

Policy brief – April 2022

# Differentiated regional policy approach for the development of monotowns in Kazakhstan

## Main Findings

An individual monotown is a unique combination of available resources, trends and potential. Earlier management decisions, due to their uniformity, did not take such specifics into account. As a result, state support measures have not had the expected effect. The introduction of a differentiated approach to regional policy transformation can therefore be a trigger for positive change.

### Introduction

Today, there are 27 monotowns in Kazakhstan, with a population of 1.41 million. Their output accounts for about 40% of the country's industrial production, making them strategically important in ensuring macroeconomic sustainability and security. However, the current socio-economic status of monotowns is highly unstable and ambiguous. This publication is the result of a multi-criteria analysis conducted by the Economic Research Institute, as well as a roundtable discussion organized by Kazakh-German University in April 2022

### Economic development trends

The growth rate of economic indicators directly depends on the specialization of a monotown, causing disproportionality. Thus, the largest volumes of production and investment in

fixed capital come from western monotowns located in areas of oil and gas field development (Kulsary (4279.1 billion tenge), Aksai (1559.6 billion tenge)). Accordingly, the level of income of the population of these cities is more than 3.5 times higher than that of residents of less economically developed cities Karatau (87.1 thousand tenge), Arkalyk (99.4 thousand tenge) and Serebryansk (105.7 thousand tenge)

#### Box 1

##### Modern definition of "monocity" term in Kazakhstan

A monocity is a city where the bulk (20% or more) of industrial production and the working population is concentrated in one or a few (few) city-forming enterprises, usually of the same profile and raw material orientation (monospecialization), which determine all economic and social processes taking place in the city.

*Source: National Regional Development Programme 2020 - 2025*

Such imbalance in the incomes of the population is partly one of the consequences of the decline in production

of the latter's city-forming enterprises (decline in production due to depletion of mineral reserves, decline in demand for products) and, as a result, the forced, unmanaged re-profiling of the economy.

This problem is aggravated by the one-sided specialization of the labour force, which, having failed to find a practical application for their experience and skills, are forced either to migrate, change their field of activity, or join the self-employed population

### Population decline

Negative demographic trends are observed in 11 monotowns: the interval ranges from -0.1 - in Satpayev to -9.0 - in Serebryansk. The largest decrease is observed in single-industry towns: Altay, Ridder, Aksu, Serebryansk, Arkalyk. At the same time, positive growth is observed in mining monocities: Kulsary, Khromtau, Aksai, Kentau, Karatau.

Particular attention should be paid to the intensity of the ageing process. Thus, on average, the share of the elderly population (65+) in monotowns is 10.9%, i.e. almost every 9th resident of retirement age. In the context of monotowns this indicator varies from 7.1% in Satpayev, to 22.1% in Serebryansk.

This situation is a consequence of migration outflow of young population and negative natural increase (in Ridder town (- 827 people). Migration of young people is mainly connected with unsatisfactory conditions for comfortable living, including the level of salaries. Thus, in 11 towns the average monthly wage is below the oblast average and corresponds to 3-3.5 minimum subsistence level (Altay, Shaktinsk, Temirtau, Kentau, Zhanatas,

Abay, Saran, Khromtau, Tekeli, Arkalyk, Karatau, Serebryansk).

However, in nine cities (Aksai, Kulsary, Zhanaozen, Satpayev, Ekibastuz, Zhezkazgan, Aksu, Rudnyi, Balkhash) the average monthly wage exceeds five minimum wages.

These material imbalances, coupled with poor living conditions, may, according to some experts, become a trigger for social tensions. All this has a negative impact on the future development potential of the territory, calling into question the financial sustainability and the availability of human resources for long-term, sustainable economic development.

Migration outflows are associated with a reduction in the number of employed people (except for Zhanaozen, Ekibastuz, Aksai, Karatau, Abay and Zhanatas). Such dynamics can be traced since 2014. Consequently, the structure of employment is changing, with a tendency for services to dominate. Thus, according to a comparative analysis of data provided by local executive bodies, over 70% of the employed population in Altay, Serebryansk, Kurchatov and Zhanatas work in the service sector.

In 11 monotowns (Temirtau, Khromtau, Balkhash, Lisakovsk, Zhezkazgan, Saran, Ridder, Tekeli, Rudnyi, Stepnogorsk, Aksai) the service sector also dominates (over 50%), but over 30% of employees are engaged in production. This may testify to the stable functioning of enterprises and the existing potential for diversification of the city's economy.

In addition, a group of cities with a relatively high share of employed in agriculture - Arkalyk (31.5%), Zhitikara (26.4%), Kentau (22.5%) - is determined. Deprofiling of economy is conditioned by

necessity of transition to polyfunctional mode of life activity as a result of "winding up" of city-forming enterprise activity.

