“Everybody lives on their own,” Marzhan said to explain how people cope now without the Soviet welfare state. The idea of “living on one’s own,” in other words, being accountable for one’s own survival, is a frequent refrain among people in both Kazakhstan and Kyrgyzstan. It is also the governments’ stance and thus a partial explanation for why individuals use corrupt practices when trying to obtain state resources. Through the media and their conversations with citizens, government officials tell individuals that they are responsible for their own economic success or failure because Kazakhstan and Kyrgyzstan are now market reformers. Faced with this message, individuals without alternative sources of assistance offer government officials personal incentives, such as bribes, to make an exception to the mantra and provide them with state resources.

While government rhetoric about market reform encourages the use of corrupt practices, the economic effect of market reform drives individuals to seek state assistance in the first place. By limiting alternative resources from market and societal actors, market reform has promoted corruption. In theory, this reform policy creates market goods and services to replace state ones. However, under the two conditions, a legacy of significant state economic intervention and weak or absent market-enhancing institutions, this has not occurred. Instead, market actors, such as private banks and entrepreneurs, have not been able to provide sufficient credit and employment for people to earn adequate income.

1. Author’s interview (#161), Kazakhstan, July 22, 2001.
and avoid engaging in corruption. Market reform under these circumstances has also hindered societal actors’ ability to provide substitutes for state welfare, as described in the next chapter. In an environment where market and societal actors cannot assist with economic survival, individuals turn to government officials for assistance. Yet market reform has also limited the resources of government officials, increasing the competition among citizens for state goods and services and thus encouraging them to engage in corrupt practices to gain an edge.

How do we know market reform has limited market actors’ ability to provide goods and services and thus has encouraged citizens to seek them illicitly from government officials—the claim of this chapter? Numerous pieces of evidence build the case. Reports of international financial institutions and economic histories show that market reform, a legacy of significant state economic intervention, and absent or weak market-enhancing institutions—the causal factor and two conditions—exist in Kazakhstan and Kyrgyzstan. Market actors and government officials from the countries describe how markets are not an alternative to corruption because of the absent or weak institutions. Consistent with this, my survey data show that individuals tend not to turn to market actors to try to solve their everyday problems. Moreover, the demands individuals make of the state match challenges brought about by market reform under these conditions. Interviews with ordinary citizens and officials reveal that market reform has reduced the availability of government resources and discouraged reliance on the state, thus providing incentives for individuals to use corruption in the competition to secure state goods and services. The survey data indicate that, in contrast, competition for basic state resources is not as common in Uzbekistan, a country that has not undertaken market reform but otherwise resembles Kazakhstan and Kyrgyzstan on many factors thought to cause corruption. Finally, analysis of global data suggests that this effect of market reform extends beyond Central Asia.

From Economic Intervention to Market Reform without Market-Enhancing Institutions

In Kazakhstan and Kyrgyzstan the significant state economic intervention of the Soviet era has been replaced with market economies, albeit ones lacking market-enhancing institutions. In the Soviet era, state economic intervention was substantial. The state owned the means of production in all spheres, and state employees produced the goods and services. The state allocated resources, including
capital and labor, according to a national economic plan. It also set prices.² Market activity was officially banned and as a result was nearly nonexistent. A second economy compensated for the weaknesses of Soviet socialism. The Soviet party-state put little emphasis on consumer services and goods, so their quality tended to be poor, and, periodically they, as well as productive goods, were in short supply. As a result, individuals traded these outside of the official economy. For example, haircuts, appliance repair, better cuts of meat, contraband Western literature, high-quality shoes, and scarce industrial and agricultural inputs were available in the second economy.³ Even with the second economy, however, the Soviet Union was characterized by significant state economic intervention.

Since becoming independent countries in 1991, Kazakhstan and Kyrgyzstan have undertaken numerous market reforms, in the areas of liberalization, privatization, and deregulation. The reforms have included the establishment of current account convertibility; liberalization of interest rates, trade, and prices; deregulation of wages; and privatization of small firms, land, and pensions, as indicated in Table 4.1.

Although Kazakhstan and Kyrgyzstan have undertaken market reforms, these reforms have not included the development of market-enhancing institutions. Credit bureaus and registries and effective competition policies would be par-

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² V. Bunce, “Elementy neopredelennosti v perekhodnyi period” [Elements of uncertainty in the transition period], Polis 1 (1993), 44–51.
particularly helpful in these economies. Yet, the countries have not had private credit bureaus, public credit registries, or effective competition policies throughout most of their independence periods. The World Bank and International Finance Corporation reported that neither country had a private or public credit bureau at the time of my surveys. Beginning in 2005 in Kyrgyzstan and 2006 in Kazakhstan, private credit bureaus slowly began to develop, and by 2013, they covered approximately 46 percent of the adult population in Kazakhstan and 32 percent in Kyrgyzstan—far from the 100 percent found in most developed economies.4 This trend is visible in Table 4.2. The governments of Kazakhstan and Kyrgyzstan still have not created public credit registries nor have they established effective competition policies. The European Bank for Reconstruction and Development (EBRD) describes the countries as having only limited competition policies from the time of the surveys to 2013.5

### Table 4.2. Private credit bureau coverage in Kazakhstan and Kyrgyzstan (percentage of adults)

<table>
<thead>
<tr>
<th>Year</th>
<th>Kazakhstan</th>
<th>Kyrgyzstan</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2005</td>
<td>0</td>
<td>0.2</td>
</tr>
<tr>
<td>2006</td>
<td>5.5</td>
<td>0.4</td>
</tr>
<tr>
<td>2007</td>
<td>13.7</td>
<td>1.6</td>
</tr>
<tr>
<td>2008</td>
<td>25.6</td>
<td>3.7</td>
</tr>
<tr>
<td>2009</td>
<td>29.5</td>
<td>5.9</td>
</tr>
<tr>
<td>2010</td>
<td>29.9</td>
<td>11.9</td>
</tr>
<tr>
<td>2011</td>
<td>37.6</td>
<td>18.7</td>
</tr>
<tr>
<td>2012</td>
<td>39.3</td>
<td>24.6</td>
</tr>
<tr>
<td>2013</td>
<td>45.6</td>
<td>32.1</td>
</tr>
</tbody>
</table>


In this economic context, market actors have not been able to offer goods and services to meet everyone’s basic needs, so citizens use illicit means to obtain

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them. The private businesses that exist today in Kazakhstan and Kyrgyzstan began from scratch immediately prior to the collapse of the Soviet Union and in the independence era. With the end of the ban on private enterprise in the late Soviet era, private banks, microcredit companies, and other private ventures began to emerge. The absence of some market-enhancing institutions and the weakness of others have limited the market goods and services provided by these businesses. The absence of credit registries and bureaus has prevented private banks and most microcredit companies from lending in rural areas, in particular. The lack of government regulation of the microfinance industry has hindered the emergence of sound credit, encouraging predatory lending instead. The dearth of effective government antimonopoly policies has stifled business expansion by enabling suppliers to charge inflated prices. As a result, credit, employment, and charitable donations from private ventures have not been adequate to meet people’s needs.

Private banks and responsible microcredit companies have adopted stringent lending requirements in response to the absence of credit registries and bureaus. The requirements reduce the risks of lending and minimize the losses from borrowers who default on their loans. These restrictions, in turn, have prevented much of the populations, particularly rural residents, from obtaining credit except from predatory lenders. Private banks’ business credit programs typically require that borrowers have an existing business, seek funds for nonagricultural ventures, possess valuable collateral, and repay the funds in frequent intervals within a short period. Responsible microcredit companies demand some other source of income and repayment in frequent intervals.

People who need assistance do not have the existing business that private lenders require or the other source of income that responsible microcredit companies prefer. Typically these individuals have lost their jobs and do not already have a business on the side or some other source of income. Approximately half of the people who inquire about small-business credit request start-up funds and are turned away, according to a specialist who directs a credit program that operates through many private banks in a city of central Kazakhstan. The general manager of a microcredit company in Kyrgyzstan explained that all the company’s first-time borrowers have another source of income.

Many private banks will not lend money to farmers. This practice excludes much of the population in each country from obtaining credit because 46 percent and 65 percent of the population is rural in Kazakhstan and Kyrgyzstan,

respectively. Banks’ refusals to lend to farmers stem, in part, from the lack of valuable collateral in rural areas. Private banks generally accept only homes and cars as collateral. In rural areas, homes are worth little, which makes them ineligible to serve as collateral. Car ownership was not common in the Soviet era, and today, particularly in rural areas, personal cars are not ubiquitous. Farm equipment, future harvests, livestock, and land would be difficult for banks to realize when clients default, so this property is typically not accepted for collateral. Farm equipment is mostly Soviet-made and has little value, and banks have not developed the networks to sell farm products and livestock. Furthermore, the value of harvests and livestock can unexpectedly drop. Drought and disease can destroy crops, and theft and illness can reduce herds. Land has been difficult for banks to convert into cash for numerous reasons: some areas have an excess of land; farmers tend to have long-term leases instead of ownership of land; most farmers do not have the capital to rent or purchase additional land; and foreigners cannot buy it. Private banks typically do not accept smaller household objects, such as televisions, because they can be difficult to locate. Lack of collateral is not a problem exclusively in rural areas. In towns and even in some cities, apartments are of so little value that collateral can be difficult to obtain. An auto parts distributor, Sulushash, explained how she looked for two years for credit to begin her business but repeatedly found that her city apartment was not worth enough to serve as collateral.

Private banks tend to offer only short-loan periods, and both private banks and responsible microcredit companies typically require the repayment of loans in installments. These requirements are prohibitive for farmers; as the head of a raion association of independent farmers in southern Kazakhstan explained, “If we had long-term credit we could all get on our feet.” During the crop-growing season, which lasts from approximately April to October, farmers do not have funds to make loan payments. They do not have available funds until they harvest their crops in the fall. For this reason, those few private programs that lend to farmers typically require them to have a nonagricultural business in addition to their farming venture; however, few farmers are in such a position. Farmers explained to me that they need longer loan periods, three years for example, to be able to repay loans for the purchase of seed or fertilizer, even if they suffered a bad harvest. Private banks’ credit programs are even less conducive to livestock ventures, as most animals need to mature approximately five years for farmers to recoup their investments. These programs also do not meet the needs of farmers or urban entrepreneurs who want to invest in equipment. Many farmers need to replace Soviet-era farm equipment. Some farmers are also interested in

selling processed goods in order to obtain a greater profit. In order to process their crops and livestock into flour, macaroni, or juice, for example, they have to purchase equipment. Similarly, urban entrepreneurs, most of whom buy goods in one location and sell them in another, have to invest in equipment, for manufacturing or higher-end service industries, in order to further develop their businesses. For these types of purchases farmers and urban entrepreneurs need a five- to ten-year loan period.

Credit is more readily available from microcredit companies engaged in predatory lending, but the risk of default and greater impoverishment is high. These companies offer larger loans at exorbitant rates of 50–70 percent per annum and typically obfuscate the terms and risks from the borrowers. The growth of predatory lending has been enabled by the absence of another market-enhancing institution—government regulations. For example, in Kyrgyzstan an individual with only 2,175 USD and no microfinance or banking expertise can establish a microfinance institution. Today 100 are in operation and another 350 have been created in Kyrgyzstan. In Kazakhstan about half of the 1,800 microcredit organizations created are in operation.

