

KAZAKHSTAN

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: TENGE (KZT)

POPULATION AND GEOGRAPHY

Area: 2 724 902 km²
Population: 18.038 thousand inhabitants (2017), an increase of 1.6% per year (2010-15)
Density: 7 inhabitants / km²
Urban population: 57.3% of national population
Urban population growth: 1.5% (2017 vs 2016)
Capital city: Astana (5.9% of national population)

ECONOMIC DATA

GDP: 476.4 billion (current PPP international dollars), i.e. 26 410 dollars per inhabitant (2017)
Real GDP growth: 4.1% (2017 vs 2016)
Unemployment rate: 4.9% (2017)
Foreign direct investment, net inflows (FDI): 4 654 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 22.72% of GDP (2017)
HDI: 0.800 (very high), rank 58 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Kazakhstan is a unitary country with a hybrid system of government, with a parliamentary system and a powerful President as head of State. Independent from the Soviet Union since 1991, the country's last elections were held in 2015 and the former president was re-elected a fifth time by popular vote for a five-year term. The Kazakhstan parliament is the supreme legislative body and consists of two chambers, the Senate (Upper House), with elected representatives from regional assemblies, and the *Mazhilis* (Lower House).

The current Constitution of Kazakhstan, enacted in 1995, established in Art. 85-89 the system of a "mixed" system of local governance (both deconcentrated and decentralised), which is composed of local governments (*Akimats*) and local self-governments, which are elected either indirectly or directly (*Maslikhats*).

At city, district, and regional level, the *maslikhat* is directly elected but has only budgetary and tax-raising power. Members of the *maslikhats* elect the representatives from their provinces to the national Senate. This organisation reaffirms the subordination of local governments to the central government, with the central government granting powers and responsibilities to local executive bodies. Moreover, each tier of government is subordinated to the tier above it, which tends to consolidate central control over lower levels.

Since its independence, the country has taken steps to grant more autonomy to local governments through fiscal and functional decentralisation reforms. In 2009, both *akims* and *maslikhats* were officially re-defined as local government and self-government agencies, although most heads of the local administrations (*Akims*) are still appointed and accountable to the Kazakhstan president.

Since 2012, the country has embarked in a decentralisation process. Decentralisation is cited among the objectives of the 2012 country's national development plan entitled "Kazakhstan 2050: new political course for Kazakhstan in a fast-changing world". In accordance with the 2012 "Concept of Local Self-Government development in the Republic of Kazakhstan, some *akims* of towns, villages and settlements with "*rayon*" status, are elected since 2013 through local indirect suffrage (elections took place in 2013, resulting in the elections of 2 457 *akims*, i.e. 91.5% of *akims*). Executives at other subnational government levels are, however, still appointed.

In 2017, new reforms have been launched to redistribute executive powers from the president to the parliament and ministries, towards more open and efficient governance. As announced in the programme "100 steps", "Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on the Development of the Local Self-Government" were adopted in July 2017. The law envisages the introduction of an independent budget and municipal ownership of the local self-government, and the expansion of local self-governments' powers regarding the management of budgetary processes and municipal property.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	34 small "cities of district significance" and 6 904 villages and settlements (<i>aul</i>)	40 large "cities of regional significance" and 175 districts (<i>rayons</i>)	14 regions (<i>oblasts</i>) and 2 cities of national sub-ordinance	
	Average municipal size: 2 600 inhabitants			
	6 938	215	16	7 169

OVERALL DESCRIPTION. The vast territory of the Republic of Kazakhstan is organised according to a three-tier government system established by the 2001 Law on Local Public Administration and Self-Government.

