

Chapter 3

Capacities and role of local government in Kazakhstan in the context of decentralisation

This chapter examines the capacity of the local government to exercise their powers and responsibilities stemming from their legal authority and budgetary capacity. The chapter looks into the system of the fiscal equalisation and the budgetary decision-making process, as well as into the impact of transfers of financial and human resources following the transfer of responsibilities between tiers of government. Finally, the chapter offers an analysis of evaluation systems in Kazakhstan and provides actionable recommendations on measuring the performance of local executive bodies and developing evaluation criteria that are better aligned to the roles of local government and the demonstration of outcomes to citizen.

Resources exist to support the tasks of local authorities

The capacity of local executive bodies to exercise their powers and responsibilities depends on two crucial factors. First, local governments need the legal authority which can be conferred through the Constitution and other laws of general application (Shah and Shah, 2006). Second, the experience of OECD countries suggests that it is important to ensure that resources exist to support the tasks of local authorities. The transfer of fiscal resources is a core component of decentralisation. Without an adequate level of financial resources for local governments, it is not possible for them to carry out the functions transferred to them effectively. It follows that the presence of both conditions are necessary if local governments are to truly exercise the functions assigned to them. In the case of Kazakhstan, both legal authority and budgetary capacity appear to be relatively strong.

Kazakhstan has in place a system of fiscal equalisation

Kazakhstan's local governments play an important role in the delivery of public services. To enable this, most of the expenditures incurred by local governments are financed through a system of financial transfers between levels of government, which is based on assigned taxes and subventions (World Bank, 2012).

Under this system, *oblasts* share with rayon level the revenues from individual income tax and social tax collected within their territories. Same types of revenues are received by the cities of Astana and Almaty. Besides, *raions* and the cities subordinated to *oblasts* (see Table 2.1) are assigned all property taxes, land taxes, fees, and part of the excise taxes. However, Kazakhstan's *oblasts* differ in the level of economic development. Consequently they differ in their capacity to generate independent revenue streams through taxes or other means. Furthermore, *oblasts* differ in the level of their contribution to the national budget (Bhuiyan, 2010: 666-668; Makhmutova, 2006: 286).

The financial structure of local government shares several features with that used in OECD countries, such as in the case of Japan (Box 3.1).

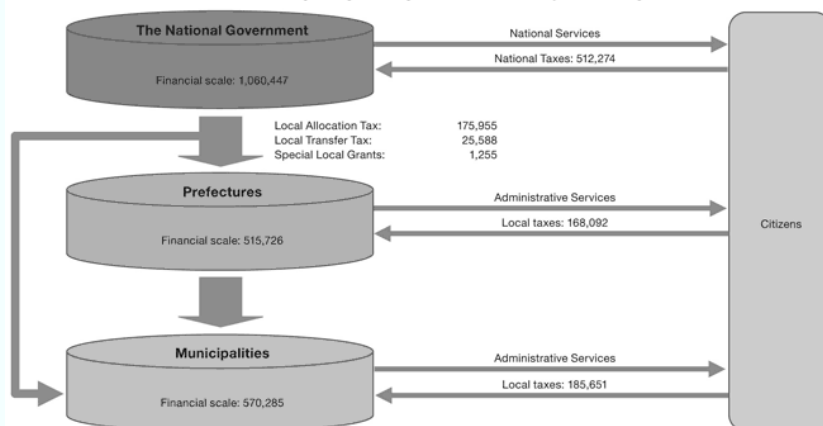
Box 3.1. Financial structure of local governments in Japan

The administrative system of Japan has a three-tiered structure: at the top is the national government and below that there are two tiers of local governments: prefectures and municipalities.

With the exception of administrative functions such as foreign relations and national defence, most of the administrative functions are financed both by the national government and local governments. Many of the national policies and programmes are carried out by local governments.

Figure 3.1. Structure of local finance in Japan

Structure of Local Finance in Japan (Unit: yen100 millions, FY2013)



Source: Tokyo Metropolitan Government (2016), “About our city: Financial structure of local governments in Japan”, webpage, www.metro.tokyo.jp/ENGLISH/ABOUT/FINANCIAL/financial01.htm.

In the Japanese model, local revenues are drawn from:

- local taxes
- local transfer taxes (determined as a percentage of national taxes)
- local allocation taxes (equalisation grants to local governments)
- National Treasury disbursements (targeted grants to local governments)
- local bonds.

Taken together, in the breakdown of revenue for local governments (FY2013), local taxes made up the largest proportion at 35.0%, followed by the local allocation tax (17.4%), National Treasury disbursements (16.3%) and local bonds (12.2%) (Tokyo Metropolitan Government, 2016).

In the case of Kazakhstan, the revenues to be paid into the local budget as specified in the Budget Code include both tax and non-tax revenues in local bodies, including transfers (Box 3.2) (Ministry of Justice of the Republic of Kazakhstan, 2015).

Box 3.2. Revenues of oblasts budgets in Kazakhstan

1. Tax revenues to the oblasts budget include:
 1. the individual income tax on the normative standards of income distribution, established by regional *maslikhat*
 2. the social security tax on the normative standards of income distribution, established by regional *maslikhat*
 3. the fee for the emissions into the environment
 4. the fee for the placement of outdoor (visual) advertising on the right of way of public roads of regional importance
 5. the fee for the use of surface water resources
 6. the fee for forest use
 7. the fee for the use of specially protected natural territories of local importance.
2. Non-tax revenues to the oblasts budget include:
 1. income from municipal property:
 - revenues from the part of the net income of municipal public enterprises, established by the decision of oblast *akimats*
 - dividends on the state-owned shares which are regional municipal property
 - income for ownership interest in the legal entities that are regional municipal property
 - revenues from the lease of regional municipal property
 - interest on loans granted from the regional budget
 - remuneration received from the placement of the temporarily free budget funds in the deposits

Box 3.2. Revenues of oblasts budgets in Kazakhstan (*cont.*)

- other income from the regional municipal property.
- 2. the revenues from the sale of goods (works, services) by the state institutions, financed from the regional budget
- 3. receipts of money from the public procurement, organised by the state institutions financed from the regional budget
- 4. penalties, fines, sanctions, recovery payments imposed by the state institutions financed from the regional budget
- 5. other non-tax revenues to the regional budget.
- 3. The regional budget revenues from the sale of fixed capital are money from the sale of the state property assigned to the state institutions, financed from the regional budget.
- 4. Revenues of the transfers to the regional budget are:
 - 1. transfers from the budgets of districts (the cities of regional importance)
 - 2. transfers from the republican budget.
- 5. The income from the repayment of loans issued from the regional budget, from the sale of financial assets of the state that are regional municipal property, the loans of the local executive bodies of regions are included to the regional budget.

Source: Ministry of Justice of the Republic of Kazakhstan (2015), “Budget Code of the Republic of Kazakhstan” (amended), Article 50, <http://adilet.zan.kz/eng/docs/K080000095>.

Kazakhstan’s regional (*oblast, capital, city of republican significance*) governments are permitted to borrow, though this necessitates prior permission from the Ministry of Finance. The lower levels of administration cannot borrow.

Beginning in 1999, a form of fiscal equalisation¹ was introduced to level the fiscal differences between *oblasts*. As a result, since 1999, *oblasts* with greater capacity to generate revenue have had part of their income deducted and contributed to the national budget whereas *oblasts* with lesser fiscal capacity receive a subvention from the central government (Ministry of Justice of the Republic of Kazakhstan, 2015: Articles 3 and 43). This system of equalisation is similar to that applied in several OECD countries where national governments ensure a degree of parity between the resources available to local government through the use of a fiscal instrument. The German model of fiscal equalisation is described in Box 3.3.