Islamic banks and financial institutions represent another new, but not very promising market alternative to state assistance. In Kazakhstan the government passed a law allowing Islamic banks and financing organizations to operate in the country, and Kyrgyzstan has embarked on a pilot Islamic banking project. These institutions invest directly in business ventures, instead of granting interest-bearing loans. Advocates claim that this approach is more transparent and creates a relationship between the institutions and their clients, suggesting that predatory behaviors are less likely. Unfortunately, investment from Islamic banks and financing institutions has not significantly expanded opportunities for business capital in its first few years. One report points to the reluctance of secular elites to embrace Islamic institutions, although enthusiasm has grown for learning about Islam. Nonetheless, Islamic banks and financing institutions do not currently provide a significant alternative to state assistance.

Accounts of those in the banking and government sectors confirm that the absence, and more recently, the limited coverage, of credit registries and bureaus restricts the ability of private secular banks and responsible microfinance firms to provide credit. The manager of a microcredit company set the scene, explaining, “There is still high demand for credit. The market is not saturated.” An official with the Agency of the Republic of Kazakhstan for the Regulation of Natural Monopolies, Protection of Competitiveness, and Support of Small Business attributed the lack of legitimate small business capital available in the country to the lack of information about current and potential entrepreneurs’ creditworthiness. The general manager of the head office of a private bank in Kyrgyzstan elaborated on how government officials verbally encouraged the expansion of private credit into rural areas but did not provide the institutions essential to making it possible. “The government has requested that we issue agricultural credit,” he began. And, then he proceeded to explain that his bank would need a network of branches in rural areas in order to collect information about potential clients. He added that fifteen banks have formed the nascent credit bureau, but none has data on rural residents, so the collective has not made lending in rural areas possible. Moreover, a representative of the World Bank in Kyrgyzstan explained to me that the banks hold back much of their information from the collective effort because they are competing with one another.

Private banks’ limited collective efforts to pool creditworthiness databases could be successful with incentives from the governments of Kazakhstan and Kyrgyzstan. Ironically, however, in Kyrgyzstan the government has the most information about the creditworthiness of rural residents but it has refused to provide it to private banks. The head of the credit department of a government bank with an agricultural lending program explained that the bank has data on creditworthiness of some rural residents because they have specialists based in raions. Of all the banks, this one has the largest number of credit histories, the department head revealed, but it opted not to join the collective effort. “It would not have been an even exchange of information” because the private banks had so little information, he explained.

Microcredit companies view this absence of credit histories and the weak regulatory environment as a profit-making opportunity. The head of one of the largest microcredit firms in Kyrgyzstan, Babur Tolbaev of Mol Bulak Finance, stated: “Every month we have new customers without credit histories. I believe there is room for growth, maybe not like the last two years, but there is.” While these

firms’ pursuit of profit has expanded credit, the expectation by industry watchers is that a microfinance bubble has formed and will soon pop, with the consequence that borrowers will default and have even greater difficulties meeting their basic needs. In response, Kyrgyzstan’s national bank closed ninety-four microcredit lenders in 2012, and the parliament of Kazakhstan has considered legislation to regulate the industry. Microcredit institutions themselves have not been able to agree to self-regulate to address the problem. Guidelines proposed by the Foundation for International Community Assistance (FINCA), an American microcredit nonprofit, were rejected by other microcredit institutions.16

The weakness of another market-enhancing institution, government antimonopoly policies, has made it difficult for individuals to obtain income and employment in Kazakhstan and Kyrgyzstan. Although both countries have government antimonopoly committees, neither has been effective in reducing monopolies, particularly in rural areas. Because rural residents face monopolies in energy, processing, and purchasing, they cannot readily obtain these goods and services as they once did from the state.

Energy monopolies have inflated prices, so it is difficult for farmers to purchase inputs and to make a profit. In Kyrgyzstan the government broke the state energy concern, Kyrgyzenergo, into eight companies but continues to protect them from competition.17 The head of the credit department in the government bank in Kyrgyzstan lamented, “The antimonopoly committee does not help. For example, oil prices fell but the committee kept prices high locally. Not until the president made a request did the committee help.”18 The deputy director of the Agency for the Regulation of Natural Monopolies in Kazakhstan acknowledged to me that the government has not addressed the problem of middlemen who are inflating the cost of electricity to rural areas. Farmers in the village in southern Kazakhstan where I lived confirmed the high costs of electricity resulting from middlemen. In Kyrgyzstan, a monopoly on diesel fuel has forced farmers to pay 38 som per liter; they earn only 12 som for a kilo of wheat. At these prices, a farmer growing wheat on forty-two hectares, one of the larger plots available through privatization, pays 3.32 USD per gallon of gas and earns 5,800 USD, before expenses, from a good harvest. With the 5,800 USD he could purchase thirty-six gallons of gas each week for a year for planting, harvesting, and marketing but have nothing left over.

18. Author’s interview (#127), Kyrgyzstan, May 28, 2009.
In addition to energy monopolies, national and local processing monopolies are obstacles to profitable farming. A processing facility can monopolize business in a locale because farmers cannot afford to transport their products great distances to another processing facility. Kyrgyzstan has had only two sugar-processing plants and two cotton-washing facilities, one of which is now closed, so these facilities can demand a high percentage of farmers’ output. In the southern part of Kyrgyzstan, farmers have struggled to have their cotton ginned at a reasonable price. The south has multiple cotton gins, but they have colluded on price. The manager of a nonprofit rural consulting association for Talas and Issik-Kul’ Oblasts explained that he had encountered regional processing monopolies in these two oblasts as well as in Osh Oblast. Marzhan’s uncle in southern Kazakhstan described a similar situation in his region. “It is a monopoly,” Kanat complained, when he recounted how the miller, the only one in the vicinity, requires 40 percent of his grain as payment.19

As for purchasing monopolies, the manager of the agricultural consulting service in Kyrgyzstan explained, “The government has control over the buyers and officials profit personally.”20 A single foreign firm buys all the tobacco from southern Kyrgyzstan and therefore can unilaterally set the price. On a smaller scale, another foreign firm buys all the beans from Talas Oblast. The Kyrgyz Bakers’ Union has lodged a complaint with the government antimonopoly agency over the agency’s inattention to the problem of purchasing monopolies for baked goods. To the extent that the antimonopoly committees in Kazakhstan and Kyrgyzstan have been active, they have focused on prices consumers pay instead of energy, processing, and purchasing monopolies that affect farmers and other small business owners.21 The lack of government antimonopoly policies to support business and data on citizens’ creditworthiness has stifled business in Kazakhstan and Kyrgyzstan.

Consequently, the weakness or absence of market-enhancing institutions has made it difficult for market actors to meet people’s demands. Most directly, private banks and responsible microcredit companies cannot lend to many who need credit.22 “There are many good hands and heads, but people do not have

19. Author’s interview (#153), Kazakhstan, multiple dates in July and August 2001.
20. Author’s interview (#125), Kyrgyzstan, May 26, 2009.
21. Antimonopoly committees are not the sole remedy for processing and purchasing monopolies. Governments could also invest in public transportation, ensuring that roads are of decent quality and passable year-round, for example. This would enable farmers to more easily buy, process, and sell outside of their locales.
22. As formal models of credit rationing indicate, some individuals will be too risky to lend to. Most likely, their credit histories would indicate this, or they would have no credit histories. Joseph E. Stiglitz and Andrew Weiss, “Credit Rationing in Markets with Imperfect Information.” American Economic Review 71, no. 3 (1981), 393–410.
capital today,” the head of a raion committee for the support of small and medium business in southern Kazakhstan explained.\textsuperscript{23} Lack of credit has been the main problem in agriculture and has stymied its growth. “If this question had been resolved, agriculture would have improved long ago,”\textsuperscript{24} a director of an oblast committee for the support of small and medium-size business in southern Kazakhstan clarified. With limited credit and with the inflated prices resulting from monopolies, entrepreneurs cannot boost their own incomes. As market actors themselves, entrepreneurs also cannot expand their businesses to employ more people and thus provide others with the employment and income they need. Consider, for example, Marzhan’s uncle Kanat, the successful private farmer. He would like to earn more income and employ more people by purchasing equipment, at a cost of 12,000 USD, to mill the wheat he grows himself instead of relying on the single miller in the area. He would also like to build a factory to produce macaroni from his flour. He cannot do either, however, because of the difficulty of obtaining credit and the milling monopoly. Credit would enable him to purchase the necessary equipment and build a facility. More competitive milling prices would allow him to save money to fund the expansion of his business. Similarly, Nikolai, a successful store owner in a small town in central Kazakhstan explained, “I would prefer to be engaged in industry instead of trade . . . but I do not have the capital to do it.”\textsuperscript{25} He cannot obtain the credit needed to purchase or establish a plant. Were these businesspeople able to execute their plans they would be able to offer jobs to more people and potentially have enough income to make generous charitable donations, thus helping others meet their needs for employment and money.

The inability of businesspeople to make generous charitable donations alludes to another effect of weak or absent market-enhancing institutions. The weaknesses or absence of these institutions has had direct and indirect effects on societal actors. They have had difficulty obtaining credit. Limited market opportunities also have meant that most individuals, particularly in rural areas, have not had sufficient income to make generous donations to societal groups, such as mosques and charities. The case of Marzhan’s uncle is one example of this.

The evidence given in this section about the effect of weak or absent market-enhancing institutions also explains the greater corruption in rural areas and it challenges an alternative explanation. The more significant effect of weak or absent market-enhancing institutions in rural areas helps to explain why informal

\textsuperscript{23} Author’s interview (#170), Kazakhstan July 25, 2001.
\textsuperscript{24} Author’s interview (#148), Kazakhstan, July 9, 2001.
\textsuperscript{25} Author’s interview (#191), Kazakhstan, June 5, 2001.
competition for state goods and services is greater there. This evidence about why effective market-enhancing institutions are weak or absent and how this limits markets actors’ ability to meet everyday needs also casts doubt on the idea that some other factor accounts for both the institutions’ weakness or absence and corruption.

**Minimal Reliance on Market Actors**

Market actors’ difficulty in providing necessary goods and services is also evident from how little citizens rely on them. At most, 4 percent of survey respondents had sought assistance from a particular market actor in the preceding year (see Table 4.3). Only 3 percent of survey respondents in Kazakhstan and 1 percent in Kyrgyzstan had turned to a private bank for help. The figures for one’s current employer and former employers were, respectively, 4 percent and 4 percent in Kazakhstan and 3 percent and 2 percent in Kyrgyzstan. The numbers for local companies where one does not work and foreign companies where one does not work were even lower. For Kazakhstan the proportions were 3 percent and less than 1 percent, and for Kyrgyzstan they were less than 1 percent and zero, respectively. Respondents also did not use the services of private employment agencies even though unemployment was one of the most common problems.26 These employment agencies typically offer job hunters leads for a range of positions: manual labor jobs, such as construction worker; service jobs, including bartender, security guard, and waiter; and positions requiring education, such as a senior accountant or computer programmer. The job hunter pays for the service; one employment agency in central Kazakhstan charges individuals 300 tenge, approximately 2 USD, for each lead and an additional 1000 tenge or 7 USD once a position is accepted. The reason these agencies are used rarely is that the unemployed do not have funds to pay for the services because price liberalization wiped out people’s savings. As a result, most of these private employment agencies last only six months before going under. Those that have operated longer typically have another business that subsidizes the employment agency.27

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26. “Private employment agency” was not an option on the survey, but respondents were able to list additional places to which they turned for assistance. No one listed private employment agencies and my interviews indicate why few people turn to them.