REGIONAL LEVEL. At the upper level, there are 14 regions (*oblasts*) and the two Republican cities of Almaty and Astana, which have a special status. They are headed by a regional governor (regional/city *akim*) appointed by the president, and have a regional/city council elected by universal suffrage (regional *maslikhat*). Kazakhstan's regions are sparsely populated on average. In terms of the number of inhabitants, it is one of the least densely populated among OECD countries, with an average population size of around one million inhabitants per region. In terms of population density, the median value is the lowest among OECD countries despite the high concentration in Astana (1 128 inhabitants per square kilometre) and Almaty (2 402 per square kilometre). Territorial inequality among Kazakhstan's *oblasts* is very high by the standards of OECD. In 2010, GDP per capita in Atyrau was almost four times the national average, and in Almaty city, it was twice the national average. At the bottom end of the scale, South Kazakhstan's GDP per capita was one-third of the national average.

INTERMEDIATE LEVEL. At the intermediate level, there are 175 districts (of which 17 are city districts and the rest rural), and 40 cities of regional significance. District executives are appointed by the regional governor (or by the mayor in the case of city districts) while they have a directly-elected council (city or district *maslikhat*).

MUNICIPAL LEVEL. The lower level includes 34 “cities of district significance” and 6 904 villages and settlements recognised as local self-governments (*aul*). A 2013 law, amending the 2001 law, introduced a measure of decentralisation, most importantly the election of local *akims* through indirect suffrage by local level councils, and an increase in their financial and economic independence.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 2001 law on Local Public Administration and Self-Government, regularly amended, broadly defines the general division of competences of regions (article 29), *rayons* and cities of regional significance (article 31) and of *aul* and cities of district significance (article 34). In Kazakhstan, the central government (budgeting and designing) and the governments of both *oblasts* and *rayons* (implementation) are jointly responsible for most services. The tasks of the three levels often overlap. Regions are primarily responsible for coordinating the work of districts and designing local administrative management schemes. District governments (intermediary level) have extensive responsibilities, including education (pre-school, primary, basic and secondary education, vocational training), healthcare, social assistance, transport and local roads, environmental protection, public sanitation, fire protection, public order, culture, water supply and sewerage. At the municipal level, local governments have responsibilities related, for the most part, to local development, cultural preservation and local service provision.

The Republic of Kazakhstan considers decentralisation and regional development reforms to be a high priority (cf. the Strategy Kazakhstan-2050, Kazakhstan Plan of the Nation). Consequently, a new division of powers and responsibilities between the central government and SNGs is currently being developed, in-between decentralisation and deconcentration.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL	INTERMEDIARY LEVEL	MUNICIPAL LEVEL
1. General public services	Military conscription; Civil registration; Regulatory and control functions	Property management; License issuance for business activities; Construction permits for communal facilities	Notarial actions; Civil registration
2. Public order and safety	Military mobilisation; Civil protection	Fire brigades; Prevention policies regarding earthquakes and terrorism	
3. Economic affairs/transport		Development plans for the districts; Development of entrepreneurial activity; Agriculture; Communication and engineering infrastructure (water, heat and electricity grids, etc.); Transportation and local roads; Tourism; Local roads; Urban public transport.	
4. Environmental protection		Energy efficiency; Sewage disposal plants; Waste disposal and collection; Preservation of nature and parks	
5. Housing and community amenities		Land development plans; Design of public spaces; Construction and maintenance of water pipes; Public housing; Street cleaning	Land regulation; Public housing; Development of local social infrastructure; Cemeteries
6. Health	Provision and financing of healthcare services	Primary healthcare (medical centres); Preventive healthcare; Hospitals	Village organisations regarding healthcare services; Emergency care
7. Recreation, culture & religion		Historical buildings and culture; Theatres; Museums; Libraries; Sports; Leisure	Protection of historical and cultural heritage; Sport infrastructure
8. Education	Pre-primary and primary education; Secondary education; Vocational education	Pre-primary and primary education; Secondary education; Vocational education	
9. Social protection		Pensions; Unemployment benefits; Maternity benefits; Veterans; Child benefits; Orphanages; Social adaptation and rehabilitation of convicted persons	Assistance to the disabled and to the unemployed