Box 3.3. Fiscal equalisation: Germany

The Federal Republic of Germany is a federal state comprised of the Federation and 16 federal states (the *Länder*). In the structure of the German state, the *Länder* represent an independent level of government endowed with their own rights and obligations. According to the constitutional rules on public finance, the municipalities are deemed to be part of the *Länder*. In order for the *Länder*, as independent constituent states, to fulfil the tasks allotted to them under the Constitution (which is called the *Grundgesetz* or Basic Law in Germany), they need adequate financial resources. The *Länder* must also have free and independent control over these resources. Aligning the revenue of the *Länder* is intended to create and maintain equal living conditions for the entire population in all of Germany.

The German Constitution guarantees that the Federation and the *Länder* receive appropriate levels of funding. The procedural regulations in this regard can be divided into four phases:

6. The entire tax revenue is distributed to the two levels of government – namely the Federation and all the *Länder* – and the municipalities receive a supplementary grant of revenue (vertical distribution).
7. The total *Länder* portion of tax revenue is assigned among the various *Länder* (horizontal distribution).
8. There is equalisation between poor *Länder* and rich *Länder* (financial equalisation among the *Länder*).
9. Poor *Länder* also receive funds from the Federation (supplementary federal grants).

The details of the individual stages are regulated by law.

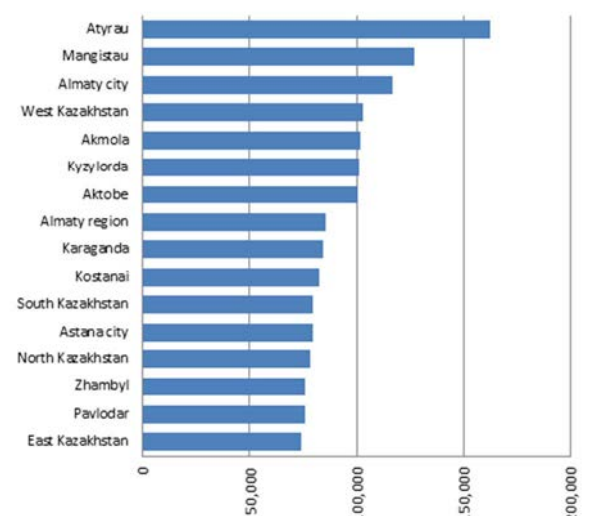
Source: Federal Ministry of Finance (2015), “The federal financial equalisation system”, https://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Oeffentlich_e_Finzen/Foederales_Finanzbeziehungen/Laenderfinanzausgleich/Eng-Der-Bundesstaatliche-FAG.pdf?__blob=publicationFile&v=1.

In the case of Kazakhstan, all *oblasts*, including those which contribute more to the national budget, are entitled to transfer payments, therefore partly offsetting the deductions (Makhmutova, 2006: 288; World Bank, 2012: 10-12). As shown in Figure 3.2, there is considerable variation between the regions in terms of their self-financing capacity, with the resource-rich regions and Almaty showing the greatest capacity.

This process of equalisation occurs through a system of budget subventions and withdrawals. In the first instance, regions whose planned expenditures exceed planned revenues are provided with subventions to make up the shortfall. In the second instance, regions whose planned

revenues exceed planned expenditures have the surplus withdrawn, which is then transferred to the national revenue² (World Bank, 2012: 10).

Figure 3.2. Variations in per capita receipts by *oblasts*, excluding transfers



Source: World Bank (2012), *Kazakhstan: Targeting Development Transfers*, The World Bank, Washington, DC, p. 11.

Both the policy rationale and the method for equalisation are set out in the Budget Code which states:

Transfers of a general nature are intended to equalize the level of fiscal capacity of regions and ensuring the equal fiscal capacity to provide the services guaranteed by the state in accordance with the directions of the costs, established by this Code to each level of the budget. (Ministry of Justice of the Republic of Kazakhstan, 2015: Article 45(5))

The formula which is used to calculate the level of subvention or withdrawal is set out in the methodology for the transfer calculation approved by Order No. 139 of the Minister of National Economy of Kazakhstan dated 11 December 2014. This methodology requires a uniform approach to all regions with the total amount of projected transfers to local budgets in all regions, to be distributed on the basis of the number of clients of public services in the region and the appropriate adjustment reflecting objective factors that determine the differences in the cost of service provision across the regions.

In the case of Japan, the formula applied to calculate the local allocation tax appears more straightforward, thus minimising discretion in the calculation of the transfer (Box 3.4).

Box 3.4. Japan: Local allocation taxes

In Japan, local allocation taxes form the core of the local financial adjustment system of the nation. The system is designed to sustain general revenue sources and to correct fiscal imbalance among local governments, thereby ensuring that all local governments are able to provide an adequate level of services. This general revenue source consists of grants to local governments calculated by a fixed formula, which allocates a percentage of revenues collected nationally. The percentage of revenue allocated to local governments is 33.1% of income tax, 50% of the liquor tax, 33.1% of the corporation tax, 22.3% of the consumption tax and 100% of the local corporation tax.

Source: Tokyo Metropolitan Government (2016), “About our city: Financial structure of local governments in Japan”, webpage, www.metro.tokyo.jp/ENGLISH/ABOUT/FINANCIAL/financial01.htm.

Moreover, as the OECD observed in the education sector, the basis on which the cost of local services is calculated may underestimate the actual cost. For example, the actual costs of heating, water and electricity in schools tend to be higher than the estimated costs which are used to calculate local expenditures (OECD, 2014c: 206-261).

There remains considerable variation in revenues net of subventions and withdrawals between regions. The variation in revenue between regions is illustrated in Figure 3.3 (World Bank, 2012: 11).

Another source of revenue for local governments are the transfers (also referred to as targeted transfers) which would be comparable to Japan’s National Treasury disbursements (Tokyo Metropolitan Government, 2016). These transfers are allocated to specific programmes or projects under the responsibility of the local executive bodies. Targeted transfers exist to support both recurring local expenditures, such as for health services, and investments for regional development projects (World Bank, 2012).

The transfer of fiscal resources is therefore one of the core components of Kazakhstan’s system of local government.

As shown in Figure 3.3, with the exception of the investment transfer, transfers from central government as a percentage of local government revenue have fallen since 2010, with the most precipitous drop affecting subventions. For their part, revenues generated from personal, social security and excise taxes duties have increased for most of the period.

However, it is unclear the degree to which the evolution in local government revenues have kept pace with the transfer of functions between levels of government.

Figure 3.3. **Structure of local government revenues, 2010-15 and 2016 (forecast), in %**



Notes: 1. Transfers of a general nature which can be used by local government for any purpose. 2. Investment transfers which are allocated to fund specific projects or priorities. 3. Subventions, like general transfers, can be used for any purpose. Subventions are used as the primary means of equalising government services among regions.

Source: Ministry of National Economy (2015), “Methodology for conducting sectoral (agency-level) functional review of the activities of public bodies”, draft internal working document.

The central level of the government is aware of the problem of high dependency of the local governments on the targeted transfers from the republican budget (36.3% in 2016, according to the information provided by the Ministry of National Economy). There are plans for moving part of the targeted transfers to the revenue base of the local budgets in order to decrease this dependency to 18.3% in 2017.

Changes in local government revenues cannot be explained by discretion in the calculation of transfers alone. Local government revenues from local sources, such as income taxes, and revenues from transfers, are both susceptible to be impacted by variations in Kazakhstan’s general economy. Specifically, extractive industries are a prime source of income for central and local governments. Kazakhstan therefore faces a problem common to other resource-dependent economies, such as Canada (Box 3.5).

Box 3.5. Canada’s Equalisation Programme

In Canada, equalisation entitlements are determined by measuring provinces’ ability to raise revenues – known as “fiscal capacity”.

Before any adjustments are made, a province’s per capita equalisation entitlement is equal to the amount by which its fiscal capacity is below the average fiscal capacity of all provinces – known as the “10 province standard”.

Provinces get the greater of the amount they would receive by fully excluding natural resource revenues, or by excluding 50% of natural resource revenues.

Equalisation is adjusted to ensure fairness among provinces while continuing to provide a net fiscal benefit to receiving provinces from their resources equivalent to half of their per capita resource revenues.

