

AN INNOVATIVE APPROACH TO THE DEVELOPMENT OF LOCAL SELF- GOVERNMENT IN KAZAKHSTAN: DECENTRALIZATION OF THE BUDGET SYSTEM

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An Innovative Approach to the Development of Local Self-Government in Kazakhstan: Decentralization of the Budget System

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ABSTRACT

This article discusses budget decentralization as an innovative approach to the development of local self-government. It carries out an analysis of the development of local self-government in the context of 2019-2021 fourth-level (rural) budget revenues in Kazakhstan, and considers the priorities, competencies and responsibilities assigned to state and local government bodies. It also identifies the primary trends in decentralization reform and offers recommendations for improving the efficiency of fourth-level budget management. Budgetary decentralization is shown to be an important innovative solution for strengthening the financial independence of rural areas by addressing locally important issues and, accordingly, improving their quality of life.

The main purpose of this study is to substantiate innovative approaches to improving the efficiency of the system of local self-government and fourth-level budget management in the context of decentralization reform. It contributes to scholarly understanding of the relationship between budgetary decentralization and rural development.

Methods of theoretical research, analysis and synthesis, and a systematic approach were used. Economic analysis (horizontal and vertical analysis) using qualitative and quantitative research methods was used to analyze the revenues of independent budgets in Kazakhstan.

Concrete conclusions based on the results of the implementation of this multilateral process are proposed. A direct relationship is found between budgeting participation, management effectiveness and the perception of innovation. Moreover, effective work at any level of government is primarily conditioned by several factors: transparency and accountability; clearly defined powers and functions; and an independent budget with stable revenue sources.

Key words: innovation, decentralization, fourth-level budget, local government, revenues, transfers, tax revenues.

Introduction

Decentralization in this paper is defined as the process of delegating political powers, fiscal powers, and decision-making from the central government to the local level. This reform had accompanied democratization all over the world, implemented as an important safeguard against authoritarianism. The issues of decentralization and fourth-level budget management play an important role in the consistent strengthening of the financial and economic independence of rural areas in Kazakhstan. Increasing the independence of local budgets against the background of ongoing reforms remains an open question due to these jurisdictions' limited tax and fiscal powers. This article considers how budgetary decentralization may serve as an innovative approach to the development of local self-government in Kazakhstan, paying particular attention to issues of financial self-sufficiency in rural areas and the delegation of

independent authority to local self-government bodies that allows effective planning and the allocation of funds that take into account the needs of the population. Effective decentralization plays a vital role in optimizing the allocation of financial resources and improving the efficiency of budget expenditures. As an innovation, budgetary decentralization is one of the most important driving factors for the transformation of public administration and sustainable economic development.

Regional innovation activities inherently depend on the actions of government. The government plays the main and guiding role in building an innovative system in the absence of other major players. To increase the efficiency of their budget expenditures, central and local authorities make efforts to study and develop proper budget systems. (Saying and Li, 2020). Kazakhstan is a unitary state with a high degree of centralization of power. In the context of the processes of change in which the state is involved, local authorities play an important role, but while local representative bodies - *maslikhats* - operate in the regions, they have a significantly limited ability to represent the interests of their constituents. Decisions on decentralization as opposed to centralization are strategic choices made by politicians after weighing costs and benefits. At present, however, globalization orients the task of national competitiveness in global markets and strengthens incentives for budgetary, fiscal, and administrative decentralization. Participation in various international organizations gives special priority to reforms carried out for the purposes of decentralization; given the power of government as an engine of growth, budgetary decentralization becomes the most important solution for overcoming the economic crisis (Edoun, 2011).

The Kazakhstan central government has announced that structural economic reforms require a reboot of the public administration system in Kazakhstan and is taking measures to redistribute powers between the levels of government by defining the principles and limits of decentralization (Tokayev, 2022). Decentralization of the public administration system should make it possible to form a compact management apparatus by strengthening the controlling and coordinating role, as well as improving the quality and efficiency of the preparation of Government decisions (Tokayev, 2022). Central financing of local government expenditures reduces their accountability to citizens, because local authorities can always point out the insufficiency of central funding to explain any shortcomings, insulating themselves from severe criticism by the local population.

