

Reframing the Kazakhstani budget decision making process: budget balancing or a wild goose chase?

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Abstract. The Kazakhstani budgetary system has undergone a significant shift after Kazakhstan switched from a highly centralized "colonial" government to an independent self-governing state. Currently, Kazakhstan faces the coinciding problem of the concentration of budget decision-making power in the center, and the general economic and political trend for increased regional budgetary independence. The paper traced out the characteristics of the government's fiscal and economic behavior, constantly comparing indicators of state and local budget balancing, and pointed out the emergence of dilemma: We would like to preserve a high level of centralization, and develop the economic independence of the regions. Two in one or a wild goose chase?

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Introduction

We assume that a well-balanced budget and fiscal policy determines the stability of the country, in terms of providing unity and decreasing noted economic disparities between the regions of the country, as the attainable objective for sustainable growth of the national economy is conditioned by social stability and the equalization of the regions [1], [2]. Kazakhstan consists of a large number of regions, which are very diverse in terms of climate, resources, and economic development. Due to this, the current policy is to raise the standards of living in less developed regions up to the level of more developed ones. As a result, Kazakhstan experiences the increase of state budget expenses and the decrease of local budget revenue.

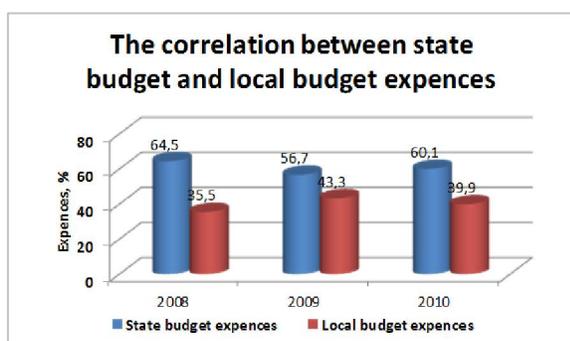


Figure 1 – The correlation between State Budget Expenses and Local Budgets Expenses in Kazakhstan for 2008 – 2010 in millions of tenge.

What is going on?

The uneven spread of the recent crisis's effects in Kazakhstan has intensified already high

levels of differentiation of socio-economic development between the regions [3].

Presently, regions differ ten times by indexes of developing production and living standards, and by some indexes, they differ by hundreds of times.

The whole situation is getting worse, because economic differences between developed regions and regions with low economic potential are influencing the political sphere, which is threatening the unity of the country. [4]

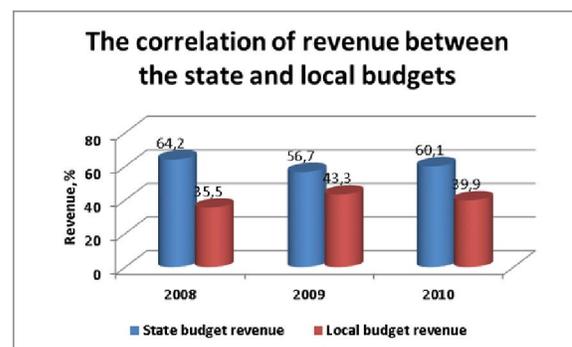


Figure 2 - The correlation of revenue between the state and local budgets in Kazakhstan for 2008-2010 in millions of tenge.

The analysis of the budgetary financing of social spending on the functional group "Education" per capita shows that in 2008, the West Kazakhstan region allocated budgetary funds amounting to 34 027 tenge per inhabitant; in 2009 and 2010, in the Kyzylorda region, the per capita cost of services rendered amounted to 49 363 KZT and 55 339 KZT respectively [6].

The coefficient of differentiation of the budget funding for education in 2008 was 1.71, in 2009 - 2.14, and in 2010 - 2.25, i.e. the discrepancy of the budget funding for education per capita in the region increased from 1.71 times to 2.25. The coefficient of differentiation of the budget financing of health care in 2008 was 2.58, in 2009 - 2.67, and in 2010 - 3.04. The coefficient of differentiation of the budget funding for social assistance and social security in 2008 was 2.46, in 2009 - 2.54, and in 2010 - 2.93.

Global experience demonstrates the effective function of budget balancing as a basic element of state fiscal policy at the regional level. As a rule, many countries use two or three models of vertical relationships in the implementation of revenue powers: 1) the model of distribution of revenue sources, 2) the model of derived tax revenue separation, and 3) the model of distribution of the fixed income budget on the same level as the levels of other budgets [7].

The dominance of a particular model is primarily affected by the specifics of the fiscal system, the nature of the imbalance, as well as various historical and political factors prevailing in the country, and affecting parameters such as the degree of centralization of the budget, the mobility of the tax base, the uniformity of its distribution, and others [8].

This analysis allows us to distinguish four types of countries, depending on the principle that underlies the construction of the mechanism of budget leveling. The first type of country uses a

combined levelling system of budgetary potential and budget requirements. This group includes countries with a system of budget levelling backed by a powerful methodology and developed institutional provision that allows them to objectively evaluate budgetary potential as well as the budgetary needs of regional and local budgets.

The second group comprises of those countries in which the system of budget levelling is based on the principle of only levelling the income potential. Such a system is simple to implement and does not require costs to create an extensive statistical basis for the calculation of indicators. However, the application of this model is effective only in cases of a low level of interregional differences in terms of budget requirements per capita.

The third type includes those budget levelling systems, which focus on the levelling of budgetary requirements for certain types of expenses. As a rule, the use of such a principle does not take into account tax opportunities for regional and local budgets.

The set of indicators reflects budgetary requirements of regions for each country [9]. It is defined as purposes that are pursued by a system of budget balancing and various historical and political factors. And, finally, the last of our available types of fundamental mechanisms of budget equalization is based on the redistribution of financial assets per head. A similar element is built on this principle and has a general leveling effect and softens some regional differences in the tax capacity.