27. Local and foreign companies are also examined in the next chapter because they have the potential to provide charitable assistance, as societal groups do.
MARKET ACTORS AS AN UNREALIZED ALTERNATIVE

Challenges and Demands

Without assistance available from market actors or societal groups, individuals turn to government officials for help. The fact that the demands made of government officials by individuals in Kazakhstan and Kyrgyzstan match the challenges brought about by market reforms and absent or weak market-enhancing institutions further increases our confidence that these are a causal factor and an important condition, respectively. Market reforms without market-enhancing institutions resulted in unemployment, insufficient income, and limited credit—the very problems for which citizens seek government officials’ help. Specifically, privatization led to job loss, price liberalization and ineffective antimonopoly efforts made incomes insufficient, and the absence of credit registries and bureaus hampered borrowing. The demise of the Soviet economy also contributed to these problems; however, it was market reform under these conditions that made them dire.

The collapse of the Soviet Union disrupted the economies of the former republics so that the governments and state enterprises of the newly independent countries, including Kazakhstan and Kyrgyzstan, faced significant crises. The economies of the Soviet republics had been highly specialized, so, as a result, many individual goods were available from only one location. With the disintegration of the Union it became difficult for state enterprises—including factories, farms, and natural resource concerns—to obtain inputs from other former republics. Moscow no longer guided the flow of inputs, and new borders and currencies further hampered the movement of inputs.

To respond to the structural problems of the Soviet economy and obtain foreign financial assistance for the immediate crisis, Kazakhstan and Kyrgyzstan

<table>
<thead>
<tr>
<th>TABLE 4.3.</th>
<th>Market actors from whom citizens have sought assistance in the past year in Kazakhstan and Kyrgyzstan (percentage of respondents, rounded)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>KAZAKHSTAN</strong></td>
<td><strong>KYRGYZSTAN</strong></td>
</tr>
<tr>
<td>Bank</td>
<td>3</td>
</tr>
<tr>
<td>Current employer</td>
<td>4</td>
</tr>
<tr>
<td>Former employer</td>
<td>4</td>
</tr>
<tr>
<td>Local company where you don’t work</td>
<td>3</td>
</tr>
<tr>
<td>Foreign company where you don’t work</td>
<td>&lt;1</td>
</tr>
</tbody>
</table>

Note: $n=1,200$ for Kazakhstan and 1,199 for Kyrgyzstan. A portion of the 1,500 respondents in each country claimed that they had no problems or that describing their problems was too difficult and thus some respondents were not asked this question about seeking assistance.

- Some banks, employers, and local companies remain state institutions in these countries as a result of the communist period; however, market reforms have ensured that most are now nonstate entities. Counting all of them as market actors increases the difficulty of arguing that the reliance on the state is greater than reliance on market actors.
began to implement the market reforms advocated by the World Bank and International Monetary Fund. Both state enterprises and the governments took a financial hit as a result of these reforms. The reforms meant that state enterprises lost their guarantees of government purchases. Price liberalization further burdened state enterprises as energy costs skyrocketed. State enterprises as well as the government institutions of the former republics also lost subsidies from Moscow because of the collapse of the Soviet Union. Having adopted a market reform approach and lacking substantial revenue from enterprises and subsidies from Moscow, the governments of Kazakhstan and Kyrgyzstan could not prop up every state concern. Many were privatized; others, in industries such as construction, mining, energy production, and public transportation, were maintained by the governments.

These economic shocks to state industrial and agricultural enterprises further reduced funds in government coffers. As a result, nearly all Kazakhstanis and Kyrgyzstanis suffered as everyone was an employee of either a state enterprise or, in the case of teachers, medical personnel, and bureaucrats, the government. Employees of state enterprises, whether privatized or not, lost income. Privatization offered little in the way of job security. Some enterprise managers wrested shares from employees and then stripped the enterprises of assets, putting employees out of work. Some investors, entrepreneurial managers, and employee collectives downsized enterprises in order to make them more internationally competitive. As a result a portion of the employees lost their jobs. For example, Marzhan was laid off from her job in the accounting office of the sovkhoz (state farm) in the village in 1998 as it struggled financially. Of the survey respondents, 19 percent in Kazakhstan and 26 percent in Kyrgyzstan were unemployed, and this was in 2003, after the worst of the economic crisis had passed.

In other cases, workers did not lose their jobs but did not receive their salaries because the enterprises faced the challenges of obtaining inputs and finding buyers. As an employee remaining at the bankrupt sovkhoz in southern Kazakhstan put it, “We receive no pay. We work for free. For a ‘thank you.’” Marzhan’s husband Temir, an electrician at the sovkhoz, left his job in 1999 because the

28. These respondents selected “I am temporarily without a job, am looking for work” to describe why they were unemployed. Others without a job, but not included in this statistic, were students, pensioners, the physically disabled, those caring for a child, or individuals who chose not to work. These figures are preferable to official statistics, which are typically based on those who have registered as unemployed. Unemployment benefits are not widely available in Kazakhstan and Kyrgyzstan, so people have little incentive to register and thus official statistics underreport unemployment. For example, the World Bank reports unemployment figures of 10 percent and 9 percent in Kazakhstan and Kyrgyzstan, respectively, for the same time period. Data are from World Bank, “World Databank,” http://databank.worldbank.org/ddp/home.do (accessed December 19, 2013).

sovkhoz was unable to pay him. In some workplaces in Kazakhstan and Kyrgyzstan, employees were paid with the goods they produced. While employees could use some of the goods they received, in many cases they needed to sell most of them. This was difficult, particularly when an enterprise dominated the labor force in a locale and thus many individuals received the same good. Even employees of the government and state enterprises that were not privatized faced hardship; as government coffers shrunk, the state also delayed payment of salaries or paid workers in goods.

Compared to those working at state enterprises at the time of the collapse, pensioners were no better off. Some people retired early thinking that earning a pension during the economic crisis would be preferable. But the value of pensions fell dramatically because of price liberalization and the resulting inflation in Kyrgyzstan, where pensions were not simultaneously increased. Furthermore, delayed and unpaid pensions have been common in both countries. New and newly privatized companies concerned with their bottom lines failed to contribute to the pension system, and local officials used pension funds to pay other social benefits. Pension reform in the mid-1990s in Kazakhstan and in the late 1990s in Kyrgyzstan mitigated delayed pay and nonpayment problems in the new century, but the size of pensions for many retired people remains too small.30

Any money people do earn does not go far, as inflation, fueled by price liberalization, has been steep and many goods and services are no longer free or subsidized. While inflation has tapered off, it saw highs of 1,880 percent in Kazakhstan and 885 percent in Kyrgyzstan in the early 1990s, as noted in Table 4.4. In reaction to the economic crisis and new market reform approach, workplaces—the provider of most benefits in the Soviet era—and local governments curbed goods and services. Or in the case of dissolved enterprises, the enterprises no longer existed to provide benefits. Medical care, medications, utilities, home repairs, day care, and vacations—once highly subsidized—are now expensive. Most people in Kazakhstan and Kyrgyzstan now have to pay for textbooks, heat,

and repairs for their children’s schools and higher education, whereas these were free in the Soviet era.  

With the introduction of market reforms, most people lost their source of income or experienced a precipitous drop in income while also having to pay for more goods and services, of which there is a much broader selection. A resident of a city in central Kazakhstan summarized the change from the Soviet era: “Everything is in stores. Now the problem is money.” These challenges match the demands of those who try to obtain government help. Of those who sought as-

31. In rural areas the problem is compounded by shortages of goods and services. Many day-care centers, village clubs, stores, schools, and medical clinics have closed in rural areas. Some villages no longer have access to certain utilities because some villagers are unable to pay and the private firms have cut off services to villages rather than provide utilities to a smaller number of people unprofitably.

32. Author’s interview (#186), Kazakhstan, June 3, 2001.
sistance from state officials in Kazakhstan and Kyrgyzstan, 83 percent and 52 percent, respectively, identified lack of money as one of their top problems. It is also clear from government officials’ accounts in the previous chapter that assistance sought matches outcomes from market reform. These officials described how people request money, credit, and employment because they lack funds. The characteristics of those who seek help from government officials also support the argument that market reform promotes these interactions. Those who have been most adversely affected by market reform in Kazakhstan and Kyrgyzstan are the individuals most likely to approach government officials. Specifically, those who are unemployed in Kazakhstan and Kyrgyzstan are more likely to seek help from officials. Among individuals who have sought assistance from government officials, 29 percent in Kazakhstan and 40 percent in Kyrgyzstan are unemployed, compared to the adult population unemployment averages of 19 percent and 26 percent, respectively. As a result of market reform without market-enhancing institutions, citizens have economic needs that they hope government officials can meet.

**Scarcity of Government Goods and Services**

Market reform has also made government resources scarce, so citizens seeking government assistance try to gain an advantage in the competition for state resources by using corrupt practices. The reforms have ended or shrunk formal government programs so fewer resources are available to raion and oblast bureaucrats, village leaders, and deputies. Those programs that do exist formally restrict the distribution of resources to individuals who meet narrow requirements in order to manage their scarcity.

Raion and oblast credit programs, as described in the previous chapter, are the governments’ response to the new challenges posed by the market economy and the loss of extensive welfare assistance under the Soviet economy. However, there is not enough credit to meet demand, so individuals use illicit means to try to obtain it. The comments from the head of a large government agricultural credit program in Kyrgyzstan illustrate the relationship among these factors well: “We do not have enough money and we have more demand. . . . Some people are offended if they are denied credit and they say ‘give me credit because I have this acquaintance.’”

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33. Author’s interview (#127), Kyrgyzstan, 2009.
The number of loans made also indicates that demand has not been met. In Kazakhstan, a country of about fifteen million, and Kyrgyzstan, a country of about five million people, approximately three million people in each were poor at the time I conducted the surveys. The numbers of rural residents in the countries were approximately six million and three million, respectively. The most productive credit program has been the government bank program targeted at rural areas in Kyrgyzstan, yet it has not helped the three million rural residents in the area. This bank has made approximately ninety thousand loans in five years, and many of the loans are to repeat customers. Other programs in Kyrgyzstan fall far short of these numbers. In Kazakhstan the Agriculture Financial Support Fund established to help low-income residents and small businesses in rural areas met only 2 percent of demand for microcredit. The national microcredit program in Kazakhstan has assisted 890 people in a southern oblast where I worked and 150 people each year for a few years in a central, more urbanized oblast where I worked. Yet these oblasts each have approximately one million residents. Other programs, described in the preceding chapter, have lent to considerably fewer people. In the southern oblast in Kazakhstan only six people in three years have borrowed through the communal collateral fund. In the same oblast, approximately two hundred people applied for the eighteen-month loans, but only twenty people received them. Steep competition is typical; one hundred applications for fourteen loans is not uncommon, according to an official with an oblast committee for the support of small and medium-size business also in the south.