In recent years, new approaches to innovation in public sector systems have emerged - innovation systems, regional innovation systems, open innovations, etc. However, globalization and decentralization of production and innovation systems must inevitably be accompanied by national and international decentralization vis-à-vis innovation policy systems. Public administration research provides a critical historical account of the limited contextual fit and potential failures of many of the political and institutional ideas underlying decentralization (Karo, 201).

Public sector reforms include the transition to decentralization in order to increase efficiency and effectiveness. Therefore, budgetary processes in the public sector are active participants in the decentralization process (Mohd et al., 2008). Researchers are testing the hypothesis of the impact of decentralization on economic growth to show growth opportunities (Slavinskaite et al., 2022).

Local politicians see the need for innovation in local government in order to increase the potential and effectiveness of public problem solving; however, they are less concerned about strengthening democracy. Well-established structures prevent elected representatives from considering it desirable or possible to involve citizens more directly in the budget management

process - even when they recognize that there are good reasons for this (Sønderskov et al., 2020; Bokayev et al., 2021).

Research Question

The main research questions of this article concern how budgetary decentralization gives a new impetus to innovative state policy in relation to the development of local self-government.

Literature review

Innovative approaches to the development of local self-government have become an object of both scientific and practical research. In particular, innovations in local self-government related to decentralization have been considered by authors, who note that the development of local self-government with the introduction of an independent budget contributes to the financial independence of rural districts and connects budgetary decentralization with regional economic growth (Yushkov, 2015). The adoption of decisions of local significance and the dissolution of local authorities by means of laws or decrees without taking into account the requirements of local residents can be considered as opposing subsidiarity (Akilli and Akilli, 2014). Decentralization directly affects the effectiveness of targeting subsidies. Governments in developing countries allocate a significant portion of their national budget to subsidies intended for the poor, and managers are usually asked to determine who should be eligible for such subsidies (Basurto et al., 2020). Fiscal decentralization of local self-government specifically considers the priorities, competencies and responsibilities assigned to local authorities during this complex process. Decentralization of administrative and fiscal powers affects the development of regions (Isufaj, 2014). Decentralization can lead to completely different consequences, depending on the level of local development potential. For this reason, it is important for policy makers to take full account of regional heterogeneity when optimizing decentralization policies (Tang, 2021).

In authoritarian regimes, the highest priority political task is to limit political competition and consolidate power in the hands of the incumbent president. This task encourages politicians to limit political decentralization, or at least block reforms that promote such decentralization (Busygina et al., 2018). At the same time, external economic pressure and globalization puts the task of national competitiveness in global markets on the agenda and strengthens incentives for fiscal and administrative decentralization. Thus, political and economic pressures create contradictory incentives, and weighing the costs and benefits, politicians in different authoritarian regimes make different strategic choices, which leads to differences in the form, degree and success of decentralization (Alexeev and Mamedov, 2017).

Effective and efficient management of public resources is essential at all levels of public administration, but the economic efficiency of local authorities must itself be assessed (Pittaway and Montazemi, 2020). The financing of local self-government, which may come with a reduction in incentive loans, in the literature has been shown to lead to contradictory conclusions about the structure of local self-government and variable outcomes, such as fundings (Chen et al., 2020). Structural mechanisms implemented may differ so much from theory that zero results are obtained as a result. In-kind transfers provided by local authorities affect economic inequality. Transfers in kind reflect the volume of local public services received by various individuals and households. These are indicators of household resources that not only reflect monetary income, but also take into account the cost of in-kind transfers provided by governments, such as subsidies for health, care and education. Local authorities are fighting poverty and reducing inequality by sending money transfers in kind to vulnerable groups of the

population. The distribution of in-kind transfers to households and adjustments for differences in needs are based on a particular model of spending by local authorities (Aaberge et al., 2019).

Decentralization makes it possible to determine the effectiveness of budget rules that correct distorted financial results in local government (Picchio and Santolini, 2020). The effectiveness of local government is explained by both controlled and uncontrolled factors (Narbón-Perpetá et al., 2020). Local governments are in an good position to integrate public, private, and civic data to provide new, innovative, useful public services with digital technology support. However, progress in achieving benefits stalled in many cases. This is due to the fact that managers lack the necessary know-how to lead the implementation of integrated corporate systems to improve public service delivery processes, part of a process called "digital transformation". Progress in digital transformation, according to the literature, requires more detailed empirical studies of the know-how that managers require (Ahrens and Ferry, 2018).