Equalisation is also adjusted to keep the total programme payout growing in line with the economy. The growth path is based on a three-year moving average of gross domestic product growth. This helps to ensure stability and predictability while still being responsive to economic growth.

Source: Department of Finance Canada (2016), “Equalization Program”, webpage, <https://www.fin.gc.ca/fedprov/eqp-eng.asp>.

Therefore, while it may be difficult to fully anticipate government revenues from this sector, it may be best for Kazakhstan to establish as predictable and stable a regime of transfers to local governments, which would allow the local government to forecast their revenues and plan for the expenditures of the future periods with some degree of certainty.

Recommendation

Undertake regular review of the fiscal transfer system to ensure stability and predictability of transfers to local executive bodies while still being responsive to economic growth. This could be achieved by basing the transfers on a rolling three-year average of economic activity and government revenues and expenditures.

Any changes made should not result in any major change to the amount of the general transfer (i.e. changes should be expenditure neutral).

Local government authorised expenditure areas should be aligned with their areas of activity

Having access to an adequate level of financial resources – either in the form of locally raised revenues (i.e. taxes and charges) or via transfers from

the central government – is essentially to enable local governments to carry out transferred functions effectively. In addition to having a source of revenue, fiscal decentralisation also entails the authority of local government to take expenditure decisions (World Bank, 2001, 2012; OECD, 2015).

It follows that a prime consideration for fiscal decentralisation revolves around the extent to which lower tiers of government have the autonomy to determine their expenditures and the ability to raise revenue to enable these expenditures (World Bank, 2001).

Despite major progress and numerous changes since 2003, the decentralisation reform in Kazakhstan is not yet fully completed and relations between authorities at different levels still reflect historical, political, geographic and other factors.

In Kazakhstan, fiscal relations between the central government and regional governments are framed by the Budget Code, which outlines the fiscal relations between the levels of government (Ministry of Justice of the Republic of Kazakhstan, 2015: Article 42). The Budget Code defines:

- the items which are to be included in either the central or local budgets
- the means by which revenue is transferred between levels of government, for example through general transfers versus targeted transfers
- the types of tax revenues to be received by the local budgets of each level. The taxes are collected by the central government tax authorities.

Another main feature of the fiscal relations between levels of government is the rigidity of expenditure norms and regulations (all of which are defined at the national level) and the inflexible way in which funding flows are earmarked. This limits the autonomy of subnational governments and local bodies to adjust allocations in accordance with local needs and budget possibilities. A good illustration of the practical consequences is the proportion of local spending on education that is allocated to salaries (OECD, 2014c: 260-261).

Thus Article 54 of the Budget Code enumerates 12 areas in which local executive bodies are obliged to make expenditures (Box 3.6).³

**Box 3.6. Spheres of mandatory local government expenditures
(oblasts)**

10. Functions of a general nature
11. Defence, public order and safety
12. Education
13. Healthcare service
14. Social assistance and social security
15. Housing and utilities infrastructure
16. Culture, sports, tourism and information
17. Agro-industrial complex, water, forestry, specially protected natural areas, protection of the environment and wildlife, land relations
18. Architectural, town planning and construction activity
19. Energy conservation and energy efficiency
20. Transport and communications
21. Regulation of economic activity
22. Other areas.

Source: Kazakhstan, Budget Code, 2008.

For each of these areas of expenditures, the Budget Code further specifies the types of expenditures allowed, with varying degrees of specificity. Thus, in education, the Budget Code specifies 15 directions of expenditures. The breakdown is quite detailed: for example, one of the lines requires the expenditures on organization of the academic competitions at the regional level, another – on the nutrition for the specific categories of students. At the same time, in healthcare there are only four categories of expenditures, one of which reads as “other expenditures in healthcare with the exception for those financed from the republican budget”. It is obvious that the oblast budgets will be more flexible in the latter case than in the former one.

In addition, the Budget Code also gives the central government the authority to fix the number of staff of the local executive bodies (Ministry of Justice of the Republic of Kazakhstan, 2015: Article 54).

Taken together, the elements of the Budget Code could be seen as defining the scope of activities of local executive bodies by identifying the

areas of mandatory expenditures. All the areas that the regions themselves plan to include fall into the category of “the other expenditures”.

These authorised expenditure areas are similar in several regards to those of Japanese local governments. These include:

- social welfare
- public health and sanitation
- agriculture, forestry and fisheries
- commerce and industry
- civil engineering works
- education
- debt services.

The breakdown of local finance expenditure by administrative category (FY2013) in Japan shows the major area of expenditure to be social welfare, accounting for 24.1%, followed by education at 16.5% and civil engineering works at 12.4%. Social welfare and education combined amounted to about 40% of total expenditure (Tokyo Metropolitan Government, 2016).

The areas of local government expenditures prescribed by Kazakhstan’s Budget Code are therefore largely in keeping with OECD and international practice. However, the capacity to spend is dependent on the capacity to raise revenue. In this area, Kazakhstan’s revenue-raising capacity is limited.

Kazakhstan’s Tax Code may be overly restrictive

Across the OECD and internationally there exists a lively debate about the adequacy of local government revenues, especially as local governments’ responsibilities may be changing. In this debate, a key element turns to the question of the limited capacity of most local governments to generate autonomous revenue (Yilmaz, Vaillancourt and Dafflon, 2012). This is also true of Kazakhstan.

Kazakhstan’s local executive bodies have little authority with regard to taxation. Tax collection in Kazakhstan is centralised at the Ministry of Finance and its territorial divisions (Bhuiyan, 2010: 666-668) with the local tax collection bodies being vertically subordinated to the national level.

The existence of local taxation does not appear as part of Kazakhstan’s Tax Code. Rather, the Tax Code enumerates the various types of taxes and payments which are allowed. This approach may be overly restrictive as it does not permit local governments to adjust their revenue sources to their

expenditure needs. While these differences could previously be compensated through transfers and subventions from the republican budget, Kazakhstan's current economic circumstances may dictate a different approach. Increasing local governments' capacity to raise revenue is one such policy avenue. Such a change would further be in keeping with the direction already taken by Kazakhstan. Thus, recent reforms to the Tax Code grant *akims* of settlements, villages and village districts certain powers over the collection of personal taxes within their areas (Ministry of Finance, 2015: Article 23(2)).

It is notable that given the complexity of the Tax Code and of the Budget Code that the Ministry of Finance devotes considerable attention to training staff in local governments about the impacts of any changes to these codes and related instruments. As Kazakhstan contemplates further reforms, especially with the introduction of village-level budgeting, it will be important to sustain these capacity-building efforts.

However, given Kazakhstan's large territory, its relatively small population and the diversity of economic capacity between regions, any changes to the Tax Code which increase sources of local revenue should not lead to significant changes in intra-regional disparities. It is therefore important for Kazakhstan to recommit to equalisation as a key element of its budgetary policy.

Scope exists for more engagement in the budgetary decision-making process

Though the principle of equalisation and fiscal decentralisation are well enshrined in Kazakhstan, their effectiveness as public policy instruments is dependent on the result of the budget-making process. The budget commissions established at the national and regional levels are central to this process. The commissions are permanent bodies principally responsible for consideration of the draft budget prior to their submission to the respective decision-making bodies (Parliament or *maslikhats* respectively). At the national and regional levels, the mandate and membership of the budget commissions fall under the competence of the Presidential Administration and *akimats*, respectively. An important difference between both commissions is the requirement for representatives from the National Chamber of Entrepreneurs to sit as members of the regional budget commissions. This ensures that the issues of the private business sector are taken into consideration as part of the budget process. However, it also serves to highlight the absence of other stakeholders in the work of the budget commissions, which was also a finding of the 2014 Review (OECD, 2014b).

As the experience of the United Kingdom suggests, central governments have a responsibility to consult lower levels of government on financing decisions, especially in the context of diminishing fiscal resources across all levels of government. This is particularly necessary when lower levels are dependent to a significant degree on grants from the central government. To remedy this situation, the British government conducts a broad stakeholder consultation as part of its process to determine local authority financing (Box 3.7).