Besides having the resources to offer only small numbers of loans, government credit programs tend to have liberal requirements in some respects and restrictive requirements in others, thus effectively excluding much of the populations from borrowing. For example, the program through the national bank in Kyrgyzstan offers more options for collateral and thus is less restrictive in this respect, but it prefers that its borrowers have another business as a further protection. Similarly, the oblast agricultural credit program in southern Kazakhstan that lends for eighteen months has a longer period but requires another business, such as a store, on the side. The microcredit provided through the oblasts nationwide and the national fund in Kazakhstan have the benefit of being inter-

34. I calculated these figures using the World Bank’s population numbers, rural residence data, and statistics on the percentage of the population living on less than 2 USD per day. The rural residence figures are for 2003 and the poverty statistics are for 2002 because none was available for 2003. World Bank, “World Databank.”


est free, but the money must be returned in one year. Numerous government credit programs in Kazakhstan are targeted only at large-scale agricultural concerns, instead of medium and small ones.\(^{37}\) Restrictions are a way for the governments to manage scarce credit, but these restrictions as well as the scarcity encourage people to engage in corruption to try to obtain credit.

Government officials at other levels also do not have abundant resources. Village leaders have little national money and tax revenue at their disposal, but they can direct state benefits, state and nonstate credit, and charitable assistance and they can obtain donations. For these reasons, villagers have incentives to propose a corrupt exchange to village leaders.

Money, credit, and employment from deputies to representative bodies are also scarce. Deputies can secure state resources if they have another government job and they can distribute their personal wealth if they have a successful business. Yet many deputies do not have access to such resources, and those that do have insufficient resources to support all of their constituents. This scarcity encourages citizens to promise their political support to deputies in exchange for goods from either the state or deputies’ own property.

**Government Message**

Besides scarcity, the governments’ message about market reform also gives individuals an incentive to engage in corruption. Through the media the governments of Kazakhstan and Kyrgyzstan emphasize that they are market reformers. In their direct interactions with individuals, government officials in both countries convey the message that because of these market reforms individuals can no longer turn to them for assistance. Individuals, thus, have an incentive to offer bribes, use personal connections, and promise political support to try to circumvent this new philosophy.

A content analysis of state newspapers highlights the governments’ market reform message. Approximately one-third of the thirty issues of *Kazakhstanskaia pravda* and *Slovo Kyrgyzstana* published immediately prior to the surveys included at least one article about market reform.\(^{38}\) Deregulation was a popular topic, with articles on the importance of the market determining wages, the decreased role of the government, and the state’s responsibility only to ensure safety in the production process. Articles also emphasized that work in the private sector and

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37. Gaisina, “Credit Policies for Kazakhstani Agriculture.”
38. This calculation does not include laws published in the newspapers.
assistance from local and foreign nongovernmental organizations were solutions to poverty.  

Government officials’ and citizens’ accounts of their interactions with each other make it clear that individuals are, in fact, responsible for their own economic well-being. Consider, for example, the remark of a minister of labor and social protection in Kazakhstan, Alikhan Baimenov: “People should become less accustomed to state paternalism.” He elaborated that the government has given more responsibility to the private sector and people should be more independent. This message comes not only from officials in the capital but also from those at lower levels. The head of a raion-level social assistance office in Kazakhstan explained that “In the USSR everyone relied on the state. Recently people have begun to understand that without action you cannot do anything, and they have begun to work. You cannot count on anyone. You cannot count on some uncle to help you. . . . You can work a piece of land, take care of a herd, trade, but you cannot sit around. You are on your own.” The message that the governments are now market reformers reaches down to the village akims and is central in their discussions with villagers. The leader of the village in southern Kazakhstan remarked, “We tell them each person needs to earn money on his own. . . . Earlier the state fed and clothed them, but now they are on their own.” Even the head of a government unemployment center in a central city of Kazakhstan conveyed the new philosophy: “During the transition to a market economy, we need to wake up people who are accustomed to receiving benefits.” The message is the same in Kyrgyzstan. In both countries average citizens have, in many cases grudgingly, accepted this message. A farmer in Kyrgyzstan said, “The government cannot help us. We rely on ourselves. We feed the government. . . . You can only survive on your own with your own family.” However, a Russian woman in the village in Kazakhstan, Irina, noted that the government’s strategy of devolving responsibility

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40. Author’s interview (#261), Kazakhstan, May 21, 2001.
41. Author’s interview (#164), Kazakhstan, July 4, 2001.
42. Author’s interview (#172), Kazakhstan, July 26, 2001.
43. Author’s interview (#185), Kazakhstan, June 1, 2001.
44. Author’s interview (#128), Kyrgyzstan, May 30, 2009.
for welfare sometimes fails: “The state has distanced itself . . . we live on our own strengths, no one else’s. . . . The government cannot be counted on for assistance but now not everyone can help a neighbor.” Because the governments are market reformers they are not receptive to requests for help. “We need the state to provide subsidies, but officials do not want to do this because they say this would be biased against the market,” a deputy director of an oblast agricultural department in Kazakhstan said, explaining the farming community’s need for state assistance. Through the media and their conversations with government officials, citizens in Kazakhstan and Kyrgyzstan learn that market reform has brought an end to extensive state welfare guarantees and conclude that they have to compete for the remaining state resources.

The Nonmarket Reformer Uzbekistan

A comparison between Uzbekistan and Kazakhstan and Kyrgyzstan bolsters the claim that the presence or absence of market reform accounts for different levels of corruption. In Uzbekistan individuals have been less likely than their counterparts in Kazakhstan and Kyrgyzstan to engage in corruption for basic state goods and services. Individuals’ relationship with the state in Uzbekistan has been characterized chiefly by a guarantee of state goods and services, whereas in Kazakhstan and Kyrgyzstan the relationship has been a competition for resources often involving corrupt practices. At first glance the lower level of corruption in Uzbekistan is surprising, considering the many ways in which Uzbekistan resembles Kazakhstan and Kyrgyzstan. However, Uzbekistan has not undertaken market reform.

From the survey data it is evident that individuals in Uzbekistan typically receive basic state provisions without competing. People in Uzbekistan do seek assistance from government officials. In fact, the proportions across the three countries—16 percent, 23 percent, and 19 percent—for Kazakhstan, Kyrgyzstan, and Uzbekistan, respectively, are similar. However, survey respondents in Uzbekistan described their state as a guarantor of goods and services more than as an

45. Author’s interview (#158), Kazakhstan, July 19, 2001.
46. Author’s interview (#145), Kazakhstan, July 4, 2001.
47. These findings are consistent with those of Scott Radnitz. He found that for a loan people in Uzbekistan were hypothetically more likely to turn to a state, rather than a nonstate, entity than were people in Kyrgyzstan. Because Uzbekistan has not undertaken market reform but Kyrgyzstan has, Uzbekistan has many more state institutions. The statistic I present here includes only government officials, not other state institutions, such as state banks and state agricultural and industrial enterprises. Scott Radnitz, Weapons of the Wealthy: Predatory Regimes and Elite-Led Protests in Central Asia (Ithaca, NY: Cornell University Press, 2010).
arena for competition. By contrast, respondents in Kazakhstan and Kyrgyzstan described the state as foremost an arena of competition. The survey finding that competition for state resources is less common in Uzbekistan than in Kazakhstan and Kyrgyzstan suggests that corruption for basic goods and services is also less common in Uzbekistan. In other words, not competing for state resources precludes the possibility that one is using illicit techniques to gain limited goods and services from government officials. This logic is further substantiated by the in-depth interviews and observational studies in Kazakhstan and Kyrgyzstan. These direct measures of corruption demonstrate that bribes, personal connections, and promises of political support are the techniques used in this competition in Kazakhstan and Kyrgyzstan.

In Uzbekistan the main characterization of the state is as a guarantor of goods and services, not as an arena for competition as is the case in Kazakhstan and Kyrgyzstan. Whereas 51 percent of survey respondents in Uzbekistan characterized citizens as using state resources, the figures were only 28 percent and 34 percent for Kazakhstan and Kyrgyzstan, respectively (see Table 4.5). Only 46 percent of respondents in Uzbekistan strongly agreed or agreed with the description of their state as an arena for competition. By contrast, 70 percent of respondents in Kazakhstan and 61 percent in Kyrgyzstan did. The social contract characterization, where citizens pay taxes in return for state services, also resonated more in Uzbekistan. Forty-three percent of respondents in Uzbekistan but only 28 percent in Kazakhstan and, more similarly, 36 percent in Kyrgyzstan, selected this option.

The greater resonance of the state-as-a-guarantor description in Uzbekistan reflects the more extensive array of state goods and services that Uzbekistanis have received from their government in the independence period. Throughout much of the independence period, the government of Uzbekistan has maintained state enterprises, provided guaranteed inputs and orders, and subsidized consumer goods, such as energy. These goods and services have been guaranteed; citizens did not have to compete for them. Moreover, individuals who seek assistance from state officials more commonly approach them about access to medical specialists in local hospitals and family turmoil, as in the Soviet era, rather than about a lack of money. Only 36 percent of respondents who sought

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48. It is important to note that since the survey was conducted in Uzbekistan in 2003, the state has increasingly failed to provide guaranteed goods and services. Uzbekistanis have experienced growing wage arrears, delayed pensions, and energy shortages in recent years. On the government’s earlier provision of necessities, see EBRD, “Transition Report 2003: Integration and Regional Cooperation” (London, 2003); Gregory Gleason, Markets and Politics in Central Asia: Structural Reform and Political Change (New York: Routledge, 2003).

49. At the time of the survey respondents were also concerned about an outbreak of foot-and-mouth disease in livestock.
assistance from state officials in Uzbekistan identified lack of money as one of their main problems, whereas the proportions were 83 percent for Kazakhstan and 52 percent for Kyrgyzstan. Similarly, in Uzbekistan 20 percent of those who sought assistance from government officials are unemployed, and this figure is close to the unemployed proportion of the population (17 percent). As noted previously the proportions of those who sought assistance who are unemployed were 10 percent and 14 percent higher than the overall unemployment figures in Kazakhstan and Kyrgyzstan, respectively. Uzbekistan’s continued provision of state goods and services and its citizens’ less severe problems with money and unemployment underscore that market reform, more than the Soviet economic collapse, reduced government assistance and exacerbated economic challenges in Kazakhstan and Kyrgyzstan. After all, Uzbekistan, like Kazakhstan and Kyrgyzstan, also suffered from the collapse of the Soviet economy but did not undertake market reform.