Recent studies of budgeting in the public sector have revealed the endogenization of budget rules as an important element of institutional entrepreneurship. Innovations of local self-government in the energy sector are also important (Sperling and Arler, 2020). Trends also show convergence of the concepts of efficiency and local self-government over the past few years, which are related to sustainability and the natural environment. Future research in this area should focus on the relationship between the efficiency of local resource allocation and the environmental sustainability of municipalities (Lopez et al., 2020).

Methodology

The data for the study was derived from official materials on fourth-level budgets from the Ministry of Finance and Ministry of National Economy of the Republic of Kazakhstan, as well as the works of foreign and domestic scientists (Ministry of Finance, Ministry of National Economy for 2019-2021).

To analyze the state policy regarding budgetary decentralization and the development of local self-government in Kazakhstan, this study uses the method of secondary data research. The search for the necessary information was carried out from open sources, including statistical data of the Ministry of National Economy and the Ministry of Finance of the Republic of Kazakhstan.

At the initial stage, content analysis and literature review were used to determine the main trends in innovation and development of local self-government. The rationale for choosing this method is the need to study the world and domestic experience in innovation and development of local self-government. At the next stage, the method of theoretical analysis of program documents and scientific literature on the research topic was used. At the stage of analysis and formation of primary recommendations, the method of analysis of statistical and budgetary information was used. This method made it possible to track the dynamics of the main indicators of the fourth-level budget for 2019-2021. Also, at the stage of analysis and preparation of recommendations, the method of analyzing documentation on the fourth level of the budget was used.

This method made it possible to analyze relevant documents and assess their compliance with the governing regulations, allowed us to assess the main problems and achievements in the decentralization of the budget system. The analysis and the recommendations given are based on reliable data that have been carefully evaluated, structured and analyzed.

Results

For the development of Local Self-Government (LSG) in Kazakhstan, the state is taking the following measures: Strategy 2050; Development and implementation of state and regional programs; Improvement of legislation; Concepts for the development of local self-government (2013-2020; 2021-2025); Decentralization of state functions; The introduction of direct election for *akims* (mayors) and the accountability of *akims* to the population; and the delegation of authority to develop and distribute budget funds. Certain duties also fall onto the population, in turn: Initiating the creation of *kenes* (assemblies), participation in election campaigns, holding rural gatherings, and participation in budget discussions at rural gatherings.

Many attempts to introduce innovations in local self-government are aimed at expanding dialogue and promoting cooperation among citizens, local self-government bodies and local government officials. Their champions claim, as do many scientists, that these innovations have a positive impact on the quality of democratic governance. There are three theoretical views on the contribution of innovation to local government:

1. The perspective of problem solving: Innovation as a prerequisite for more effective development and implementation of public policy;
2. The perspective of democratic quality: Innovation as a contribution to the implementation of the values of the democratic process such as inclusiveness, participation and empowerment in local political life;
3. The perspective of institutional capacity: Innovation as a means of increasing the capacity of local authorities as organizations to establish contacts and process the needs, aspirations, and concerns of local citizens of different levels (Binnema et al., 2020).

The decentralization of power, in line with these three views, is carried out in order to challenge the monopoly of the central government on decision-making. It is aimed at:

- Creating a more stable democratic system;
- Improving the efficiency of public administration;
- Stimulating the creation of a stable basis for economic development at the local level;
- More transparent management;
- Involvement of citizens in the decision-making process.

This analysis reveals a direct relationship between budget participation, management effectiveness and a positive perception of innovation.

In terms of decentralization, meanwhile, political, budgetary and administrative decentralization must be defined. In political decentralization, political power and authority are transferred from the central government to the local one. Budgetary decentralization implies the transfer of responsibility for income and expenses from the central to the local. Administrative decentralization is the transfer of authority, responsibility and resources for decision-making on the provision of public services by the central government to lower levels of government.

Decentralization strengthens the principle of transparency and accountability. The principle of accountability works best at the local level, as the transfer of powers makes the government more accountable for the performance of its tasks. Decentralization also increases the level of citizen participation in making important decisions and directly affects the community. As an integral part of democratization, this process is closely linked to the

strengthening of citizens' participation in the decision-making process. The principle of subsidiarity, or government closer to its citizens, is the basic concept of decentralization.