Box 3.7. Local government financing consultations: United Kingdom

In December 2015, the Department of Communities and Local Government launched a consultation as part of its process for determining the financial transfer to local authorities from the central government for the year period starting on 1 April 2016. The process is conducted annually.

The provisional local government finance settlement on which the consultation is based sets out the model for estimating the amount of money each council and fire authority can expect to receive from the central government through the Revenue Support Grant and retained business rates income. The provisional settlement for 2016-17 included:

- detail on how the amounts of the grant were calculated
- the estimated core spending power of each authority
- a consultation document setting out 17 questions
- a draft equalities statement.

As part of the consultation the department also published:

- information about the framework and flexibilities for setting council tax in 2016-17
- a draft direction and guidance on capital receipts flexibility
- a consultation on reforms to the New Homes Bonus.

Responses to the consultation were collected via email or written submissions. In addition, ministers and officials held meetings with individual authorities, representative bodies, members of parliament and other stakeholders through the consultation period.

In total, 278 formal responses were received and given full consideration alongside other representations made during the consultation period.

Box 3.7. Local government financing consultations: United Kingdom (cont.)

The results of the consultation were summarised and published as a summary report which also included the government’s response to the contributions received.

Sources: Department for Communities and Local Government (2015), *Provisional Local Government Finance Settlement 2016-17 and an Offer to Councils for Future Years: Consultation*, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/494385/Provisional_settlement_consultation_document.pdf; Department for Communities and Local Government (2016), *Provisional Local Government Finance Settlement 2016-17 and an Offer to Councils for Future Years: Consultation: Summary of Responses*, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/499283/Summary_of_responses_to_provisional_LGFS_consultation.pdf.

The nature of the relationship between the republican (national level) and regional budget commissions could be established. Cross membership between the commissions or the presence of regional government representatives on the republican commission does not yet appear to be the case. Linkages between the budget-making processes of each tier of government would benefit from strengthening, which could increase regional considerations in the adoption of budgets across all levels of government.

Box 3.8. Citizen involvement in budgetary decision making

“Budgeting is a fundamental activity of government, symbolising an explicit agreement between people and their government: private resources in exchange for the public services and benefits that fulfil national priorities and objectives. Citizens rightfully expect governments to deliver on that promise. They further expect that public budgets be fair, equitable and transparent. If citizens believe that the management of government finances is subject to corruption, inefficiency and waste, they question the motives of their leaders and are less willing to accept tough policy choices such as structural programme reforms, tax increases and spending cuts. Their resistance is further hardened if they feel that government does not represent their interests or respect their opinions about how to allocate public resources.

Strengthening the transparency and openness of public budgets can help promote social accountability and restore the public’s confidence in overall government. That will enable citizens to become more engaged and, in the process, learn more about the budget and fiscal policy concerns. As they do, cynicism should dissipate and trust in government should improve.”

Source: Tanaka, S. (2007), “Engaging the public in national budgeting: A non-governmental perspective”, <http://dx.doi.org/10.1787/budget-v7-art12-en>.

There is considerable international experience with citizen involvement in budgetary decision making (Box 3.8), which could be relevant as Kazakhstan deepens its efforts in this area. Kazakhstan may consider evaluating the results and impacts of village-level budgetary decision making which, if successful, can be used to draw lessons which will enable extending this practice to other levels of local government (i.e. town, *raion* and eventually *oblasts*).

Recommendation

Consider undertaking independent evaluations of the effects of local participatory budgeting, which can help ensure that it has met its expected outcomes and resulted in a tangible improvement for citizens and local communities.

Despite the introduction village-level participatory budgeting, like many other elements which define the relationship between tiers of government in Kazakhstan, there is a clear preponderance for the central government over fiscal affairs (OECD, 2015), although this is not unusual in a unitary state, especially where tax and revenue powers are aggregated at the centre.

Kazakhstan has in place the capacity to assess local government performance

As is other areas in Kazakhstan's system of governance, measuring the performance of local executive bodies is a centrally determined process. Under the Decree on the System of Annual Evaluation of the Effectiveness of the Central Government and Local Executive Bodies of *Oblasts* and the Cities of Republican Status, local executive bodies are assessed annually on the effectiveness of their activities. The assessments are conducted by the Ministry of National Economy.

Therefore, although additional responsibilities have been transferred to local executive bodies as part of the process of decentralisation, the central government continues to play an important oversight role over how these responsibilities have been administered. Most importantly, the transfer of functions to local governments has not led to an increase of their role or capacity in the self-assessment of their activities. In the absence of internal evaluation capacity, local governments are subject to periodic assessments conducted by the Ministry of National Economy based on seven areas defined by the central government and which apply to all *oblasts*, including budget, IT and HR management, public service delivery, and implementation of strategic objectives.

Recently the Ministry of National Economy revealed its intention to assess local government performance on the basis of target indicators that were developed in consultation with *akims*. These indicators are:

- rate of economic growth
- increase in tax and non-tax income
- social development, including employment and life expectancy targets
- preschool coverage
- housing stock
- road conditions.

Under this new process, local *akims* would be evaluated on whether they met specific performance targets for each of these areas, with the targets spelled out in a memorandum of understanding. A similar process based around identical assessment criteria is also planned for implementation at the level of *oblast akimats*. For example, in the East Kazakhstan region, the assessment is conducted by the Regional Management Board, which also includes in its assessment the region's five-year Regional Development Plan (OECD, 2015).

At the same time, there may be a need for developing evaluation criteria that are better aligned to the roles of local government and the demonstration of outcomes for citizens. Thus, for example, while the seven indicators put forward do touch upon areas of local government responsibility, it is also clear that some of these are areas over which local governments will have minimal leverage. This suggests that much more needs to be done in both the areas of indicator development and the capacity to assess performance.

This need to increase capacity has also been recognised by the Kazakh government, though there is limited indication of recent actions to address this issue. The major effort in this area occurred in 2011 under a joint project of the UNDP Programme for Kazakhstan and the Ministry of National Economy aimed to support the implementation of the President's Decree on the System of Annual Performance Evaluations of the Central Government and Local Executive Bodies of *Oblasts* and the Cities of Republican Status and Presidential Decree on Methodology of the Performance Assessment of State Bodies. The purpose of the workshop was to consider the performance evaluation of the central government and local executive branches, focusing on six principal areas:

1. implementation of strategic goals and objectives

2. implementation of national decrees, laws and orders
3. implementation of budget programmes
4. public service delivery
5. human resources management
6. application of information technology (United Nations Development Program in Kazakhstan, 2011).

In short, while responsibilities in several areas have been transferred, this has not been accompanied by a commensurate transfer of accountability over the performance of these responsibilities. However, it is also uncertain whether this assessment system will be balanced by increased accountability to actors other than the central government.

In addition to these improvements, it will be important to ensure that the results of these assessments are objective and transparent to all key stakeholders: parliamentarians, the public and the non-governmental sector. This is essential in order to ensure public accountability for results. Though the Plan of the Nation already include the undertaking to make public the results of the assessments of executive bodies, more can be done. For example, the degree of involvement of local stakeholders and the non-governmental sector in the assessment of public bodies is presently underdeveloped. Yet, as the prime beneficiaries of services provided by local executive bodies, it would seem appropriate for these interests to be involved in the process. This is especially important given that the effective implementation of decentralisation reforms will allow for improving the quality of life of citizens and more efficient and effective public spending. Building capacity in the non-governmental sector, such as government financing of NGOs' participation in the performance assessment of state bodies, was suggested as part of the 2011 workshop and remains a valid recommendation today (United Nations Development Program in Kazakhstan, 2011).

Recommendation

Strengthen mechanisms for active and meaningful civil society participation in the assessment of local executive bodies' performance, including its effectiveness, responsiveness and openness. This should also include transparency in the publication of the results of the assessments of the activities of local bodies, including on the actions to be taken based on the results of these assessments.