TABLE 4.5. Citizens’ relationships with states: Guarantor, arena of competition, social contract (percentage of respondents, rounded)

<table>
<thead>
<tr>
<th>UZBEKISTAN</th>
<th>CITIZENS USE STATE RESOURCES, SUCH AS MEDICAL SERVICES AND EDUCATION</th>
<th>CITIZENS COMPETE TO POSSESS STATE RESOURCES, SUCH AS JOBS</th>
<th>CITIZENS EXPECT THAT THE STATE WILL PROVIDE SERVICES IF THEY PAY THEIR TAXES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree or agree</td>
<td>51</td>
<td>46</td>
<td>43</td>
</tr>
<tr>
<td>Somewhat agree/disagree</td>
<td>28</td>
<td>21</td>
<td>23</td>
</tr>
<tr>
<td>Disagree or strongly disagree</td>
<td>16</td>
<td>14</td>
<td>20</td>
</tr>
<tr>
<td>Difficult to answer</td>
<td>4</td>
<td>19</td>
<td>14</td>
</tr>
<tr>
<td>Decline to answer</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL (rounded)</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>KAZAKHSTAN</th>
<th>CITIZENS USE STATE RESOURCES, SUCH AS MEDICAL SERVICES AND EDUCATION</th>
<th>CITIZENS COMPETE TO POSSESS STATE RESOURCES, SUCH AS JOBS</th>
<th>CITIZENS EXPECT THAT THE STATE WILL PROVIDE SERVICES IF THEY PAY THEIR TAXES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree or agree</td>
<td>28</td>
<td>70</td>
<td>28</td>
</tr>
<tr>
<td>Somewhat agree/disagree</td>
<td>36</td>
<td>13</td>
<td>29</td>
</tr>
<tr>
<td>Disagree or strongly disagree</td>
<td>35</td>
<td>11</td>
<td>35</td>
</tr>
<tr>
<td>Difficult to answer</td>
<td>2</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Decline to answer</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL (rounded)</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>KYRGYZSTAN</th>
<th>CITIZENS USE STATE RESOURCES, SUCH AS MEDICAL SERVICES AND EDUCATION</th>
<th>CITIZENS COMPETE TO POSSESS STATE RESOURCES, SUCH AS JOBS</th>
<th>CITIZENS EXPECT THAT THE STATE WILL PROVIDE SERVICES IF THEY PAY THEIR TAXES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree or agree</td>
<td>34</td>
<td>61</td>
<td>36</td>
</tr>
<tr>
<td>Somewhat agree/disagree</td>
<td>35</td>
<td>20</td>
<td>24</td>
</tr>
<tr>
<td>Disagree or strongly disagree</td>
<td>29</td>
<td>12</td>
<td>32</td>
</tr>
<tr>
<td>Difficult to answer</td>
<td>3</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Decline to answer</td>
<td>&lt;1</td>
<td>&lt;1</td>
<td>&lt;1</td>
</tr>
<tr>
<td>TOTAL (rounded)</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: \( n = 1,500 \) for each country. Percentages for each country do not necessarily total to 100 because they are rounded. For each country the difference in percentages between the most popular statement and each of the less popular statements is statistically significant at the .001 level, meaning that such a difference would be observed due to random chance approximately .1 percent of the time.
According to standard measures of market reform, the government of Uzbekistan has done nothing or only very little. As Table 4.6 shows, current account convertibility is limited. The government has done little to liberalize interest rates, trade, and prices. Privatization of small firms and land has occurred on only a limited scale. Private pensions do not exist and wages remain regulated. In the past few years the government slightly expanded small-scale privatization and liberalized foreign exchange and trade, but not enough to merit a different characterization.\(^{50}\)

Uzbekistan has not undertaken market reform, but the two conditions of the argument—a legacy of significant state economic intervention and an absence or weakness of market-enhancing institutions—are present. As a former republic of the Soviet Union, Uzbekistan was also subject to the Soviet party-state’s control of the economy. In this respect, it was not different from Kazakhstan and Kyrgyzstan. Also like its neighbors, Uzbekistan has not actively developed market-enhancing institutions. The World Bank and International Finance Corporation reported that Uzbekistan has not had a private credit registry or public credit bureau for most of its independence period. From 2008 to 2011 less than 10 percent of the population was covered by either type of institution with the number jumping to approximately 17 percent in 2013.\(^{51}\) The EBRD describes

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**TABLE 4.6. Market reforms and their absence**

<table>
<thead>
<tr>
<th></th>
<th>NONREFORMER</th>
<th>REFORMERS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UZBEKISTAN</td>
<td>KAZAKHSTAN</td>
</tr>
<tr>
<td><strong>LIBERALIZATION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current account convertibility</td>
<td>limited</td>
<td>full</td>
</tr>
<tr>
<td>Interest rate liberalization</td>
<td>limited</td>
<td>full</td>
</tr>
<tr>
<td>Trade liberalization</td>
<td>limited</td>
<td>almost full</td>
</tr>
<tr>
<td>Price liberalization</td>
<td>limited</td>
<td>almost full</td>
</tr>
<tr>
<td><strong>PRIVATIZATION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small firms</td>
<td>limited</td>
<td>full</td>
</tr>
<tr>
<td>Land</td>
<td>limited</td>
<td>full(^a)</td>
</tr>
<tr>
<td>Private pensions</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td><strong>DEREGULATION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages deregulated</td>
<td>no</td>
<td>yes</td>
</tr>
</tbody>
</table>


\(^a\) Land is fully tradable except by foreigners.

\(^b\) Land is fully tradable; however, there have been difficulties implementing this policy.

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Uzbekistan as having almost no competition policy from the time of the surveys to 2013.  

The absence of market reform and the presence of the two conditions in Uzbekistan, as well as the lower level of competition for basic state goods and services in the country, support the argument that market reform in the context of the two conditions promotes corruption. Evidence of Uzbekistanis’ weak reliance on market and societal actors further corroborates this account. The lower level of competition for state resources in Uzbekistan is, in fact, because the government continued to guarantee goods and services, rather than because market and societal actors in Uzbekistan offer an alternative to the state. The percentages of Uzbekistanis who have sought assistance from market and societal actors are comparable to the percentages of Kazakhstanis and Kyrgyzstanis who have done so (see Table 4.7). The legacy of state economic intervention and the absence of market-enhancing institutions has hindered the development of market and societal alternatives in Kazakhstan and Kyrgyzstan. In Uzbekistan, where market reform has not taken place, the continuing state economic intervention likely reduces the resources available to market and social actors as the legacy of intervention in Kazakhstan and Kyrgyzstan has.

The only exception in terms of reliance on market and societal actors is that more Uzbekistanis turn to respected male elders than people in Kazakhstan and

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**TABLE 4.7.** Market and societal actors and institutions from whom citizens have sought assistance in the past year

<table>
<thead>
<tr>
<th></th>
<th>UZBEKISTAN</th>
<th>KAZAKHSTAN</th>
<th>KYRGYZSTAN</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MARKET ACTORS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>1</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Current employer</td>
<td>5</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Former employer</td>
<td>2</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Local company</td>
<td>&lt;1</td>
<td>3</td>
<td>&lt;1</td>
</tr>
<tr>
<td>Foreign company</td>
<td>&lt;1</td>
<td>&lt;1</td>
<td>0</td>
</tr>
<tr>
<td><strong>SOCIETAL ACTORS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Religious institution</td>
<td>&lt;1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Local, private</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Foreign charity</td>
<td>&lt;1</td>
<td>&lt;1</td>
<td>1</td>
</tr>
<tr>
<td>Labor union</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Respected male elder</td>
<td>13</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Educational est.</td>
<td>&lt;1</td>
<td>&lt;1</td>
<td>2</td>
</tr>
</tbody>
</table>

Note: n = 1,200 for Kazakhstan, 1,199 for Kyrgyzstan, and 1,170 for Uzbekistan. A portion of the 1,500 respondents in each country claimed that they had no problems or that describing their problems was too difficult and thus some respondents were not asked this question about seeking assistance.

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Kyrgyzstan do. This is explained by a few villages and small cities in Uzbekistan where many people have turned to respected male elders. Excluding these locations brings the results in line with Kyrgyzstan’s. People in these locations in Uzbekistan also turned to government officials at rates consistent with or higher than the country average, indicating that elders were not an alternative to the state. Unlike these few pockets of likely resource-rich male elders, the state guarantee of goods and services can explain lower levels of corruption for everyday needs throughout Uzbekistan. In sum, the contrast between Uzbekistan and Kazakhstan and Kyrgyzstan demonstrates that the outcome of interest—corruption to meet everyday needs—is weak where the causal factor—market reform—is absent.

**Alternative Explanations**

Other theories of corruption offer valuable insights into illicit behavior, but they cannot account for why corruption to meet everyday needs is more common in Kazakhstan and Kyrgyzstan than Uzbekistan. The other explanations examined below are drawn from the limited number of studies of petty corruption as well as investigations of grand corruption. They include institutional, economic, and cultural theories.

**Institutional Explanations**

Returning to the discussion of the overbearing state and weak state capacity theories, we find that these explanations do not shed light on the difference in Central Asia. As republics in the former Soviet Union, Kazakhstan, Kyrgyzstan, and Uzbekistan were all part of an “overbearing state.” Today standard measures of state regulation, the amount of time and the number of procedures needed to establish a business, cannot account for the difference. The time required to complete the procedures to operate a business is lower in Uzbekistan than in Kazakhstan, but is similar to Kyrgyzstan in 2013. In 2003 Uzbekistan was higher on this measure than both of the other countries. Uzbekistan fell between Kazakhstan and Kyrgyzstan in terms of the number of procedures to register a business in 2013. In 2003 Uzbekistan was lower than Kazakhstan but similar to

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53. See footnotes four and five in chapter one.
Kyrgyzstan on this measure (see Table 4.8). Thus, state regulation does not seem to be a plausible explanation. Moreover, designating state regulation as a cause of corruption is questionable as it could just as easily be a symptom. Government officials already engaged in corruption could create additional state regulations to enable illicit exchanges. Weak state capacity is also an unsatisfying explanation. With independence, each country lost state capacity as resources from Moscow declined, trade with other former republics diminished, and chaos ensued in the unexpected shift from provinces to sovereign states.55

A second group of institutional theories of corruption focuses on the importance of democratic institutions, but these also fail to explain the greater corruption in Kazakhstan and Kyrgyzstan. Political parties are one democratic institution that has garnered significant attention, beginning with Martin Shefter’s work in the 1970s. Shefter argued that clientelist parties were more likely to develop when the introduction of democratic institutions preceded the professionalization of the bureaucracy.56 However, Kazakhstan, Kyrgyzstan, and Uzbekistan were all subject to the same sequencing of bureaucratization and party-building. Each inherited the remnants of the Soviet bureaucracy while trying to develop a new bureaucracy for a sovereign state and witnessing the emergence of a multiparty system.

Since Shefter’s work, scholars, including Herbert Kitschelt and Steven Wilkinson, Conor O’Dwyer, and Anna Grzymała-Busse have identified weak party competition as an explanation for party clientelism, patronage, and material gain from state assets, respectively.57 Because party competition is weak, as defined by

these scholars, in each of the Central Asian countries, these explanations are also not illuminating. For example, in each country, citizens and candidates have strong incentives to find supporters for their side in national elections, but generally not in local elections, where offices involve little responsibility and offer even fewer resources. Both the national and subnational candidates are typically “local notables” with a minimal or no platform, so they do not present clear preferences. In some cases they are simply fake candidates running at the behest of incumbents to make elections appear democratic. True opposition candidates encounter significant obstacles to winning: incumbents, in some cases backed by a “party of power,” wield administrative resources, such as state funds, media control, sanctions by inspectors, and threats of job loss. In none of the countries has there been a “clear, plausible, and critical governing alternative,” to use Grzymała-Busse’s terms, and thus party competition cannot explain the variation in corruption.