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: Almaty and Astana cities, oblast bodies and budgetary local government units.	SNA 2008	Availability of fiscal data: Low	Quality/reliability of fiscal data : Low
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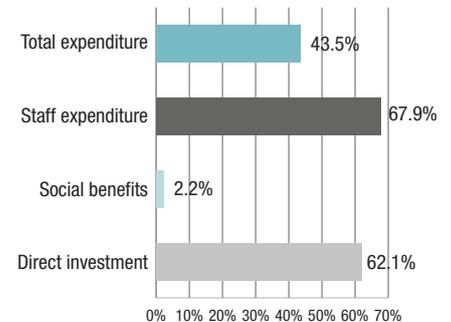
GENERAL INTRODUCTION. Kazak decentralisation remains quite asymmetric. Some functions are delegated to subnational tiers of government while they remain fiscally dependent on the central government. Local government own-source revenues are marginal and their scope for fiscal initiatives is very limited. Most regions, apart from the city of Almaty and the oil rich regions, suffer from fiscal imbalances. The recent regional development strategy calls for channelling more resources and responsibilities to regional and local governments, along with an increased degree of political decentralisation. In particular, Kazakhstan is taking important steps to decentralise budget management in line with the President’s aim to create an independent budget at local level as announced in the programme “100 steps”. Amendments to the Law on Local Self-Government adopted in July 2017 foresee an independent budget and municipal property for local governments from 1 January 2018 in rural communities with populations of more than 2 000 people. The arrangement will extend to all local communities after 1 January 2020.

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SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	2 230	8.9%	100%	
Incl. current expenditure	1 748	7.0%	78.4%	
Staff expenditure	507	2.0%	22.7%	67.9%
Intermediate consumption	870	3.5%	39.0%	
Social expenditure	27	0.1%	1.2%	2.2%
Subsidies and current transfers	313	1.3%	14.0%	
Financial charges	0	0.0%	0.0%	
Others	30	0.1%	1.4%	
Incl. capital expenditure	482	1.9%	21.6%	
Capital transfers	0	0.0%	0.0%	
Direct investment (or GFCF)	482	1.9%	21.6%	62.1%



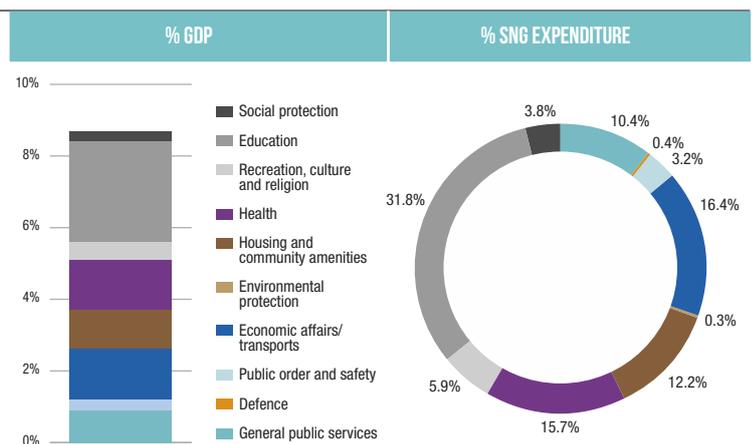
EXPENDITURE. SNG expenditure accounts for 8.9% of GDP (vs 16.2% in the OECD on average in 2016) and 43.5% of public expenditure (vs 40.4% in the OECD). SNGs are key public employers. SNG staff spending accounted for almost 68% of public staff spending, a share higher than in the OECD on average (62.9%). These figures however hide a significant part of deconcentrated spending.

DIRECT INVESTMENT. SNG investment is relatively high as a share of GDP and public investment, slightly above the OECD averages (1.7% of GDP and 56.9% of public investment). Investment accounted for 21.6% of SNG spending, which is also above the OECD average (10.7%), confirming that investing is key function of SNGs. In practice however, SNGs often act as paying agents of central government to implement national investment plans.