Table 1 – Differentiation of [Social Expenditure](#) Funding in Kazakhstan by regions for the period of 2008-2010

Indexes	Average value, tenge	X Maximum value, tenge	X Minimum value, tenge	Gap (R = max – min), tenge	Differentiation ratio (R' = max/min) times	Oscillations ratio V R=(R)/(X)
Differentiation of expenditure funding for “Education” functional group by regions						
2008	29413	34027	19820	14207	1,71	0,48
2009	36519	49363	22989	26374	2,14	0,72
2010	28799	55339	24604	30735	2,25	1,07
Differentiation of expenditure funding for “Health Care” functional group by regions						
2008	19335	29628	11468	18160	2,58	0,94
2009	23173	40680	15249	25431	2,67	1,1
2010	28512	53631	17655	35976	3,04	1.26
Differentiation of expenditure funding for “Public Assistance and Social Safety” functional group by regions						
2008	3188	4370	1776	2594	2,46	0,81
2009	4381	5959	2347	3612	2,54	0,82
2010	5894	10616	3622	6994	2,93	1,19

* Estimated by the author [5].

Table 2 - Subventions from the Republican budget for 2007-2010, millions of tenge

Indicators	2007		2008		2009		2010	
	The sum	%						
Total subventions from the state budget	192791	100	539398	100	642061	100	787285	100
Akmola region	19617	10,2	31498	5,8	35399	5,5	42772	5,4
Aktobe region	-		15723	2,9	17544	2,7	23692	3,0
Almaty region	22186	11,5	48922	9,1	60035	9,4	73800	9,4
East-Kazakhstan region	22189	11,5	46936	8,5	54083	8,4	64659	8,2
Zhambyl region	21326	11,2	44197	8,2	52049	8,1	62678	7,9
West Kazakhstan region	11173	5,8	20213	3,8	21712	3,4	26545	3,4
Karaganda region	7678	3,9	35715	6,6	40621	6,3	50338	6,4
Kyzylorda region	14812	7,7	36161	6,7	42159	6,6	51507	6,5
Kostanay region	13415	6,9	33661	6,2	37722	5,9	45264	5,7
Pavlodar region	3811	1,9	14678	2,7	16371	2,5	21737	2,8
North Kazakhstan region	16546	8,6	31032	5,5	34097	5,2	40432	5,1
South Kazakhstan region	40039	20,8	90332	17,0	115134	18,0	141931	18,1
Astana	-	-	90332	17,0	115134	18,0	141931	18,1

Table 3 – Budgetary withdrawals from local budgets for 2007-2010, millions of tenge

Indicators	2007		2008		2009		2010	
	The sum	%						
Budgetary withdrawals from Local revenues	151499	100	81752	100	89922	100	77663	100
Budgetary withdrawal from the regional budget of the Aktyubinsk area	1079	0,7	-		-		-	
Budgetary withdrawal from the regional budget of Atyrau area	43062	28,4	15468	18,9	20193	22,5	18739	24,1
Budgetary withdrawal from the regional budget of Mangistau area	24437	16,1	4249	5,2	5342	5,9	2431	3,1
Budgetary withdrawal from city budget of Almaty	72310	47,7	52401	64,1	55811	62,1	55000	70,8
Budgetary withdrawal from city budget of Astana	10611	7,1	9634	11,8	8576	9,5	1493	2,0

Source: Ministry of Finance of Kazakhstan

Outcome

In Kazakhstan, the method of transferring was approved by the Government of the Republic of Kazakhstan on July 16, 2011 № 599 [10]. According to this method, the volume of transfers of a general nature are defined as the difference between projected revenue and the expenses of the local budget. In Kazakhstan, the alignment of the budget is focused on the alignment of the budget requirements for certain types of expenses. As a rule, the use of such a principle does not take into account tax opportunities for local budgets.

When calculating the amount of projected operating costs, we apply rates of urbanization, the coefficient of the dispersion of populated settlements, the scale factor, the coefficient of the population age structure, factor for additional payment for working in rural areas, the coefficient of density of the population, the coefficient of road maintenance,

factor of poverty (based on the proportion of people with incomes below the minimum), factor of the duration of the heating season, which causes a difference in the cost of providing services [5,p.125].

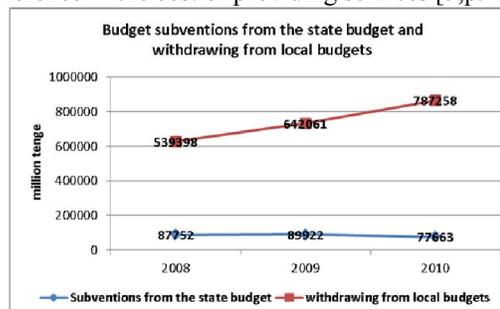


Figure 3 - Budget subventions from the state budget and withdrawing from local budgets

Most countries use formulas in budget equalization, trying to maximize the effectiveness and objectivity of equalization transfers. Other countries apply a wide variety of different approaches to the assessment of tax capacity and needs of the regional budgets. However, most of the approaches are different mechanisms to provide a standardized guaranteed level of public services, regardless of the current place of living under conditions of the standard rate of taxation.

Conclusions and Issues to Discuss

Assessment of the budget equalization system in Kazakhstan demonstrates a low effect from budget transferring from regions with higher levels of budget contribution to the advantage of regions with the lowest level of budget contribution.

Should we be equal in paying the high price of independence?

How long will we be able to sit on two chairs at once?

Is it good ground for sustainable growth?

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