58. Herbert Kitschelt and Steven Wilkinson define party systems as competitive “when citizens and politicians have strong incentives to try hard to win supporters at the margin for one or the other partisan camp.” Herbert Kitschelt and Steven Wilkinson, “Citizen-Politician Linkages: An Introduction,” in *Patrons, Clients, and Policies: Patterns of Democratic Accountability and Political Competition*, ed. Kitschelt and Wilkinson (Cambridge: Cambridge University Press, 2007), 1–49, here 29. O’Dwyer considers there to be party competition when there is no dominant party and there is a “manageable number of stable parties with familiar coalition-building preferences.” O’Dwyer, *Runaway State-Building*, 7. For Grzymała-Busse what matters is “opposition parties that offer a clear, plausible, and critical governing alternative that threatens the governing coalition with replacement.” Grzymała-Busse, *Rebuilding Leviathan*, 1.

MARKET ACTORS AS AN UNREALIZED ALTERNATIVE

Another line of reasoning about democratic institutions suggests that respect for civil liberties can reduce corruption by enabling independent media, watchdog groups, and opposition forces to check government officials. However, Kazakhstan and Kyrgyzstan, the countries with more corruption to meet everyday needs, are also the countries where the governments have shown greater respect for civil liberties and political rights. From independence in 1991 to 2013, Kazakhstan and Kyrgyzstan have consistently scored better on Freedom House’s rating of civil liberties, which include freedom of expression and association, and political liberties, which include the right to join a political party (see Table 4.9).

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### Table 4.9. Political rights and civil liberties ratings

<table>
<thead>
<tr>
<th></th>
<th>Kazakhstan</th>
<th></th>
<th>Kyrgyzstan</th>
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<th>Uzbekistan</th>
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<tbody>
<tr>
<td></td>
<td>Political</td>
<td>Civil</td>
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<td>Civil</td>
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<td></td>
<td>Rights</td>
<td>Liberties</td>
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<tr>
<td>1991</td>
<td>5</td>
<td>4</td>
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<td>7</td>
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Note: Ratings range from 1 to 7, with 7 being the least freedom.
Others have suggested that the introduction of democratic institutions can encourage corruption. One idea is that the establishment of an electoral system leads politicians to engage in illicit practices to fund their campaigns.\textsuperscript{61} Another idea is that the political liberalization process itself is to blame. Much of the logic about political liberalization mirrors the logic regarding economic liberalization: confusion over new procedures facilitates corruption because citizens do not know their rights; officials may use corrupt means to ensure their own survival; and officials may block new reforms if they benefit from the status quo.\textsuperscript{62} Kazakhstan, Kyrgyzstan, and Uzbekistan all experienced political liberalization in the late Soviet and early independence periods. Social and political organizations and media unaffiliated with the Communist Party were allowed, multiscandidate elections were held, and restrictions on personal freedoms including speech and travel were reduced. So, this explanation does not account for the difference in corruption. Scholars have also argued that certain institutions, namely, presidential systems instead of parliamentary ones, are more conducive to corruption,\textsuperscript{63} but all three Central Asian states have had presidential systems for all or nearly all of their independence periods.\textsuperscript{64} Theories about democratic institutions as well as a host of other institutional theories point to decentralization as a cause of corruption. The idea that decentralization contributes to corruption is not universally accepted,\textsuperscript{65} but one school

\textsuperscript{61} Gulnaz Sharafutdinova, \textit{Political Consequences of Crony Capitalism inside Russia} (Notre Dame, IN: University of Notre Dame Press, 2010).


\textsuperscript{64} Kyrgyzstan established a parliamentary system in the winter of 2011.

of thought does suggest that by increasing the number of officials who make decisions and have access to public resources, decentralization creates more opportunities for corruption. Moreover, according to this school of thought, central governments have greater difficulty monitoring a larger number of officials, thus hindering corruption prevention and eradication efforts.\textsuperscript{66} Decentralization is often a component of democratic reform, so scholars have also attributed corruption to the decentralizing tendencies of democratic transitions and institutions.\textsuperscript{67} For example, local elections may provide central party leaders with information and incentives to distribute patronage more effectively to voters in order to ensure that local officials do not operate independently of the party.\textsuperscript{68} All of these arguments, however, shed little light on the three Central Asian countries, which have been similar in terms of decentralization, according to the World Bank.\textsuperscript{69}

**Cultural Explanations**

Because the Central Asian countries share many cultural characteristics, cultural theories of corruption offer little help. Of the different types of corruption theories, cultural explanations are the least popular. They are most common to account for corruption in less developed countries, and they are most often advocated by sociologists.\textsuperscript{70} Their adherents attribute corruption to present-day culture derived from the precolonial and colonial periods. They view precolonial culture as “traditional” culture and emphasize how hierarchical relationships and the importance of family ties encourage corruption.\textsuperscript{71} The pre-Soviet cultures of the territories of present-day Kazakhstan, Kyrgyzstan, and Uzbekistan were

\textsuperscript{66.} Goldsmith, “Slapping the Grasping Hand,” 878.
similar in these respects. Although present-day Kazakhstan and Kyrgyzstan were inhabited by nomads and present-day Uzbekistan was home to oasis peoples, all shared hierarchical social structures, including respect for authority and elders, and strong family networks. Vestiges of this traditional culture exist today in each country.72

Regarding colonial culture, studies have found less corruption in countries that experienced British rule, perhaps because of British legal culture.73 None of these Central Asian countries experienced British rule, so this cannot explain corruption. More generally, scholars have highlighted how the practice of ignoring rules imposed by the metropole and stealing from a state viewed as illegitimate encourage independence-era corruption.74 In the Soviet context, numerous corrupting influences have been identified. These include the hierarchical nature of the communist system, atheist policies, leaders’ ability to act with impunity, a focus on goals instead of procedures, a blurring of state and society, an absence of transparency, the primacy of informal institutions over formal ones, and the need to cut through bureaucratic “red tape.”75 Moreover, bribery and personal connections to obtain state goods and services were common in the Soviet Union.76 Yet Uzbekistan, as well as Kazakhstan and Kyrgyzstan, experienced these Soviet institutions and practices, raising doubt about their explanatory powers in these cases. In Kazakhstan and Kyrgyzstan, the individuals who engage in illicit practices, the targets of their requests, and the goods and services sought have changed since the Soviet era. This indicates that these practices are not a continuation of Soviet-era habits but a new phenomenon that, like market reform, emerged after the Soviet collapse.


76. Alena V. Ledeneva, *Russia’s Economy of Favours: Blat, Networking, and Informal Exchange* (Cambridge: Cambridge University Press, 1998). Promises of political support in exchange for state goods and services were less evident in the Soviet Union because elections were not competitive and promises of political support are most visible in connection with elections.
The first piece of clarifying evidence shows that those who sought assistance from the Soviet state are not the same individuals who seek government help today. In Kazakhstan 83 percent of survey respondents and in Kyrgyzstan 89 percent who have turned to government officials in the independence period did not seek help from the Soviet state. These percentages cannot be explained on the basis that the respondents were children during the Soviet era. On the contrary, 91 percent and 87 percent of respondents who seek government assistance today responded that they were adults in the Soviet era.

The fact that the targets of citizens’ requests have changed also shows that these practices are not a continuation of Soviet era ones. In the Soviet period the most popular state entities to turn to for assistance were places of employment and labor unions. Through official workplaces and the party-controlled labor unions, individuals received state benefits, so it is understandable that they also turned to them for additional help. In Kazakhstan 19 percent and 18 percent of respondents sought help from places of employment and labor unions, respectively, in the Soviet era. The figures were 16 percent and 12 percent, respectively, for Kyrgyzstan. By contrast, in each country only 7 percent turned to Soviet party or government officials. Today, state enterprises and labor unions are rare and government officials instead are the common target of citizens’ requests. In Kazakhstan and Kyrgyzstan 4 percent and 3 percent, respectively, had turned to their employer for help in the past year. In each country only 1 percent of survey respondents sought assistance from a labor union.

Finally, individuals today are not seeking the same goods and services from the state as they did in the Soviet era. In the Soviet period an individual was guaranteed a job and basic necessities such as food, so bribes and connections were useful primarily for obtaining higher quality goods and services, such as a better job or better cut of meat. In contemporary Kazakhstan and Kyrgyzstan extensive welfare guarantees do not exist, so bribes, connections, and promises of political support are useful for meeting basic needs, such as a job, credit, and money, which can, in turn, allow one to secure food and clothes.

This evidence that corruption for basic state goods and services today is not a continuation of Soviet practices is particularly important to this argument because it challenges the reverse causal argument—corruption promotes market

77. Respondents were asked, “Before 1991 whom did you rely on for help with everyday problems? Choose as many as apply.” Respondents received a card with twenty-one actors and institutions listed, including the options to list others and to note “I was a child during the Soviet era.” Interviewers read the card aloud. Each country had 1,500 respondents.

78. In the Soviet era, isolated periods of shortages occurred and also certain regions experienced shortages. In these circumstances, bribes and connections were also useful in obtaining basic goods. Ledeneva, Russia's Economy of Favours.
reform without market-enhancing institutions. Instead by showing that market reform preceded this corruption for obtaining basic state goods and services, the evidence bolsters the claim of this book that market reform promotes corruption.

A final set of cultural explanations is linked to present-day ethnic composition, low levels of generalized trust, and absence of Protestantism. These explanations also do not illuminate the difference in Central Asia. Theories about ethnicity suggest that corruption, especially clientelist networks, is more likely in multiethnic societies because ethnic divides facilitate their development and endurance. Patrons and clients can develop within an ethnic group and feel greater loyalty to each other than to the national community, including its laws. Each of the three countries examined here has a multiethnic population, as indicated in Table 4.10, so this explanation offers little insight in this instance.

In none of the countries is generalized trust high. Approximately half of all respondents in my survey volunteered that they trusted no one when they were asked to rank a series of market and societal actors from most trusted to least trusted. Protestantism is weak in all three countries as the populations are predominantly Muslim.

**Economic Explanations**

A final set of explanations focuses on economic causes of corruption. Scholars have attributed corruption to poverty, economic underdevelopment, inequality,
abundant natural resources, trade isolationism, and a large supply of international funds. None of these explains the difference in Central Asia.