Decentralisation is defined by central government priorities

The process of decentralisation through the transfer of responsibilities has been ongoing in Kazakhstan since 1996, though the implementation of decentralisation has occurred in phases corresponding to successive national development plans. Looking forward, Kazakhstan's continued governance reforms, including those captured under the Plan of the Nation, are likely to include further decentralisation and transfer of responsibilities. The direction these reforms will take are captured in the draft law introduced in December 2015, on introduction of changes and additions to some legislative acts of the Republic of Kazakhstan on the issues of delineation of powers between the levels of public administration (National Modernization Commission, 2015).

As in many other aspects of public governance in Kazakhstan, the process of the decentralisation of responsibilities is founded on an extensive suite of legal instruments. These legal instruments include:

- Law on Amendments and Additions to Some Legislative Acts of Kazakhstan on the Delimitation of Powers between Governments, which concerns the election of *akims* at the lowest level of local government.
- Decree (29 April 2013) No. 411 on Some Issues of Limits on the Regular Number of Ministries, Other Central and Local Executive Bodies and the Abolition of Some State Institutions, which resulted in optimising the number of local executive bodies and consequent reductions in staffing levels.
- Decree (6 August 2014) No. 875 in the Reform of the Public Administration System of the Republic of Kazakhstan, which reorganised the government of Kazakhstan and reduced the number of central government bodies.
- Decree (25 August 2014) No. 898 on Measures on the Division of Powers between Levels of Government of the Republic of Kazakhstan, which outlines the basic principles and approaches on the division of responsibilities between levels of government.
- Decision of the Government (Cabinet) (15 December 2004) No. 1 324 on Some Issues the Approval Limits of the Regular Number of Local Executive Authorities.

Taken together, these instruments establish the framework for decentralisation, although none of them result from extensive consultation with local executive bodies. Subsidiary regulations approved by the local

legislative bodies, the *maslikhats*, serve to implement the measures contained in national legislation (OECD, 2015).

The role of local executive bodies should be strengthened in the decentralisation process

As noted, the main factor driving the process of decentralisation in Kazakhstan stems from the Plan of the Nation (100 Concrete Steps). Though presented as a means of increasing public participation and responsive to the citizens, few of the early actions taken to implement Step 97 appear to support these goals. This is likely the result of the top-down – i.e. central government defined – rather than bottom-up approach taken by Kazakhstan to the process of functional transfer. Rather than tasking local executive bodies to identify areas where local delivery may improve delivery and results for citizens, the process is driven by central government priorities.

At present, the current process of decentralisation has resulted in only six areas determined to be suitable for transfer to local executive responsibility. According to the information of the Ministry of National Economy, these are:

7. land use for defence and national security
8. investment subsidies to local businesses
9. monitoring seed resources
10. research and development
11. development and approval of fish, water and water resources
12. transfer of responsibility for technical approval of gas and gas supply systems.

The process used to develop this initial list of functions to be transferred is captured in Figure 3.4.

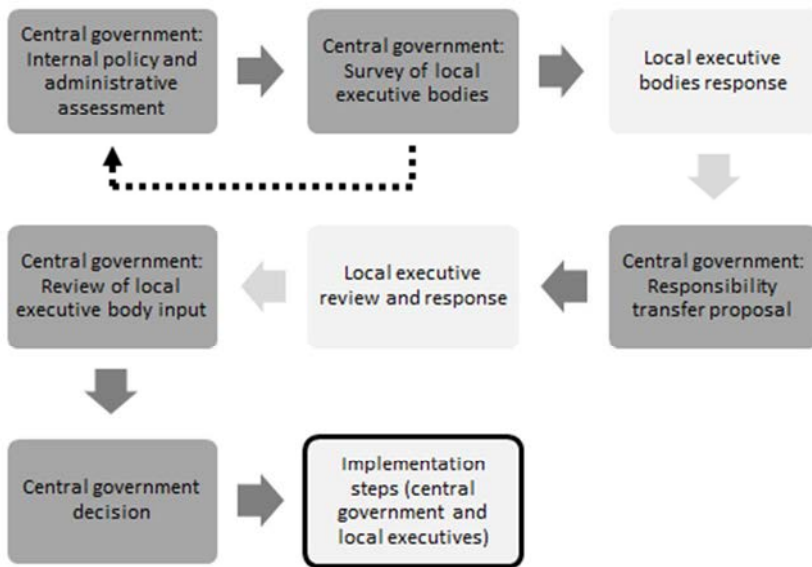
The starting point in the process consists of identifying areas suitable for transfer. This is done through an internal process of assessment and functional review conducted by the responsible ministries. The degree to which local executive bodies were consulted as part of this internal assessment, or whether an external environment scan was conducted to arrive at these decisions, is unclear (OECD, 2015).

This initial step is followed by formal proposals for the transfer of responsibilities which are submitted to the local executive bodies for consultation. In several *oblasts*, *akimats* working groups chaired by the deputy *akims* were established and composed of representatives of regional

and local executive bodies. However, it does not appear that local executive bodies were involved in proposing alternatives to central government proposals and instead confined their input to matters such as considerations for the region, for example effective implementation and efficiency issues (OECD, 2015).

The final stages in the process consist of the internal decision making of the central executive, Presidency and Cabinet as the legal and constitutional authorities to decide on the shape of Kazakhstan’s government at the central and regional levels (OECD, 2015).

Figure 3.4. Decentralisation consultation and decision-making process



Source: OECD (2015), Responses to the OECD Survey on Multi-level Governance in Kazakhstan, akimat responses.

The factors considered at different stages of this process appear to include impacts on local executive bodies that are integral to this process, especially where the transfer of responsibility may have an impact on resource levels. Therefore, the process includes not only an assessment of the financial and human resources impacts, but providing the authorisation for regional governments to adjust their resources as part of the final implementation step; for example, increasing staffing levels in executive bodies to meet the needs arising from the new responsibilities (OECD, 2015).

Overall, although the process was led primarily by the central government, there is evidence of inputs and participation by the regional levels of government into the evidence-gathering and analysis processes associated with the transfer of responsibilities. However, despite this openness to input on the part of local executive bodies, in many ways the process associated with the decentralisation of responsibilities remains largely closed to other interventions, such as from the non-governmental and private business sectors (OECD, 2015).

Though the process described above appears comprehensive and open to inputs from local sources, it could be improved by increasing transparency. The methodology that is applied as part of the internal assessment and final decision making is not well known, including to local executive bodies. How factors such as the public interest or impacts on resources are addressed is unclear, as is the degree to which local executive bodies are able to influence the final decision. The transparency and clarity of the process should be increased (OECD, 2015).

Recommendation

Enhance transparency in the process and methodology used to assess and decide on the transfer of functions. This information should be freely available to all relevant stakeholders, including the public and civil society organisations.

Decentralisation impacts on local executive bodies are not sufficiently assessed

One of the key issues associated with decentralisation is that of the capacity of local executive bodies to take on the functions transferred to them. As noted above, the availability of resources should be one of the main factors assessed as part of the decision-making process. Though the transfer of responsibilities between levels of government is not a new feature of Kazakhstan's policy in the area of administrative and governance reforms, it has accelerated in line with the Plan of the Nation. Though the current process is still in its early stages, there is scope to consider Kazakhstan's experience with previous functional transfers in three main areas: human resources, administrative structures, and fiscal and financial resources.

One of the main areas impacted by previous decentralisation is the area of human resources management, in particular in the area of staffing levels. As responsibilities of the central administration are transferred, *akimats* have reported experiencing shortages in human resources capacity to undertake

their new transferred responsibilities (OECD, 2015). *Akimats*, however, have little scope to autonomously determine their staffing needs and therefore rely on the central government to review and authorise any additional resources. Though in most instances the transfer of functions has resulted in increased human resources being authorised for the local executives, this has not been systematic across all areas.

A related issue concerns the degree to which the transfer of responsibilities is also matched by the commensurate transfer of professional expertise to match the new capacity needs in the *akimats*. This may have an impact on the quality of services provided where *akimats* lack the professional expertise needed to undertake their new responsibilities.

