

KAZAKHSTAN

UNITARY COUNTRY

EURO-ASIA

BASIC SOCIO-ECONOMIC INDICATORS

Income group - UPPER MIDDLE INCOME Local currency - TENGE

POPULATION AND GEOGRAPHY

AREA: **2 724 900** km²

POPULATION: **16.606** million inhabitants (2014), an increase of 1.45% per year (2010-14)

DENSITY: **6** inhabitants/km²

URBAN POPULATION: **53.3%** of national population

CAPITAL CITY: **Astana** (4.5% of national population)

Sources: OECD, World Bank, UNDP, ILO

ECONOMIC DATA

GDP: **418.9** billion (current PPP international dollars) i.e. 25 223 dollars per inhabitant (2014)

REAL GDP GROWTH: **4.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **5.1%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **7 598** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **24%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.788** (high), rank **56**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT COMPETENCES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
2 445	215	16	2 676
47 "CITIES OF DISTRICT SIGNIFICANCE" AND 2 398 VILLAGES AND RURAL COMMUNITIES	38 "CITIES OF REGIONAL SIGNIFICANCE" AND 177 DISTRICTS (RAYONS)	14 REGIONS (OBLASTS) AND 2 "CITIES OF REPUBLICAN SIGNIFICANCE"	
AVERAGE MUNICIPAL SIZE: 5 933 INHABITANTS			

MAIN FEATURES OF TERRITORIAL ORGANISATION. The second constitution of independent Kazakhstan, adopted in 1995, recognises the system of local government which is composed of organs of local government (*Akimats*) and organs of local self-government (*Maslikhats*). In 2001, the Law on Local Public Administration and Self-Government established a complex system of SNGs which can be considered as a three-tier system. At the upper level, there are 14 *oblasts* (regions) and 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 but have a regional/city council elected by universal suffrage (regional *maslikhat*). At the intermediate level, there are 38 cities of regional significance and 177 districts, of which 17 are city districts and the rest rural. Their executives (*akim*) 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*). The local level includes 47 "cities of district significance" and 2 398 villages and rural communities recognised as local self-governments (*aul*). It also comprises around 4 325 rural settlements. A 2013 law, amending the 2001 Law, introduced some elements of decentralisation, most importantly the election of local *akims* through indirect suffrage by local level councils. Direct election by citizens is planned instead at some point in the future. The law has also expanded their financial and economic independence.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. The 2001 law on Local Public Administration and Self-Government broadly defines the general division of competences across levels of government but there are many duplications and overlaps. Local government competencies include 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 and local libraries, water supply and sewerage. Kazakhstan considers decentralisation reform to be a high priority (cf. the Strategy Kazakhstan-2050, 2012 Concept for Development of Local Self-Government). A new division of powers and responsibilities between the central government and SNGs is currently being developed.

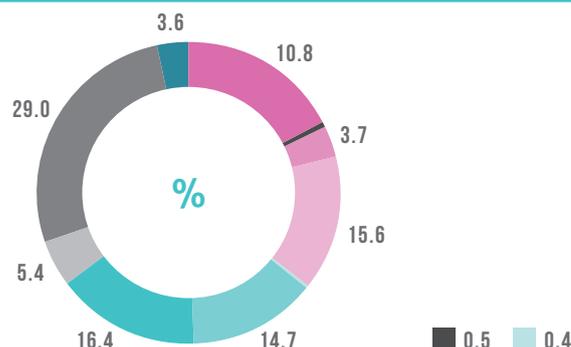
SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	9.4%	46.3%	100%
CURRENT EXPENDITURE	6.8%	-	72.3%
STAFF EXPENDITURE	2.0%	61.9%	20.9%
INVESTMENT	2.6%	63.7%	27.7%

SNG expenditure represents 9.4% of GDP and more than 46% of public expenditure, but there is much deconcentrated spending. SNGs are key investors: SNG investment is relatively high as a share of GDP, public investment and SNG spending, but SNGs act as paying agents.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



The largest SNG expenditure function is by far education (almost 30% of total SNG spending and 75% of public spending on education). Other large categories of expenditure include health, economic affairs (transports) and housing and community amenities.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	9.5%	37.2%	100%
TAX REVENUE	3.7%	17.8%	38.7%
GRANTS AND SUBSIDIES	5.6%	-	59.4%
OTHER REVENUES	0.2%	-	1.9%

Central government transfers are the main source of SNG funding while tax revenue, which come mainly from tax sharing arrangements, represent almost 40% of SNG revenue.

TAX REVENUE. According to the Budget Code, most of SNG tax revenues are shared taxes: PIT (40% of SNG tax revenue) and social tax based on payroll (30%). Land and property taxes represent 15% of SNG tax revenue while excises taxes represent 7%. In addition, there are some minor other taxes e.g. on transport or environmental emissions. SNGs have very little taxing power over rate or base. They can only revise the land tax rate within a margin of 20%, depending on the characteristics of the land and fix the rate of minor local taxes. All taxes are collected centrally. Redistribution of shared taxes is made through an equalisation mechanism. In the context of the current decentralisation programme, it is foreseen to enhance the financial autonomy of lower-level governments by assigning new shared taxes and own-source tax revenues.

GRANTS AND SUBSIDIES. Transfers to SNGs include funds coming from the equalisation of oblast tax revenues to reduce disparities. The system is done during the annual budget process based on oblasts' projected expenditures and revenues. When expenditure exceeds revenues, additional funds (subsidies) are allocated to oblasts in deficit. Conversely, in the case of surplus, oblasts are subject to withdrawals, retaining only the amounts they need in order to finance their expected expenditure. Estimates are largely derived from historical trends and inflation. Transfers also comprise a variety of other earmarked transfers, the largest being the targeted investment transfer to fund regional and local infrastructure and exceptional expenditures (e.g. hosting a large international sporting event). All in all, capital grants accounted for 28% of transfers in 2013 and current grants, 72%.

OTHER REVENUES. SNGs can collect local administrative fees on which they have some leeway and charge for their services (37% of other revenues). They can also impose fines and penalties (30%) and benefit from property income (sale of capital assets, dividends from local public companies).

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	0.5%	4.1%

The two Republican 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 allows the 14 oblasts to issue bonds, under strict control of the Ministry of Finance (including the exact use of borrowed funds). Other SNGs are able to borrow in order to cover fiscal deficits and finance investments but only from the central government or from another SNG at a higher level (oblast). Quotas for annual local borrowing and total local debt are fixed annually by the Budget Law. In addition, the Government has determined 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%). SNG total liabilities remain very limited.

A joint study of:



Sources: IMF Government Finance Statistics • OECD (2016, forthcoming), Territorial Review of Kazakhstan • OECD (2014), Kazakhstan: Review of the Central Administration OECD Public Governance Reviews • Committee on Statistics of Kazakhstan (2013) Kazakhstan in figures 2013 • Bhuiyan S. (2013), Decentralisation and Local Governance in Kazakhstan in Public Sector Reform in Developing and Transitional Countries: Decentralisation and Local Governance, Edited by C. Rees and F. • Hossain. Amagoh F. and Bhuiyan S. (2010) Public Sector Reform in the Republic of Kazakhstan, Central Asia Business Journal, Vol. 3 • World Bank (2006) Kazakhstan: Reforming Intergovernmental Fiscal Relations, lessons from international experiences, Report No. 33709-KZ • Meruert Makhmutova (2001) Local Government in Kazakhstan.