One of the goals of the decentralization process is to involve citizens in the decision-making process. The European Charter of Local Self-Government gives citizens the right to be participants in local self-government. Decentralization of local self-government is based on the principle of subsidiarity; when providing services close to citizens, these services must meet their requirements and needs (Isufaj, 2014). Recognizing the needs of citizens, local governments transfer their needs to the central government, and thus citizens become participants in the system of policy development. When citizens control the main decisions of local authorities, actively participating in the discussion of planning and execution of the local budget and are free to contribute to the management of their village, then citizens are considered active participants in management.

Decentralization of local self-government is a reform that involves the division of functions between central and local authorities, the main purpose of which is to bring responsibility for decision-making closer to citizens. This approach provides the shortest path of transformation at the government level in response to requests. In other words, it helps citizens to avoid bureaucracy and makes it easier for them to participate in local government. Decentralization is therefore seen as an integral part of democratization, which goes through the vertical division of power. The vertical division of power is the power in the center and the power in the regions (territorial units). There is a vertical separation of powers between central and regional authorities, where the lowest level of government is local self-government.

Financial independence gives local governments competence and responsibility in the proper management of local finances, which means that local units solve those issues that they consider to be priorities, consist of the most pressing needs of local citizens. The 4th level of the budget is the financial independence of local self-government. The formation of an independent budget makes it possible to expand the possibility of *akims* in solving topical issues of local importance and the participation of citizens in the decision-making process aimed at the development of their village. The expansion of the competence of local self-government bodies by granting them separate state powers should be based on the principle of expediency, taking into account the ability of local authorities to exercise these powers in full.

The main goal of budgetary decentralization is to increase the efficiency of public services, creating a closer relationship between the management system and the population, and this requires strengthening the financial system of regional and local authorities, which acquire new powers to implement state functions and adequate revenue powers. For example, guided by the principle of efficiency growth, responsibility for tax collection should be assigned to the budget level that will ensure minimum costs for their administration and maximum collection. This goal can be achieved only if local authorities have guaranteed incomes and a real degree of independence. This is a prerequisite for accountability at the local level.

As a result of amendments and additions to the budget legislation of Kazakhstan, the financial independence of the local self-government was significantly determined and put in order. As part of the ongoing reform of budget legislation, the structure of the budget system of the Republic of Kazakhstan has also changed (Budget Code of the Republic of Kazakhstan, 2008).

Today, the budget system of the Republic of Kazakhstan has four levels:

- Level 1: 17 regions and 3 cities of national significance;

- Level 2: 170 districts in oblasts, 38 cities of regional significance, 16 districts in cities of national significance;
- Level 3 (2352): 48 local self-government bodies of cities of district significance, 4 local self-government bodies of districts of cities of regional significance, 29 local self-government bodies of settlement districts, 2179 local self-government bodies of rural districts, 92 rural local self-government bodies.
- Level 4 (2345): 48 cities of regional significance, 28 settlements, 85 villages and 2,186 rural districts consisting of 6,231 villages and 4 settlements.

The budget of an average rural district is about 107 million tenge (239561\$, 224013 €). The official exchange rates of the National Bank of the Republic of Kazakhstan are USD - 446.65, EUR - 477.65. In addition, there is a strong disparity in the budgets of rural LSG jurisdictions, depending on the population and economy of these districts. For example, the minimum budget of an LSG is 2.8 million tenge (6269 \$, 5862 €), while the largest is 2.5 billion tenge (5597224\$, 5233958€). When approving and clarifying fourth-level budgets, the document flow increases. When clarifying the procedure for forming the budget of an LSG, services are performed by the district departments of economics and finance, which is an additional burden for them. Currently, the Departments of Economics and Finance of a district submit to the *maslikhat* a general decision on a fourth-level budget and register it with the justice authorities. In this case, the principle of autonomy of the LSG bodies is not respected. In this regard, the *akims* of rural districts should independently develop draft decisions of the *maslikhat* and register them with the justice authorities.

The formation of the fourth-level budgets contributes directly to strengthening the functions and activities of the *akims* of rural districts for the development of their villages, solving their most pressing problems.

Thus, according to 2020 indicators, fourth-level budget revenues amounted to 252 billion tenge (564200157\$, 527582958€), of which 34 billion tenge (76122243\$, 71181828€) or 13.4% originated from their own residents' incomes, and 218 billion tenge (488077913\$, 456401131€) originated from transfers. In 2021, revenues amounted to 185 billion tenge (414194559\$, 387312886€), including own residents' revenues of 32 billion tenge (71644464\$, 66994661€) (17.1%).