Poor people, according to existing literature, use corruption to survive. They must pay bribes for goods and services that the privileged can obtain for free, and they tend to trade their votes for immediate concrete benefits instead of future intangible policy changes. Economic underdevelopment promotes corruption by increasing poverty and also by increasing inequality. One theory is that inequality facilitates corruption by reducing trust across groups and increasing trust within groups. Another idea is that those who are well-off sell

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access to privileges and goods to the lower classes, particularly in democracies where outright oppression to maximize one’s wealth is not acceptable. The greater the inequality the more difficult it is for lower classes to monitor the wealthy and hold them accountable and thus to uncover and punish corruption.\textsuperscript{89} Economic underdevelopment has also been linked to corruption through the idea of weak state capacity. A poorer state cannot prevent, investigate, and punish corruption as effectively as a wealthier state, according to the argument. Furthermore, studies have found that poorer governments pay their employees less, which increases bureaucrats’ incentives to engage in illicit activities.\textsuperscript{90}

The remaining economic explanations focus more on grand corruption, especially between government and big business, but they are worth considering briefly. From the resource curse literature and corruption studies, we know that resource wealth is correlated with corruption. Scholars have argued that abundant natural resources create opportunities for government officials to provide rents, meaning rights to produce or trade, such as drilling permits, in return for payment.\textsuperscript{91} Countries less open to international trade further exacerbate this problem because they strengthen domestic monopolies, enabling government officials to grant more rents.\textsuperscript{92} International capital whether in the form of investments in natural resource extraction or other industries, as well as foreign aid, may also increase corruption by providing additional opportunities for government officials to enrich themselves.\textsuperscript{93}

These economic explanations do not, however, explain the differences in Central Asia. On measures of poverty and economic underdevelopment—gross domestic product (GDP), the percentage of the population living on less than 2 USD per day, and the percentage of urban population—Uzbekistan resembles Kyrgyzstan, and citizens of both countries are considerably worse off than those in Kazakhstan (see Table 4.11). Levels of inequality, as measured by the Gini index, are comparable across the three countries, thus also not an explanation.


\textsuperscript{90} Kostadinova, Political Corruption in Eastern Europe: Politics after Communism.


### TABLE 4.11. Socioeconomic characteristics

<table>
<thead>
<tr>
<th></th>
<th>MARKET REFORMERS</th>
<th>NONMARKET REFORMER</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>KAZAKHSTAN 2003*</td>
<td>KAZAKHSTAN 2012</td>
</tr>
<tr>
<td><strong>GDP (nominal per capita, USD)</strong></td>
<td>2,068</td>
<td>11,935</td>
</tr>
<tr>
<td><strong>Percentage of the population living on less than 2 USD per day (in 2002)</strong></td>
<td>22</td>
<td>1</td>
</tr>
<tr>
<td><strong>Urban population (percentage of total population)</strong></td>
<td>55</td>
<td>54</td>
</tr>
<tr>
<td><strong>Gini index (in 2002)</strong></td>
<td>35</td>
<td>29</td>
</tr>
<tr>
<td><strong>Energy production (thousand metric tons of oil equivalent)</strong></td>
<td>101,918</td>
<td>160,148</td>
</tr>
<tr>
<td><strong>Imports of goods and services (percentage of GDP)</strong></td>
<td>43</td>
<td>30</td>
</tr>
<tr>
<td><strong>Foreign direct investment (millions, USD)</strong></td>
<td>2,092</td>
<td>13,227</td>
</tr>
<tr>
<td><strong>Foreign aid and development assistance (millions, USD)</strong></td>
<td>294</td>
<td>213</td>
</tr>
<tr>
<td><strong>Foreign aid and development assistance (percentage of GDP)</strong></td>
<td>1</td>
<td>1.1</td>
</tr>
</tbody>
</table>


- The data in these columns are for 2003 with the exception of the percentage of the population living on less than 2 USD per day and the Gini index. See notes (b) and (c) below.
- This statistic is called the “Poverty headcount ratio at $2 per day,” and it is expressed in U.S. dollars at 2005 international prices. Poverty statistics are not available for Kyrgyzstan in 2003 and for Kazakhstan and Kyrgyzstan in 2010 or 2011, so instead I use 2002 and 2009 data. For comparability I use the 2002 data for Uzbekistan, which is only one percentage point lower than the 2003 number. The latest year for which this statistic is available for Uzbekistan is 2003. The statistic for Uzbekistan was accessed from the database in 2011. Poverty statistics no longer appear in the online Databank for Uzbekistan. A comparable statistic, 71.7 percent for 2000, appears in a spreadsheet titled “WDI Uzbekistan,” provided by the World Bank and available from the author.
- The Gini index measures income inequality, with zero indicating perfect equality and 100 indicating perfect inequality. A description of the calculation can be found on the website. Statistics were not available for Uzbekistan after 2003. Statistics for Kazakhstan and Kyrgyzstan are from the most recent years available: 2009 and 2011, respectively.
- According to the World Bank, “Energy production refers to forms of primary energy—petroleum (crude oil, natural gas liquids, and oil from unconventional sources), natural gas, solid fuels (coal, lignite, and other derived fuels), and combustible renewables and waste—and primary electricity, all converted into oil equivalents.” Scholars who have made this argument use fuel, ore, and metal exports instead of energy production, but the former are not available for Uzbekistan. These statistics are from 2011, the most recent year available.
- These statistics appear in the database as “Foreign direct investment, net inflows” and they are “the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors.” The statistics for Uzbekistan are from 2011, the latest year available.
- These statistics are called “Net official development assistance and official aid received” and is measured in current U.S. dollars. These figures include grants and loans that include grants of at least 25 percent from foreign countries and multilateral institutions for economic development and welfare. The percentages of GDP were calculated using the GDP figures from the website. These statistics are for 2011, the latest year available.
Energy production figures show that Kazakhstan and Uzbekistan, but not Kyrgyzstan, are more likely to suffer from the resource curse. Both Kazakhstan and Uzbekistan have an abundance of natural resources. Kazakhstan has large amounts of oil and natural gas, but I came across no evidence that resources used for petty corruption were from oil revenues in Kazakhstan or that individuals expected government money because of this revenue source. Moreover, Uzbekistan also has reserves, albeit smaller, while Kyrgyzstan has almost no natural resources, with the exception of a small amount of gold. A common measure of international trade openness, imports of goods and services as a percentage of GDP, predicts that Kyrgyzstan, but not Kazakhstan, would experience more corruption than Uzbekistan currently. In 2003 the percentages were similar across the three countries. Measures of foreign direct investment and foreign aid and development assistance suggest that international capital is also not the answer. Uzbekistan’s numbers for foreign direct investment were between those of Kazakhstan and Kyrgyzstan each year. As a percentage of GDP, foreign direct investment in Uzbekistan was slightly lower than in Kazakhstan and Kyrgyzstan in 2011 but comparable to Kyrgyzstan in 2003. Measures of foreign aid and development assistance for Uzbekistan were comparable to either Kazakhstan or Kyrgyzstan each year.

In sum, alternative institutional, cultural, and economic explanations are not helpful in explaining the difference in Central Asia. Instead, the evidence points to market reform as promoting corruption when a legacy of significant state economic intervention is present and market-enhancing institutions are absent or weak. Analyzing the specific challenges of market reform, the absence of state substitutes, the scarcity of government goods and services, and official proscriptions on state reliance in Kazakhstan and Kyrgyzstan illustrated why individuals informally seek state resources in response to market reform. Comparing present-day Kazakhstan and Kyrgyzstan with contemporary Uzbekistan demonstrated that individuals are more likely to engage in corruption for basic state resources when market reforms have been undertaken.

The Rest of the World

The argument that market reform promotes corruption when a legacy of significant state economic intervention is present and market-enhancing institutions are absent or weak is not limited to Central Asia but appears generalizable and fundamentally important. This is evident from an analysis of a larger set of countries in the world, which vary on the causal factor and two conditions. This larger
set of countries enables me to directly test the importance of state intervention legacies and market-enhancing institutions, conditions that are consistent across my three Central Asian cases. The statistical results unambiguously demonstrate the claim of my argument concerning the importance of market-enhancing institutions for reducing corruption. Most likely because corruption data sets measure perceptions of petty and grand corruption, support is weaker for my assertions about the influence of market reform and significant state intervention legacies on corruption.

This analysis of many countries also allows for an additional test of alternative explanations. The constellation of factors highlighted in this book is not the only cause of corruption. We would expect that expanding the investigation to countries outside of Central Asia would reveal that alternative explanations that were not helpful to understanding the three countries are useful in the broader context.

From the many alternative explanations, I selected three—state regulation, poverty, and natural resource endowment—to test. I chose these because they are the most likely to be able to account not only for corruption but also for the factors that I contend explain corruption. This approach allows me to examine the likelihood that the results of the analysis are spurious, whether one of these other factors accounts for market reform, legacies of significant state economic intervention, market-enhancing institutions, and corruption.

Conceivably state regulation could account for all of the factors. High state regulation historically would be part of a legacy of significant state economic intervention. Government officials would implement market reform because they would see it as offering additional opportunities to enrich themselves, and difficult economic circumstances may bring international pressure to undertake reforms in return for financial assistance. High state regulation would also promote corruption by affording bureaucrats many opportunities to engage in corruption.

Poverty can plausibly explain most of the factors. Government officials could undertake market reform to alleviate poverty, but with so little wealth in the country, no one may bother to create market-enhancing institutions such as credit registries. As others have argued, poor people engage in corruption to survive. Conceivably, poverty could account for all of my explanatory factors except for significant state economic intervention.

One can imagine that an abundance of natural resources could also explain significant state economic intervention, market reform, weak or absent market-enhancing institutions, and corruption. Natural resources are often state-controlled, so significant state economic intervention could exist historically. Government officials would implement market reform, especially privatization,
because they see opportunities to enrich themselves or they need investment to extract more resources. The dominance of the natural resource industry would discourage the development of market-enhancing institutions, such as credit registries, that are useful to small businesses. The resources would also facilitate at least grand corruption, by allowing government officials to provide rents in return for payment.

Although these alternative explanations are logical, a statistical analysis shows that neither state regulation, poverty, or natural resource endowment can account for all of my explanatory factors. In other words, this suggests that my argument is not spurious. The results do show that state regulation and poverty are additional causes of corruption. This confirms that the factors highlighted in this book are sufficient but not necessary causes of corruption, as I have argued.

Measurement and Data

One challenge of conducting an analysis of many countries is that no excellent measures of corruption exist. Many corruption data sets measure perceived, instead of experienced, corruption, and they combine data on petty and grand corruption. Measuring the other components of my argument posed fewer challenges.

Even those data sets that claim to measure experience typically measure perception. Because corruption is a sensitive topic, these data sets ask survey respondents to comment on the experience of people like them, rather than their own experience. In other words, they measure perceived corruption instead of actual corruption.

An additional challenge for my analysis is that corruption data sets typically focus more on grand corruption than petty corruption. I use Transparency International’s Corruption Perceptions Index (CPI) because it is the closest global proxy for petty corruption. The CPI is based on surveys of local and foreign business people’s perceptions and experiences and country experts’ assessments. It combines reports of different corrupt practices, such as bribery, to derive country scores ranging from zero to 10 with 10 indicating the least corruption.94 The CPI is not an ideal measure of corruption, as numerous reviews of the index have highlighted.95 For my purposes, it is a significant drawback that the CPI


95. The studies have highlighted how the perception of corruption is not as valid a measure as actual corruption. Reviewers have also criticized the CPI for relying on surveys with high propor-
does not focus exclusively on petty corruption. The survey respondents, who are included in the CPI, likely draw on petty corruption experiences they and their acquaintances have had, but they are also influenced by media reports and investigations of grand corruption. That said, the CPI is the best measure available for my analysis. The CPI scores for the countries in my data set range from 1.9 to 9.4.