The government has also prioritised public-private partnerships (PPPs) as a delivery mode for both economic and social infrastructure. It has put in place a well-structured legal and institutional framework for preparing PPPs at both the national and regional level, including a Concessions Law adopted in 2006 and a PPP Law adopted in December 015. Kazakhstan has set up a Kazakhstan PPP Centre, a Project Preparation Fund and several PPP units for developing PPP projects have been established by most regional governments. 266 PPP contracts have been signed by regional governments between December 2015 and March 2018 in sectors such as health care, education and sports and recreation facilities. This proliferation however raises questions over the quality of contracts and their future sustainability as regions often have a limited and uneven capacity as well as inadequate resources to prepare projects.

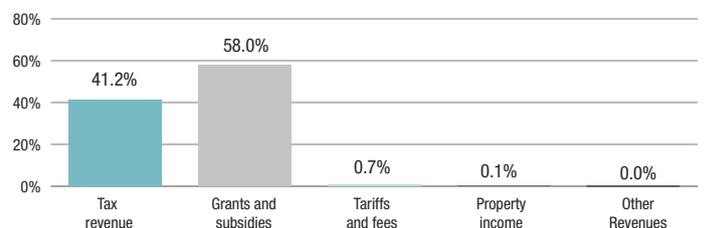
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

In Kazakhstan, the primary responsibilities of local governments in terms of delivery of public services concern education and health sectors. Education is by far the largest sector of SNG expenditure, accounting for almost 32% of total SNG spending and 71.2% of total public spending on education. Local governments are in charge of financing teachers' salaries and building maintenance in the education sector with the exception of higher education, specialised types of primary and secondary education (such as military schools and schools for gifted children), and the continuing training of civil servants, which are funded by the national government. The latter is also in charge of policy direction and administrative control. The second sector of subnational expenditure is health (15.7% of total SNG spending and 45% of total public spending in this category), including the financing of specialised local hospitals, tuberculosis clinics, diagnostic centres, hospitals, and outpatient clinics for veterans. Other large categories of expenditure include economic affairs (transports) and housing and community amenities.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	2 238	8.9%	51.3%	
Tax revenue	922	3.7%	27.1%	41.2%
Grants and subsidies	1 298	5.2%		58.0%
Tariffs and fees	16	0.1%		0.7%
Property income	2	0.0%		0.1%
Other revenues	0	0.0%		0.0%



OVERALL DESCRIPTION. In Kazakhstan, public administration, finance and policy making are highly centralised. A recent development strategy advocates for the delegation of more resources from the centre to the regions, and for enhancing regional powers and capacities.

The bulk of subnational budget revenues is made up of central government transfers (58% of total subnational revenues vs 37.2% in the OECD on average in 2016). On the flip side, tax revenues accounted for 41.2% of subnational revenues, slightly below the OECD average in 2016 (44.6%). The shares of tariffs and fees and property income in SNG revenues is particularly low, well below the OECD averages (17.9% and 2.0%, respectively). Yet the amount of subnational revenues compared to public revenues has been increasing since 2013 (when it accounted for 37.2% of total public revenues).

TAX REVENUE. SNG tax revenues accounted for 3.7% of GDP and 27.1% of public tax revenues, which is below the OECD averages (7.1% of GDP and 31.9% of public tax revenue). Tax revenues are primarily generated by tax sharing arrangements, based on the sharing of the personal income tax (PIT) and the social tax on payroll and work force. Both accounted for 71% of SNG tax revenues (respectively 40% and 31% of SNG tax revenues and 16.5% and 12.6% of SNG revenues).

The revenues from the PIT represent the highest share of tax revenues of oblasts (up to 40%), followed by the social tax based on payroll (30%). Local governments at lower levels are assigned the land and property tax, which represent 13% of rayons' tax revenues. Rayons can revise the tax rate on land and property within a 20% limit depending on the characteristics of the property and the land (which principally concerns its access to water). They also receive part of the excise taxes on alcohol, tobacco and petroleum product (7.4% of SNG tax revenues and 3.0% of SNG revenues).

Overall, the land and property taxes accounted for 13.1% of SNG tax revenues and 5.1% of SNG revenues in 2016, i.e. 0.5% of GDP, below the OECD average (1.1% of GDP in 2016).