Table 1: Structure of local government budget revenues for 2019-2021

| | 2019 (billion.tg) | % | 2020 (billion.tg) | % | 2021 (billion.tg) | % |
|--|----------------------|------|----------------------|------|----------------------|------|
| Income | 129 | 100 | 252 | 100 | 185 | 100 |
| Own income | 32 | 24,8 | 34 | 13,4 | 32 | 17,1 |
| Transfers | 97 | 75,2 | 218 | 86,6 | 155 | 82,9 |
| The level of self-sufficiency | 24,8 | | 13,4 | | 17,1 | |
| Note: the table is compiled by the authors according to the MNE RK | | | | | | |

As can be seen from Table 1, in the structure of local government budget revenues in 2019, 75.2% were transfers, 24.8% were own income, while in 2020, transfers amounted to 86.6% and own income totaled 13.4%. In 2021, transfers amounted to 82.9% and own income totaled 17.1%. In 2020, more transfers were allocated compared to 2019 and 2021. This affected the level of self-sufficiency, which fell to its lowest point in 2020.

Indeed, according to data from the Ministry of National Economy in Kazakhstan, the level of self-sufficiency of villages decreased in 2020 in comparison with 2019 (Ministry of

National Economy, 2019). However, it decreased due to the fact that there were more transfers in 2020 than in 2019, even as there was more own income in 2020. In addition to the allocated transfers from the higher budget, many rural districts have reduced their revenue plans in 2020. The reason for the decrease in transfers in 2021 is the completion of infrastructure projects in the regions, implemented at the expense of targeted transfers from the national budget.

Table 2: Own revenues of local government budgets by region for 2019-2021 (billion tenge)*

| | Name of the region | 2019 | | 2020 | | 2021 | |
|----|-------------------------|----------------|------|----------------|------|----------------|------|
| | | | % | | % | | % |
| | Total | 32,2 (100%) | | 33,6 (100%) | | 31,9 (100%) | |
| 1 | Akmola Region | 2, 2 | 6,8 | 2,7 | 8,0 | 2,4 | 7,5 |
| 2 | Aktobe Region | 1, 0 | 3,1 | 1, 1 | 3,3 | 1,0 | 3,1 |
| 3 | Almaty Region | 10, 2 | 31,7 | 10,7 | 31,8 | 10,0 | 31,3 |
| 4 | Atyrau Region | 1, 6 | 4,9 | 1,4 | 4,2 | 1,1 | 3,5 |
| 5 | East Kazakhstan Region | 2, 4 | 7,5 | 2,7 | 8,0 | 2,4 | 7,5 |
| 6 | Zhambyl Region | 2, 4 | 7,5 | 2,3 | 6,8 | 2,2 | 6,9 |
| 7 | East Kazakhstan Region | 2, 0 | 6,2 | 1,5 | 4,4 | 1,3 | 4,1 |
| 8 | Karaganda Region | 1,0 | 3,1 | 1,2 | 3,6 | 1,2 | 3,8 |
| 9 | Kyzylorda Region | 1, 2 | 3,7 | 1,2 | 3,6 | 1,4 | 4,4 |
| 10 | Kostanay Region | 1, 3 | 4,0 | 1,6 | 4,8 | 1,4 | 4,4 |
| 11 | Mangystau Region | 1,0 | 3,1 | 1, 4 | 4,2 | 1,5 | 4,7 |
| 12 | Pavlodar Region | 0,6 | 1,9 | 0,8 | 2,4 | 0,8 | 2,5 |
| 13 | North Kazakhstan Region | 1,0 | 3,1 | 1,3 | 3,9 | 1,2 | 3,8 |
| 14 | Turkestan Region | 4, 3 | 13,4 | 3,7 | 11,0 | 4,0 | 12,5 |

Source: Ministry of National Economy of the Republic of Kazakhstan

* The official exchange rate offered by the National Bank of the Republic of Kazakhstan is 446.65 per USD.