My study of Kazakhstan and Kyrgyzstan offers guidance about how to measure the other components of the argument. From that analysis it was evident that public credit registries, private credit bureaus, and government competition

tions of respondents who are not from the countries they are evaluating, in particular Western businesspeople. The concern is that the CPI presents only the perspective of Western businesspeople. From this concern follow criticisms about the CPI's focus on government corruption in business transactions, with an emphasis on bribes. The CPI's exclusion of private-sector corruption has raised additional concerns that developed countries might appear comparatively less corrupt than they actually are. Incidentally, the exclusion of private-sector corruption is an advantage to my study, which focuses on corruption involving government officials. Scholars have also challenged the CPI's methodology, highlighting difficulties comparing scores across years and across countries, and the varying definitions of corruption from the different surveys and assessments that the index aggregates. A final set of criticisms focus not on the index itself, but on how businesses might use it to make investment decisions and how governments and international organizations have used it to inform aid policies. As sample reviews, see Staffan Andersson and Paul M. Heywood, “The Politics of Perception: Use and Abuse of Transparency International's Approach to Measuring Corruption,” Political Studies 57 (2009), 746–67; Stephen Knack, “Measuring Corruption: A Critique of Indicators in Eastern Europe and Central Asia,” Journal of Public Policy 27, no. 3 (2007), 255–91; Mireille Razafindrakoto and Francois Roubard, “Are International Databases on Corruption Reliable? A Comparison of Expert Opinion Surveys and Household Surveys in Sub-Saharan Africa,” World Development 38, no. 8 (2010), 1057–69; Danielle E. Warren and William S. Laufer, “Are Corruption Indices a Self-Fulfilling Prophecy? A Social Labeling Perspective of Corruption,” Journal of Business Ethics 88, Supplement 4 (2009), 841–49.

96. The problems of the CPI data set for this project are starkest when the scores for the three Central Asian countries are considered. Kazakhstan and Kyrgyzstan receive scores of 2.7 and 2.1, respectively, and Uzbekistan receives a score of 1.6, indicating that by this measure Uzbekistan is slightly more corrupt. This suggests that the measure masks the use of corruption to meet everyday needs in Kazakhstan and Kyrgyzstan.

97. Other data sets posed more severe problems for my project. For example, Transparency International's Global Corruption Barometer provides data for only half the countries I examine, and the World Bank and EBRD's Business Environment and Enterprise Performance Survey (BEEPS) sought information only from firm managers and owners, whereas I am interested in the experiences of a broader group of people. BEEPS data and reports based on them do not explore individuals' experiences in seeking basic goods and services. For example, the report “Trends in Corruption and Regulatory Burden in Eastern Europe and Central Asia” describes firms' experiences in securing public contracts, importing goods, and using the courts to resolve commercial disputes. As my survey and field research show, most individuals seeking assistance from government officials are unemployed people, individuals hoping to start businesses, or small-scale traders, not firm managers and owners, so little to no overlap is likely in the survey respondents. For a review of different indices and surveys on corruption, see Treisman, “What Have We Learned About the Causes of Corruption from Ten Years of Cross-National Empirical Research,” Annual Review of Political Science 19 (2007), 211–44; World Bank, “Trends in Corruption and Regulatory Burden in Eastern Europe and Central Asia” (Washington, DC, 2011).
policies are key market-enhancing institutions. The World Bank and the International Finance Corporation supply information about credit registries and credit bureaus, recording what percentage of adults each institution covers in a country. For each country in the data set I added the two values, between zero and 100, which created a scale from zero to 134.3 in practice. I use data from 2009 because that is the latest year for which data are available for all the variables. Comparable data on government competition policies are available only for postcommunist states from the EBRD, so I cannot include this variable in my data set. However, in an earlier study of postcommunist states I found that corruption is lower in countries with more effective government competition policies.

The remaining two components of the argument, a legacy of state economic intervention and market reform, are related. Market reform reduced state economic intervention, so the underlying concept should be the same for these variables. Market reform, or a reduction in state economic intervention, includes many different policies, but the study of Kazakhstan and Kyrgyzstan highlights the importance of credit and thus the importance of the banking industry. Therefore, I use measures of bank ownership to capture a legacy of state economic intervention and market reform. For the legacy variable I use the percentage of bank deposits held in state-owned banks versus privately owned banks in 1975. This is the most recent year that data are available before countries of the world began to embark on market reform. The index ranges from zero to 10, with zero indicating the greatest state involvement. The data come from the World Bank. The market reform variable is the 2009 value for this measure minus the 1975 value for each country. The possible range is from −10 to 10, with 10 representing the greatest reduction in state ownership of banks, zero indicating no change, and negative numbers signifying different degrees of increase in state ownership.

To test the alternative explanations—state regulation, poverty, and natural resource endowment—I include a measure for each. The measure of state regulation is the number of procedures required to start a business, as reported by

98. Kelly M. McMann, “Market Reform as a Stimulus to Particularistic Politics,” *Comparative Political Studies* 42, no. 7 (2009), 971–94.

the World Bank and International Finance Corporation. This seemed to be a more valid measure of state regulation than the alternative, the time required to start a business. In this data set the number of required procedures ranges from 1 to 17. To measure poverty, I use GDP per capita in current U.S. dollars, which ranges in this group of countries from 175 USD to 104,354 USD. Natural resource endowment is captured by the World Bank’s energy production data, measured in thousand metric tons of oil equivalent. As described by the World Bank, “[e]nergy production refers to forms of primary energy—petroleum (crude oil, natural gas liquids, and oil from nonconventional sources), natural gas, solid fuels (coal, lignite, and other derived fuels), and combustible renewables and waste—and primary electricity, all converted into oil equivalents.”

The values range from 29 to 2,084,935 thousand tons in this data set.

I examined ninety-two countries of the world. Countries that were excluded were missing data for one of the variables. To ensure that a relatively large number of countries with a significant state economic intervention legacy were included, I imputed the legacy variable values for post-Soviet states. The 1975 data include only a value for the Soviet Union, zero. Because of the uniformity of Soviet economic policies, it is reasonable to assign the value of zero for 1975 to each of the states that emerged from the Soviet Union. With this adaptation, the data set covers all regions of the world and all income levels, as shown in Table 4.12. This indicates that excluding countries for which data were not available most likely did not introduce bias. However, the data set does exclude the 13 most corrupt countries in the 168 countries measured by the CPI, because they lack data on one or more other variables. The absence of these cases can make a relationship that I find in the data set appear stronger or weaker than it actually is if the relationship is not constant across all the cases. Extrapolating results to those missing cases would also be problematic. Overall, the data set appears representative with the exception of the most corrupt countries of the world.

100. For postcommunist countries, the CPI measure uses a survey that asks experts a question that is similar to this state regulation measure: “Is the government free from excessive bureaucratic regulations, registration requirements, and other controls that increase opportunities for corruption?” Transparency International, “Corruption Perceptions Index 2011: Long Methodological Brief,” transparency.ee/cm/files/lisad/pikk_metoodika.pdf (accessed December 19, 2013), 3. However the correlation between the state regulation measure and the CPI is not statistically significant for postcommunist countries, indicating that this measure is not problematic for these cases.

Analysis

Using this data set, I conducted a series of statistical analyses, which I describe in detail in the appendix. Here let us consider the general conclusions. Because my argument focuses on the influence of market reform under the two conditions, it is important to consider market reform’s effect on corruption under the four possible configurations of conditions: a legacy of significant state economic intervention with no or weak market-enhancing institutions, no legacy with no or weak market-enhancing institutions, a legacy with effective market-enhancing institutions, and no legacy with effective market-enhancing institutions.

The findings, summarized in Table 4.13, strongly support my claim that market-enhancing institutions are important to reducing corruption. When effective market-enhancing institutions are present, market reform decreases corruption. This has important policy implications, which will be discussed in the final chapter. The analysis does not illustrate my claim that market reform increases corruption when there is a legacy of significant state economic intervention but no effective market-enhancing institutions. Instead, this analysis shows that market reform reduces corruption under these conditions. This negative finding is most likely because the CPI combines grand and petty corruption. When a legacy is present, market reform reduces the opportunities for grand corruption by trimming officials’ extensive responsibilities, and this likely masks how market reform can promote petty corruption by limiting where individuals can turn for assistance to meet everyday needs.

The inclusion of grand corruption in the CPI likely plays a role in the effect of market reform in other ways as well. Its inclusion may help to explain why

102. For readers who have studied the appendix, note that while we cannot discern the effect of market reform on corruption when effective market-enhancing institutions exist (in model 3), we can discern it from models 4 and 5.
market reform increases corruption when a significant intervention legacy and effective market-enhancing institutions do not exist. Specifically, under these conditions the new illicit opportunities that market reform offers politicians outweigh the relatively small number of opportunities it eradicated. Moreover, market reform may decrease corruption when market-enhancing institutions are present because government officials may be restrained in their ability to take advantage of new market opportunities to engage in corruption. To the extent that market-enhancing institutions that restrain government officials’ behavior, such as independent judiciaries, develop alongside credit registries, market reform will present fewer occasions for officials to engage in grand corruption.

The inclusion of the alternative explanations in the statistical analysis provides strong evidence that the argument is not spurious. These tests are also described in detail in the appendix. None of the alternative explanations can account for all of my explanatory factors. Poverty, specifically lower levels of GDP, and greater numbers of state regulations do increase corruption. However, this is consistent with my expectation that the factors I identified are sufficient, but not necessary, to promote corruption. Natural resource endowments did not have an effect on corruption levels.

The statistical analysis supports my argument about petty corruption as well as theories of grand corruption. The results highlight the importance of market-enhancing institutions to reduce corruption, as the argument in this book claims. In addition, the findings suggest that market reform is likely to decrease corruption in countries with a history of significant state economic intervention, as theories of grand corruption assert. Including the alternative explanations in the analysis showed that the argument was not likely spurious and, as expected, that my explanatory factors are only sufficient, not necessary, for corruption. After all, corruption has multiple causes.

Overall, the evidence in this chapter illustrates the causal argument I make and some of the correlations predicted by my argument and theories of grand cor-

**TABLE 4.13.** Market reform’s effect on corruption under different conditions for countries of the world

<table>
<thead>
<tr>
<th>Legacy</th>
<th>NO OR WEAK MARKET-ENHANCING INSTITUTIONS</th>
<th>EFFECTIVE MARKET-ENHANCING INSTITUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legacy</td>
<td>decreases corruption</td>
<td>decreases corruption</td>
</tr>
<tr>
<td>No legacy</td>
<td>increases corruption</td>
<td>decreases corruption</td>
</tr>
</tbody>
</table>

...
ruption. From the Central Asian cases it is clear that market actors do not offer an alternative to corruption. Market reform in the context of a history of significant state economic intervention and absent or weak market-enhancing institutions limits market actors’ abilities to provide the goods and services that individuals need. Individuals instead turn to government officials but find that market reform has reduced state resources and thus increased the competition for them. Individuals offer bribes, use personal connections, and promise political support in order to try to gain an advantage in this competition. The next chapter considers how societal groups’ limited resources also contribute to corruption.