Other taxes include taxes on transport or environmental emissions, whose rate can be set by SNGs (they can set the rate of environmental emissions charges, within a prescribed scale, and the rate for the use of water resources), which help strengthen their public finances.

All taxes are collected centrally by the Ministry of Finance and its local branches and are redistributed via an equalisation mechanism.

In the context of the current decentralisation programme, SNG financial autonomy should increase as new shared taxes and own-source tax revenues are allocated to SNGs.

GRANTS AND SUBSIDIES. SNGs receive both targeted transfers and subsidies, subject to change every three years. Earmarked transfers include the targeted investment transfer, dedicated to regional and local infrastructure and one-off expenditures (e.g. hosting a large international sporting event). Non-earmarked transfers serve to compensate for the difference in revenues in each region and are calculated based on the estimated number of budgeted services' 'customers' in the region, as well as objective regional factors. Discussions are ongoing in the short term about changing the methodology for calculating transfers and replacing the existing spending approach by a standard cost assessment method based on the provision of public services.

SNG grants also include funds coming from the equalisation of tax revenues between regions to reduce disparities. The equalisation process is assessed during the annual budget process based on each region's projected expenditures and revenues, and on estimates derived from historical trends and inflation. When expenditure exceeds revenues, additional funds (subsidies) are allocated to the national budget, and then reallocated to regions in deficit. Conversely, in the case of a surplus, regions are subject to withdrawals, retaining only the amounts they need in order to finance their expected expenditure. Not surprisingly, the number of regions with a surplus is declining.

Overall, the share of capital grants within total SNG grants is decreasing, as capital grants accounted for 18.7% of transfers in 2016 and current grants, 81.3%, compared to respectively 28% and 72% in 2013.

OTHER REVENUES. In addition to grants, subsidies and tax revenues, oblasts can collect local administrative fees over which they have some leeway and charge for their services, such as pollution charges, groundwater resources and fees related to the natural landscape. They can also assess fines and penalties and benefit from property income (sale of capital assets, dividends from local public companies).

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	234	0.9%	5.6%	100%
Financial debt*	234	0.9%	5.6%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. Kazakhstan is taking important steps to decentralise budget management through 2017 amendments to the Law on Local Self-Government. The law foresees an independent budget and municipal property for local governments from January 2018 in rural communities with populations of more than 2 000, and in all local communities after 1 January 2020.

DEBT. SNGs are able to borrow through loans from the central government or from another SNG at a higher level (oblast) in order to cover fiscal deficits and finance investments. Quotas for annual local borrowing and total local debt are fixed annually by the Budget Law. In addition, the government set new SNG borrowing limits in 2009 (in a given fiscal year, annual payment and debt servicing costs should not exceed 10% of local budget revenue and total debt should not exceed 75%). Total liabilities for SNGs remain very limited.

The two special-status cities of Almaty and Astana are able to borrow through bond issuance to cover their budget deficits and to finance the construction of public social housing. Since April 2016, the Budget Code has allowed the 14 *oblasts* to issue bonds, under strict control of the Ministry of Finance (including the exact use of borrowed funds).



Lead responsible: OECD
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // Agency on Statistics of the Republic of Kazakhstan (KAZSTAT)

Fiscal data: IMF Government Finance Statistics // OECD (2018), Subnational Governments in OECD Countries: Key data (brochure and database)

Other sources of information: OECD (2019) Public-private partnerships review of Kazakhstan // OECD (2018) Reforming Kazakhstan: Progress, Challenges and Opportunities // OECD (2017) Territorial Review of Kazakhstan // World Bank (2017) Kazakhstan, enhancing the fiscal framework to support economic transformation, Public Finance Review // OECD (2017) Decentralisation and Multi-level Governance in Kazakhstan, OECD Public Governance Reviews // IMF (2017) Republic of Kazakhstan, Selected Issues // Bhuihyan S. (2013) Decentralisation and Local Governance in Kazakhstan // Hossain. Amagoh F. and Bhuiyan S. (2010) Public Sector Reform in the Republic of Kazakhstan.