In general, we can see from Table 2 that the own revenues of the budgets of the LSG in all regions are very low. Somewhat significant indicators of own income are observed in the Almaty and Turkestan regions, because these areas are the most densely populated in the country. Almaty region ranks first in terms of population, and Turkestan region ranks second. Both have numerous settlements with a population of over 10,000 people. This will make it possible to use the high potential of local self-government and the receipt of a sufficient amount of tax and non-tax revenues when forming independent budgets. Villages located near large cities will benefit from decentralization, and small rural settlements where there are no business entities will remain subsidized. Small rural settlements are likely to face the problem of replenishing their local budgets. In 2021, 73 percent of revenues to the fourth level of the budget are the transport tax of individuals, 16 percent are individual income tax. Accordingly, rural districts with a small population and few business entities are likely to remain subsidized. That is, settlements that are geographically located near large cities and are part of agglomerations benefit more from decentralization.

In 2021, compared to the previous year, receipts of own income decreased in ten out of 14 regions. In four regions - Turkestan, Kyzylorda, Karaganda and Mangistau regions - there was a slight increase. The main reason for the decreases in own revenues of local government budgets was pandemic-related tax holidays for small and medium-sized businesses from January 1, 2020 to December 31, 2022.

The sources of income and expenditures of LSG budgets are important, not in themselves in absolute magnitude, but in the context of the relationship with the amount of authority that is assigned to LSG bodies. Part 2 of Article 9 of the European Charter of Local Self-Government

notes that the financial resources of LSG bodies should correspond to the powers granted to them by the constitution or the law (European Charter of Local Self-Government, 1985).

Table 3: Structure of LSG budget revenues in Kazakhstan, 2020-2021

| № | Types of receipts | 2020 million tenge | Specific gravity % | 2021 million tenge | Specific gravity % |
|-----|---------------------------------|-----------------------|-----------------------|--------------------------|-----------------------|
| 1 | Tax receipts, including: | 32552 | 97 | 31376 | 98,7 |
| 1.1 | Individual income tax | 9647 | 29 | 5086 | 16 |
| 1.2 | Property tax | 782 | 2 | 1153 | 3,6 |
| 1.3 | Land tax | 2050 | 6 | 1672 | 5 |
| 1.4 | Vehicle tax | 19933 | 59,6 | 23220 | 73,4 |
| 1.5 | Payment for outdoor advertising | 140 | 0,4 | 246 | 0,7 |
| 2 | Non-tax receipts | 1029 | 3 | 429 | 1,3 |
| | Income, total | 33580 | 100 | 31805 | 100 |

Source: Ministry of National Economy of the Republic of Kazakhstan

Table 3 shows that local government budget revenues are mainly generated from tax revenues, which amount to 97% of total revenues in 2020 and 98.7% of total income in 2021. Non-tax revenues amount to only 3% and 1.3%, respectively. In the structure of tax revenues, 73% of total revenue is taken up by receipts from the tax on vehicles. Receipts from individual income tax decreased from 9.6 billion tenge to 5 billion tenge, while their share decreased from 29% to 16%.

Receipts from such types of receipts as "Payment for placement of outdoor (visual) advertising" have increased — from 140 to 246 million tenge. The collection of these revenues depends on the active work of *akims* with their local communities and entrepreneurs providing an explanation that the funds will be directed to solving issues of local importance.

At the same time, the coronavirus pandemic has had a serious negative impact on the filling of local budgets. As a result of quarantine measures, the receipts of individual income tax and taxes paid by small and medium-sized businesses have decreased, which accounted for a large share of tax revenues to local budgets. Perhaps, in the current conditions, it is worth changing the budget system in such a way as to leave more taxes in the regions and thereby encourage local authorities to develop the economy in the territories entrusted to them.

Budgetary decentralization is aimed at providing local authorities with the necessary financial resources to perform the functions defined by law. This reform is aimed at increasing the revenue of local authorities to provide local support in improving the quantity and quality of local services. To expand the revenue side of fourth level budgets, additional types of taxes and payments will be transferred: a single land tax, payment for the use of land plots, proceeds from the sale of land plots, payment for sale.

Discussion

While it may be that the institutions of local self-government in the Republic of Kazakhstan are not yet sufficiently developed, their structures remain an integral part of state bodies that are currently subordinate to the highest levels of state bodies. *Maslikhats* as representative bodies have limited autonomy and act only locally as authorized bodies, but they exist as recognized bodies with the potential to be recipients of new powers.