Taking into account the existing employment structure in Arkalyk and Kentau and the fact that the share of those employed in industry is less than 20% (16.1% and 7.1% respectively), it can be stated that these settlements no longer correspond to the status of monotowns.

### **Access to basic social and engineering infrastructure facilities and services**

Almost all monotowns have limited access to basic facilities and services of social and engineering infrastructure due to its high wear and tear. Thus, according to the information provided by the akimats, the average deterioration of water and sewage networks in 2021 was 61.1%.

41% of single-industry towns (or 11 out of 27) are characterized by poor road conditions.

It should be noted that funding is allocated annually from the national budget for the modernization of social and engineering infrastructure. However, the envisaged funds are not sufficient to cover the current needs of monotowns.

### **Financial unsustainability**

Experts from the Economic Research Institute have established that the budgets of most monotowns are financially unsustainable (their revenue side does not cover their own expenses). Therefore, even local problems cannot be solved without the involvement of the 'centre'. At the same time, given the bureaucratized nature of the budgetary processes, the prospects for their resolution remain very limited.

Support for SMEs is given special attention as a factor in diversifying the economy of monotowns. The systematic use of financial instruments (subsidies, grants, guarantees, microcredits) has enabled the number of active SMEs to increase by 10% and their gross output to more than double (between 2015 and 2020).

It should be noted that in some monotowns, SMEs not only perform the role of providing the population with necessary goods and services, but also have the social function of providing jobs for workers laid off from city-forming enterprises. This is especially relevant for monotowns undergoing the stage of reorganization of city-forming enterprises.

### **Round table**

On 16 March 2022, an online meeting took place between experts and professors from leading German and Kazakh universities, representatives of central and local authorities. The round table was organized by the Kazakh-German University, to support the exchange of experiences between Germany and Kazakhstan on the topic of policy development for monotowns.

Germany has faced similar challenges at different stages of its development at the level of small, industrialized cities that Kazakhstan is currently facing.

Experts from Germany shared their experiences on transformational processes of deindustrialization of small towns as well as economic diversification and positive experiences of cooperation between local authorities and industry representatives. For example, the experiences of Zollverein, Wolfsburg and Magdeburg were discussed.

## Recommendations of the round table

(1) The full transformation of single-industry towns requires a long-term policy. As the experience of the GDR shows, this process takes more than a decade. An example is the city of Magdeburg in Germany. In 1990, Magdeburg had a population of around 290,000, fell to 226,000 in 2004, and has since risen back to its current level of 235,000.

(2) An individual, differentiated approach is needed for each monotown. Application of unified solutions will not allow unlocking the potential of cities to the fullest extent. It is important to develop mechanisms for implementing sectoral programmes at the level of monotowns for more effective results.

(3) The successful transformation of monotowns requires a sustainable networking and partnership with the backbone enterprises as well as local community representatives and experts. Due to the fact that the economy of a monotown is almost entirely dependent on the prospects of enterprise development, development programmes need to be designed in close cooperation with city-forming enterprises. A specialized approach to the expansion of local content in city-forming enterprises is necessary, as the unified approaches applied in other parts of the country are unable to reflect the existing challenges of monotowns. In order to increase local content it is necessary to review local supply chains and consider the use of PPP mechanisms where possible. An example could be the experience of the city of Wolfsburg, where cooperation projects

between local authorities, residents as well as the Volkswagen Group have been implemented.

(4) For full-scale results in preventing migration it is necessary to strengthen work with the local population. The needs of local people need to be assessed and addressed with their close involvement. This can be done through Community Councils and Community Foundations. In addition, financing for such funds can be autonomous through donations from former residents who live in other cities and countries but who have the ability and willingness to provide technical and financial support to their hometown. As the analysis conducted by the Kazakh scientists Zhunusova M. and Bemisheva A. shows, there are cases when the natives of monotowns, having moved to another country, are ready to provide material support for social development of their home town. Such an initiative requires the creation of a special Fund or Council, the activities of which would be transparent.

(5) Initiatives to attract and retain human resources in single-industry towns, similar to the "With Diploma to the Village" project, should be accompanied by the creation of the necessary social infrastructure and the creation of comfortable living conditions for young professionals and their families. However, given the deterioration of engineering and technical infrastructure, this initiative is of secondary importance.

(6) Community infrastructure rehabilitation programmes and investments need to be viewed through a sustainable and low-carbon development lens. The application of new innovative practices and technologies during

(7) rehabilitation will contribute to more sustainable operations, lower operating costs and efficient management in the long term.

### Authors

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