Administrative structures have also been impacted by the transfers of government functions. Where in some cases new functions could be absorbed within existing administrative structures in the local executives, this has not always been possible as newly transferred functions have also included areas which were entirely new to local executive involvement. For example, the responsibilities for animal health (veterinary services) required the creation of new administrative structures. Because the capacity of local executive bodies to change their administrative structures requires central government authorisation, *akimats* have found themselves wedged between two conflicting central government decisions: the need to take on a new responsibility while at the same time having to streamline their administration.

Underpinning both the impacts in human resources and administrative expansion are the financial and fiscal impacts which local executives face as a consequence of expanding responsibilities. Because the fiscal resources of local executive bodies are limited and entirely determined by the national Tax and Budget Codes, local governments can seldom afford to take on new roles. In recent years there has been recognition of this fact by the central government. In response, the central government has increased its fiscal transfers to *akimats* to compensate for these increased responsibilities, though the degree to which these increased fiscal transfers are adequate to fully fund the new transferred responsibilities is unclear (OECD, 2015).

Because the impact of decentralisation falls principally on local executive bodies, there is a necessity to ensure that these public bodies are sufficiently resourced and capable to take on these new roles. Looking forward, these lessons show the need to ensure that impacts are carefully assessed and considered as part of the decision-making process. Foremost, they highlight the need to consult actively and openly with the local executive bodies, as they are best placed to assess the impacts as well as propose options that would enable the realisation of government objectives.

At present, the central government retains its core position in shaping the resources available to local government (OECD, 2015).

The role of the National Commission for Modernization as an important player in the process of decentralisation needs to be clarified

In April 2015 the President announced a Plan for the Nation. Under the Plan a new actor was introduced into the decision-making process, the National Commission for Modernization. Headed by the Prime Minister, this Commission was established to co-ordinate the work of government bodies on implementation of the Plan of the Nation (President of the Republic of Kazakhstan, 2015). The Commission includes members of Parliament, senior officials of central executive bodies, members of non-governmental organisations including the Civil Alliance and National Chamber of Entrepreneurs (President of the Republic of Kazakhstan, 2015).

There also a specialized Commission on transferring of functions to the competitive environment (to the private sector). The functions of this second Commission include:

- defining the list of functions to be transferred into the competitive environment for each state body
- selecting a form of function transfer (state order, outsourcing, at the expense of service recipients, self-regulation)
- analysing the preparedness of the competitive environment for the performance of transferred state functions, taking into account regulations, price and quality criteria
- considering the function transfer rules prepared by state bodies
- developing a system for the monitoring and oversight of the transferred functions.

As a new actor in the process of decentralisation, it is still too early to assess the impact of the commission's work on addressing these five problems. Though the commission was created in part to enhance public participation, its power and capacity to meaningfully open up discussions to non-governmental interests may need to be further strengthened. In fact, the presence of the commission appears to reinforce the decentralisation process at the central level. To ensure greater local ownership, Kazakhstan may benefit from including local executive bodies as members of the commission.

Decentralisation in Kazakhstan establishes the foundations for multi-level governance

Kazakhstan began the decentralisation of government programmes in 1996 and this process has continued in a phased approach in keeping with the country's development plans. Overall, the process of transfer of governmental functions from the central government to local executive bodies has occurred at a steady and ordered pace, reflecting the country's centralised system of government. Though international experience suggests that processes of decentralisation will face difficulties and impediments, these have been absent from Kazakhstan's experience. Carrying the imprimatur of the President and the government, the process of decentralisation can be said to have been welcomed at all levels of government and by the public.

Beyond the support of the national leadership, another factor which has contributed to the smooth implementation of decentralisation can be explained by Kazakhstan's system of government. Kazakhstan's unitary and presidential system provides the central government with all the power to shape the responsibilities of the various tiers of government to suit centrally determined policy priorities and ensure their implementation through its legislation and administrative powers.

In fact, the transformations brought about by the Plan of the Nation will accelerate the process of decentralisation. Though it is too early to assess the outcomes of these reforms, it is clear that these will significantly increase the roles and responsibilities of local governments. Yet, there appears to be very little progress towards multi-level governance in these reforms. Decentralisation – the distribution of public policy responsibilities – could be described as merely the first stage in the transformation of Kazakhstan's governance insofar as it relates to local government. Multi-level governance – the continuous interaction between governmental actors – would be next stage.

Whereas decentralisation presents many advantages to both governments and public service users, it may also present several challenges, notably where it leads to disparities of services between regions and reduced efficiency, for example. Some degree of control needs to be retained at the centre in order to counter-balance these potential negative effects of decentralisation (Rodriguez-Pose and Gill, 2003). Multi-level governance, which takes into account both the interdependence and autonomy of governmental actors, provides one means of achieving this balance. As Charbit (2011) notes, this interdependence stems from institutional, financial and socio-economic factors (Touati et al., 2015).

Multi-level governance exists where interdependent actors share responsibility over certain areas of public policy. To date, the process of decentralisation in Kazakhstan has been focused on the transfer of functions. What appears to be lacking in these reforms is the establishment of institutions or processes that would support the development of multi-level governance. So far the reforms have not shifted the balance of power between the central government and local executive bodies. As discussed in terms of fiscal decentralisation, the central government continues, and is likely to continue, to define the roles of local governments and the resources that will be available to them to discharge these roles.

Thus, to increase the effectiveness of Kazakhstan's decentralisation reforms and shift the mode of governance towards multi-level governance will require establishing means for co-operation between levels of government.

Kazakhstan should establish modes of co-operation and dispute resolution between tiers of government

International experience suggests that the increased decentralisation is accompanied by rise of co-operative arrangements (Forum of Federations, n.d.; Openskin, 2002). Though it is inevitable that disputes will occur between tiers of government, for the most part the relationships between Kazakhstan's levels of government can be described as co-operative. However, as Kazakhstan proceeds with further decentralising government functions, modes through which to co-operate across tiers of government will become more important.

In the case of Kazakhstan, relations between tiers of government show no apparent disputes. As such, Kazakhstan's system of relations between tiers of government makes little allowance for establishing the institutional or other conditions necessary for co-operative arrangements to emerge. This is largely due to the subordinate role played by regional governments. Regional governments principally focus on the implementation and delivery of national public policies and programmes.

Therefore, in Kazakhstan modes of co-operation exist, though these must be inferred from the existence of other mechanisms. For example, the centralised approach to planning serves as a means to frame the relationships between the tiers of government and, by extension, their respective roles in the delivery of government priorities. The five-year territorial development plans, which require interactions between the Ministry of National Economy, other national government bodies and local executive bodies, ensure policy and programme co-ordination (OECD, 2015).

Kazakhstan's approach to executive level co-operation also includes the extensive use of information technology as a means for facilitating the exchange of information between regions and with the central government. In addition, meetings and seminars involving officials are another frequent means of interaction and co-operation. However, officials remain cautious in their interactions and ensure that these remain within the boundaries of their responsibilities established by law (OECD, 2015).

Legislation has also been used to frame intergovernmental relationships by establishing the legal framework for the responsibilities of each tier of government. These laws therefore enable co-ordination and co-operation insofar as they are specific. For example, the Budget Code and the Law on Local Government and Self-Government in the Republic of Kazakhstan enable the decentralisation of responsibilities by establishing the financial conditions for such transfer of responsibilities (OECD, 2015).

However, as should be clear, co-operation and co-ordination occur only insofar as local executive bodies drive forward the policies and priorities of the central government. Looking forward, it appears that both the central and regional governments have yet to be seized with the potential and consequences of decentralisation and the need to ensure mechanisms for co-operation and co-ordination that rely on mutual objectives and agreements rather than solely on the direction of the national government.

Across the globe, the experience of countries which feature multiple tiers of government shows that disputes between levels of government are inevitable and, for this reason, most countries have established mechanisms for the identification, prevention and resolution of such disagreements. The sources of these disagreements may arise from several sources, including:

- central government direction to enforce uniform approaches to policy and administrative matters
- conflicting perspectives over the capacity and role of central and local governments over policy and administration
- differing policy priorities, such as between issues deemed important at the national and local level, and sequencing and implementation of policies
- mismatch between responsibilities and resources available to each level of government
- contextual factors such as policy and political conflicts between officials and politicians.

