Literaturnaya Gazeta*; and local newspapers comprised *Severny Kazakhstan*, *Novator*, *Ogni Alatau*, and *Vechernii Almaty*.

Measuring Informal Exchange Relations

There are no readily available measurements of informal exchange relations and their level of intensity. Various proxy indicators, such as the International Transparency Corruption Index, the number of civil servants in an administrative apparatus, or the level of personnel spending, are used to measure informal exchanges.⁴⁸ Although these measures can be applied to assess patronage in Kazakhstan, they are not reliable for evaluating the level and quantity of informal exchange relations among individuals. Informal exchanges are based on reciprocity; however, the asymmetrical and unequal nature of exchanges between patrons and clients makes informal exchanges different from horizontal reciprocal relations. To measure the level of informal ex-