Decentralization is one of the priorities and a main challenge for Kazakhstan. The Government plans to fully implement decentralization reform, in accordance with the European Charter of Local Self-Government, with the goal of improving the quality of governance, efficiency and effectiveness, as well as strengthening the accountability and independence of local self-government. More specifically, it aims to:

1. Expand the financial independence of rural districts and their ability to set and collect their own taxes and fees.
2. Complete of the process of transferring property to local authorities, in order of priority: water supply, roads, state-owned companies of local importance and socio-cultural facilities.
3. Introduce the concept of common functions in the field of education, health, environment, housing, social services, public order, and traffic, in respect to which local authorities will make independent decisions. The allocation of funds to local authorities will be carried out in an objective and transparent manner.
4. Intervene to improve legislation.
5. Strengthen local capacity.

A key component of the fiscal decentralization reform and the basic concept that should guide fiscal reform is accountability. Local authorities can prioritize their expenditures by listing the needs and requests of the community, but this requires parallel responsibilities of local authorities to ensure the implementation of social and economic development programs of the relevant territory. Accountability increases the transparency of the activities of governing bodies.

This necessarily requires replenishment of these bodies' financial potential, therefore, imparting a real degree of autonomy (Isufaj, 2014). Indeed, in decentralized systems, from a fiscal point of view, the autonomy of tax revenues is a necessary mechanism for accountability at the local level. This mechanism provides local authorities with the necessary tools to reduce fiscal imbalances, forecast and plan their financial priorities.

Kazakhstan has improved budget transparency in accordance with the recommendations of the OECD Integrity Audit. In particular, important changes have taken place in recent years regarding access to information. An online portal, "Open Budgets", has been developed, a civil budget has been introduced. The civil budget is information that reveals the main provisions of the republican and local budgets, published in the mass media in a form accessible to the public. It was introduced into the Budget Code in 2017 for the purpose of openness and accessibility of information for citizens. These are steps to achieving budget transparency in Kazakhstan.

Together with the experiences of other countries, these new initiatives have a higher likelihood of success if they are developed considering the forecasting and support of user needs and effectively functioning as tools to increase budget transparency, engagement, and accountability.

This development should be accompanied by further changes in budget documentation standards in Kazakhstan, in accordance with international standards. As for the participation of citizens, the introduction of "public councils" with the participation of many stakeholders in each ministry is an innovative development with significant positive potential. Effective public councils provide ideal tools for assessing the public's views on budget priorities within the framework of projected budget planning.

Thus, independent fourth-level budgets will make it possible to plan and use budget funds more effectively, taking into account the needs of the population for the improvement and landscaping of settlements, construction, reconstruction, repair and maintenance of highways,

the organization of water supply to settlements, preschool education and training, etc., which will ultimately contribute to improving people's living conditions and the livability of settlements.

Conclusion

Decentralization in Kazakhstan is one of the most important reforms for the democratization of the country. This reform is aimed at a clearer separation of the functions and responsibilities of government and requires a certain independence at the most local of levels.

The decentralization of the budget system and the introduction of the fourth-level budget is an innovation for the development of local self-government in Kazakhstan. Independence entails responsibility, which means that local governments must take responsibility for the quality and quantity of services offered. All these principles are the main elements that should guide the reform of budgetary decentralization in Kazakhstan, which is still in the early stages of its development.

To ensure the effectiveness of the implementation of reforms, the government program should focus on the applicable implementation of institutional relations and incentive mechanisms that can create a healthy basis for accountability for the provision of public services at the local level, affecting the ability of macroeconomic stability and its preservation. Gradual increases in local tax revenues, applied in parallel with financial transparency and vertical control mechanisms, ensure increased efficiency and accountability.

The main recommendations are as follows:

1. Continue work on fiscal decentralization by transferring additional revenues to LSG budgets (unified land tax, payment for the use of agricultural land plots and proceeds from their sale).
2. Complete the process of transferring property to local authorities, depending on the importance of local issues, in the following priority order: water supply, roads, local state companies and socio-cultural facilities.
3. Strengthen the accountability of local authorities on budgetary and financial issues to make information about villages' budgets more accessible to the public.
4. Stimulate local executive bodies to increase business activities in the regions and the development of small and medium-sized businesses.
5. Increase the independence of local authorities by giving them additional tax and fiscal powers.

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