These and other factors are sources of disputes that are not limited to any policy area and may often occur in combination with other factors (Wise and Brown, 1999).

In light of international experiences, disputes between levels of government are therefore also bound to occur in Kazakhstan. For the most part these disagreements have tended to concern issues associated with the implementation of central government policies and associated programmes. As a consequence, the differences of views are resolved at the level of officials and rarely escalate to senior levels of government, such as between the *akimat* and the territorial unit of a national ministry (OECD, 2015).

Box 3.9. **Dispute resolution mechanisms**

Japan's Central-Local Government Dispute Resolution Council

In order to establish a new relationship based on fairness and co-operation between the central and local governments, the Central-Local Government Dispute Resolution Council was set up to deal with disputes between the two levels of governments. This is an advisory organ of the Ministry of Home Affairs (now the Ministry of Internal Affairs and Communications), and is based on the Central Government Organization Act. The system takes a council form and examines the intervention of central government into local government and makes recommendations from a neutral point of view. The commission's power, structure and procedures to examine are stipulated in the Local Government Law.

Spain's Constitutional Court for resolution of conflicts

The Spanish Constitutional Court – as a neutral instance for the resolution of conflicts – has been playing an essential role in building the territorial open model established in the 1978 Constitution.

The complexity of the Spanish system has been shown in an important number of conflicts since its enforcement. This complexity derives from, on the one hand, the fact that at the moment of attaining self-government, autonomous regions did not receive a uniform set of competences, but a specific one, tailored to their respective situations; and on the other hand, because of the fact that it is a system in which certain fields are shared and, as a result, functions – rather than complete areas – are distributed between the state and regions.

Therefore, on specific topics, both parties may be entitled to take action, according to their particular functions (legislative, co-ordinating, regulating, executing or controlling), e.g. the state may be competent to pass the law and then the region can approve the secondary regulations and controls its execution. To make their respective competences compatible and functional, the state and the regions require efficient mechanisms for co-operation and conflict resolution to ensure the smooth operation of the system.

Box 3.9. Dispute resolution mechanisms (*cont.*)

The advantages of utilising the procedure of arbitration are: taking the drama out of the conflict and promoting a diplomatic confrontation; the resolution then appears as a result of reasonable arguments that justify the sense of the failure; and the creation of a constitutional jurisprudence with binding effects for all public authorities.

The Constitutional Court has different mechanisms. Two of them have played an important role in building the territorial model: appeal on the grounds of unconstitutionality and the positive conflict of competence (when both parties – the state and one region – consider themselves competent to act). In addition, the Organic Law on Constitutional Court (Article 33.2) established a mechanism for conflict resolution via bilateral negotiations (state-region). Other mechanisms have had a minor role in territorial conflict: the negative conflict of competence (when neither the state nor the region considers themselves competent to act) and the unconstitutional question.

Sources: Japan Local Government Centre (n.d.); Tribunal Constitucional de España (2008), “Competences”, webpage, www.tribunalconstitucional.es/en/tribunal/competencias/Pages/Competencias.aspx.

The dispute resolution mechanisms for higher level disagreements, such as those associated with the factors outlined above (e.g. resource issues) reflect the main features of Kazakhstan’s public governance. These mechanisms rely on the intervention of the President or the central government to provide direction when views diverge. Therefore, where the local executive body and a national ministry disagree, the matter is referred to the central government, which will typically adjudicate on the basis of legal instruments (i.e. presidential decrees, laws and regulation) (OECD, 2015). This system of intergovernmental dispute resolution therefore highlights deference to central government authority.

At present, Kazakhstan appears to have few mechanisms neither to address the sources of potential disagreement between levels of government nor to acknowledge the differing perspectives each tier of government may have on issues of policy and service delivery. Although referring to central government direction to resolve differences with reference to legal instruments or national policy directions may be expedient, it may potentially over time exacerbate differences between governments by pushing the source of the disputes forward. As is the case with co-operation and co-ordination, the resolution of disputes appears to currently occur mainly through the involvement of the central government, thus leaving limited room for consideration of local circumstances. Looking forward, it appears that neither the central nor the regional government has yet to be

seized with the need to establish means for resolving disputes through mutual means of resolution, including informal means.

Recommendation

Strengthen a mechanism to arbitrate any issues that arise between levels of government to facilitate the independent, balanced, open and transparent review of issues brought before it for resolution.

Multi-level governance should rest on the foundation of co-operation and co-ordination among local governments

In most countries the drive to decentralised government responsibilities has introduced a degree of complexity in the management of relationships between levels of government. These relationships gain further in complexity when the transfer of functions is matched by increased fiscal, political and administrative decentralisation (Charbit, 2011: 13-15). In addition to the means to foster co-operation and resolve disputes, Kazakhstan may benefit from investing in the development of co-ordination bodies.

One approach to this problem is to clearly identify the relative responsibilities of each level of government in terms of terms of design, regulation, budget and implementation. Overlapping responsibilities are not per se a concern if effective means of co-ordination are in place. In the absence of effective co-ordination, co-ordination “gaps” may arise, leading to shortcomings in public policy management (Charbit, 2011: 14-15).

When new issues emerge, policy “vacuums” may become evident. These occur when the responsibilities of governments are not clearly defined. Without effective co-ordination mechanisms in place, the issues are left unaddressed. Table 3.1 suggests a means of identifying the co-ordination gaps and of addressing them.

Table 3.1. “Mind the gaps”: A diagnostic tool for co-ordination and capacity challenges

Gap	Diagnostic tool
Information gap	Asymmetries of information (quantity, quality, type) between different stakeholders, either voluntary or not => Need for instruments for revealing and sharing information
Capacity gap	Insufficient scientific, technical, infrastructural capacity of local actors, in particular for designing appropriate strategies => Need for instruments to build local capacity
Funding gap	Unstable or insufficient revenues undermining effective implementation of responsibilities at subnational level or for crossing policies => Need for shared financing mechanisms
Policy gap	Sectoral fragmentation across ministries and agencies => Need for mechanisms to create multidimensional/systemic approaches at the subnational level, and to exercise political leadership and commitment
Administrative gap	“Mismatch” between functional areas and administrative boundaries => Need for instruments for reaching “effective size”
Objective gap	Different rationalities creating obstacles for adopting convergent targets => Need for instruments to align objectives
Accountability gap	Difficulty to ensure the transparency of practices across the different constituencies => Need for institutional quality measurement => Need for instruments to strengthen the integrity framework at the local level => Need for instruments to enhance citizen’s involvement

Source: Charbit, C. (2011), “Governance of public policies in decentralised contexts: The multi-level approach”, <http://dx.doi.org/10.1787/5kg883pkxkhe-en>.

The “gaps” which may emerge from this analysis not only concern the interdependence among public actors, they also concern the relationships among the actor and the risk associated when co-ordination is lacking (Charbit, 2011).

Several mechanisms are available to co-ordinate public policies in decentralised contexts while at the same time reinforcing capacity at different levels of government. These instruments may be more or less binding, flexible and formal. As such, they can be adapted to the circumstances. Each “co-ordination mechanism” can help bridge different gaps and one specific challenge may require the combination of several tools (Charbit, 2011). For example, Box 3.10 presents the Spanish model for co-ordination among tiers of government.

Box 3.10. Co-ordination model: Spain

The Spanish system of territorial powers is based on a co-operative multi-level model among administrations.

The co-operation techniques try to facilitate consensus through plans, programme agreements and contractual forms, and without the use of coercive aspects. The model can force parties to negotiate, but it cannot force them to agree. The key for an agreement consists in both sides to “win” something, so without extra funding, co-operation sometimes may be difficult.

The differences among “co-ordination-collaboration-co-operation” require different strategies and mechanisms:

- Co-ordination is a state concept; it has full regulatory competencies and functions of control and impulse, as a general principle of acting. Co-ordination appears explicit in the Constitution (Article 149.1).
- The concept of collaboration is implicit in the idea of public service. It does not imply enlargement of the state’s competencies. Collaboration cannot be imposed but the refusal of collaboration must be justified; it should be based on dialogue and consensus.
- Finally, co-operation is based on wilfulness. It is a relationship based on respect for the respective powers and functions. It requires a flexible and appropriate approach, guided by constitutional loyalty and a constructive spirit.

As organs of co-operation, the Spanish system counts on multilateral and bilateral mechanisms:

- The multilateral (among the state and all the regions) mechanisms are: Conference of Regional Presidents (a forum at the highest level); sectorial conferences (39 different sectors at ministerial level); over 150 second-level, monitoring committees (general director level); and more than 500 third-level (working committees of experts) committees.
- The bilateral (between the state and a specific region) mechanisms are: joint commissions for transfers (for the transfer of facilities and means to regions); and bilateral commissions.

Source: Ministerio de Hacienda y Administraciones Públicas (n.d.), “State regional policy (autonomous communities)”, webpage, www.seap.minhap.gob.es/en/web/areas/politica_autonomica.html.

Table 3.2 presents a selection of instruments and country examples. These instruments have in common incentives that influence actors towards sharing information and objectives. At the same time, they reinforce individual and collective capacity (Charbit, 2011).

Some instruments may be more comprehensive than others. Similarly, the choice of instrument may not be exclusive, as several instruments may be combined to achieve the public policy objective (Charbit, 2011).

Table 3.2. **Co-ordination and capacity gaps**

Mechanism	OECD examples
Contracts between levels of government	Canada, France, Italy, Spain
Evaluation, performance, measurement, including financial control	Norway, United Kingdom, United States
Grants, co-funding agreements	All countries: general purpose grants vs. earmarked; equalisation vs. regional development mechanisms; different types of conditions attached
Strategic planning requirements, multi-annual budget	Along with investment contracts and medium- and long-term objectives
Inter-municipal co-ordination	Mergers (Denmark, Japan) vs. inter-municipal co-operation (Finland, France, Germany, Spain, etc.)
Inter-sectoral collaboration	One umbrella ministry vs. horizontal inter-ministerial mechanisms (all countries are concerned) Instrument to be related with vertical mechanisms for supporting cross-sectoral implementation at the subnational level (intermediation bodies) (Australia, France, etc.)
Agencies (specialised or generalist)	Agencies for regional development: Canada, Chile Agencies for specific policy fields (health, water, innovation): Australia, France, Spain
State territorial representatives	French prefects, Polish <i>voivoid</i> , heads of county administrative boards (Sweden), Italian prefects
Experimentation policies; tender processes	Finland, France, Germany, Sweden, United States
Legal mechanisms and standard settings	All countries define standards and set regulations, but their degree of implementation across levels of government varies
Citizens' participation	Great variety of tools and degrees, often more dynamic at the subnational than at the national level
Private sector participation	All countries with dominant sectors of implementation (like network industries). From strategy design to operator of infrastructure to service provider of services and technical assistance.
Institutional capacity indicators	Italy for subnational level

Source: Charbit, C. (2011), "Governance of public policies in decentralised contexts: The multi-level approach", <http://dx.doi.org/10.1787/5kg883pkxkhc-en>.

The challenges associated with decentralisation and multi-level governance occur in institutional frameworks which are specific to each country. The decentralisation of government functions is the starting point of a process, rather than an end in itself.

In the case of Kazakhstan, it is clear that decentralisation is one of the keystone reforms to be implemented as part of the Plan of the Nation and the national development plans which preceded it. Yet, moving responsibilities from the central to local governments will inevitably change the nature of intergovernmental relations. Therefore, as Kazakhstan moves forward with its reforms, now is the time to establish the institutions and the practices that will enable the full realisation of decentralisation’s potential to improve services, enhance public participation and increase self-governance.

One means of encouraging co-ordination and co-operation is by developing capacity for lower tier governments to work and learn from each other. At the same time, the ability of lower tiers of government to build networks of interest can be used increase the attention to local government concerns. In several OECD countries this occurs through organisations which serve to bring together the interest of local government actors. As politically neutral organisations, these bodies work on behalf of local government and are able to influence the national government and enhance their role in delivering locally based solutions to national problems. Examples such as France’s Association des administrateurs territoriaux, the United Kingdom’s Local Government Association or Canada’s Federation of Canadian Municipalities play an important role in building capacity in local governments and in representing the interests and perspectives of the local level of government before central government authorities.

Recommendation

Strengthen channels to enable participation of a wide range of local and national governmental and non-governmental stakeholders in national discussions on the role of local governments.

Conclusions

International experience shows that countries are increasingly considering the decentralisation of government functions as a means of improving the effectiveness and efficiency of government policies and programmes as well as of improving the responsiveness of these to local citizens’ expectations and needs. Kazakhstan has embarked on the path of decentralisation for similar reasons. Though launched only shortly after independence from the Soviet Union, in 1996, the process of transfer of responsibilities gained additional momentum as a consequence of the two main national development strategies, Kazakhstan 2030 and Kazakhstan

2050, and most recently from the Plan of the Nation – 100 Steps to implement Five Institutional Transformations initiative.

Decentralisation in Kazakhstan has largely been about the transfer of responsibilities between tiers of government, but it has also served as a means of enhancing the role of local executive bodies and introducing the democratisation of some aspects of local government. Though the importance of these changes is not to be underestimated, there is much scope for additional improvements and reforms. Several have been proposed in this report.

For the most part, the steps to be taken by Kazakhstan in light of the recommendations of this report seek to build on the steps already taken to open up and democratise the country and are consistent with the national priorities. For example, opening up the process of decision making over decentralisation to non-governmental stakeholders is consistent with the government's goals of fostering transparency and accountability. Furthermore, the role of non-governmental actors could be further enhanced by including them to a greater degree in the development of plans and priorities at the local executive level and in their implementation. Increasing the role of the non-governmental sector at the level of local government could be an important step towards addressing the low level of public participation in government decision making that was noted in the 2014 *Review of Kazakhstan's Central Administration* (OECD, 2014b: 269).

At the same time, the accountability of local executive bodies needs to be enhanced by giving them greater control over their resources. Accountability to citizens can also be enhanced by further democratising the process of appointment of *akims* and enhancing the role of *masklihats* in the oversight and accountability regime of *akimats*. Though Kazakhstan must be cautious not to create needless duplications in its accountability and oversight regime, mechanisms to enhance local accountability of local institutions should proceed in tandem with the process of decentralisation.

Kazakhstan is a unitary government and, as a result, the central government will continue to be a key actor in the governance of the country. Yet it may consider giving greater policy and financial autonomy to local governments to fully realise the potential that could accrue from decentralisation. This could enable the full realisation of the improvements in the effectiveness and efficiency of the public administration.

Looking forward, Kazakhstan has established a solid foundation for decentralisation and the realisation of the potential offered by multi-level governance. Therefore, rather than a broad array of reforms, Kazakhstan can reap the full benefits of the steps taken to date through adjustments and refinements to its existing system of governance.

Notes

1. Fiscal equalisation is a transfer of fiscal resources across jurisdictions with the aim of offsetting differences in revenue-raising capacity or public service cost. Its principal objective is to allow sub-central governments to provide their citizens with similar sets of public services at a similar tax burden even if incomes differ across areas (Blöchliger and Charbit, 2008).
2. Equalisation also occurs within *oblasts*, among individual *raions* and cities of *oblast* subordination (World Bank, 2012: 10-11).
3. Article 55 of the Budget Code lists the authorised expenditures for cities of republican significance.

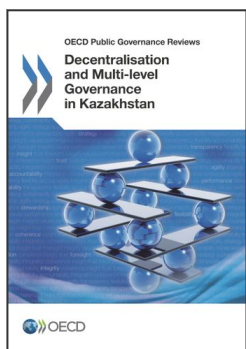
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