Improving the Budget Regionalism Instruments in Kazakhstan

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Abstract: The article describes the differentiation of socio-economic and financial development of the regions of Kazakhstan and the imperfection of the existing regulatory mechanism of intergovernmental relations calls for a qualitative change in approaches to local budgets to stimulate the development of their own financial independence. Despite the abundance of budget reforms carried out in the period of the independence of the Republic of Kazakhstan, relevant issues of strengthening regionalism are still valid, increased self-reliance of inter-budgetary local authorities in the process of formation and use of budgetary funds. Most local budgets are in short supply. Imperfection in the relationships of the Republican and local budgets leads to inefficient use of budgetary funds, the development of free-rider attitude against selected transfers, reduced effectiveness of tax administration. In the meantime, fundamental changes are needed in the regulation of intergovernmental fiscal relations. It is advisable to reforms aimed at strengthening the autonomy of local executive bodies, enhancing their capacity to mobilize resources locally, with simultaneous increase of responsibility and control. Require a review method of determining the amounts of transfer payments as well as the procedures and conditions of their provision and use. All this calls for integrated study and solving of interbudgetary relations in the Republic.

Key words: Low-regionalism % Alignment % Transfers % Taxes % Fiscal capacity

INTRODUCTION

Highlighting unsolved earlier parts of the overall problem require a revision of the order of distinction between levels of income and expenditure of the budget system of Kazakhstan. Reducing the role of taxes in local budgets increases from transfers from the Republican budget. Increase counter financial flows. Mechanism of regulation of interbudgetary relations indirectly contributes to the strengthening of regional differentiation.

The goal of the research is the development of theoretical and methodological framework and practical recommendations for the efficient organization and management of intergovernmental relations and inter-budgetary regionalism. In accordance with the intended purpose requires the following tasks:

C   To assess the current state of regulation of interbudgetary relations in the Republic;
C   Identify issues and develop practical recommendations to enhance the role of local authorities in tackling the problems of financial security;

C   Develop a set of recommendations and regionalism as a basis of inter-budgetary model of fiscal decentralization.

The Main Results of the Study: The main objective of the policy reform of the budgetary system of the Republic of Kazakhstan – all levels of Government-funded for the full provision of designated public services.

However, in modern conditions of 16 13 regions of the Republic of Kazakhstan are dependent on subsidies from the national budget. This is due to the lack of own financial resources of local executive bodies. Unlike some countries, local authorities in Kazakhstan have no right to impose their own taxes and fees on its territory, adjust the level of rates to issue municipal bonds. Today the share of transfers to local budgets income is about 60% and in some regions 80% comes up, reflecting the growing dependence of the Republican budget. This reduces the incentives of local governments to develop their own tax base, which primarily affects the activity of small and medium-sized businesses.

Revenue management local budgets remains largely centralized (according to Figure 1). The bulk of budgetary incomes focuses on Republican level.

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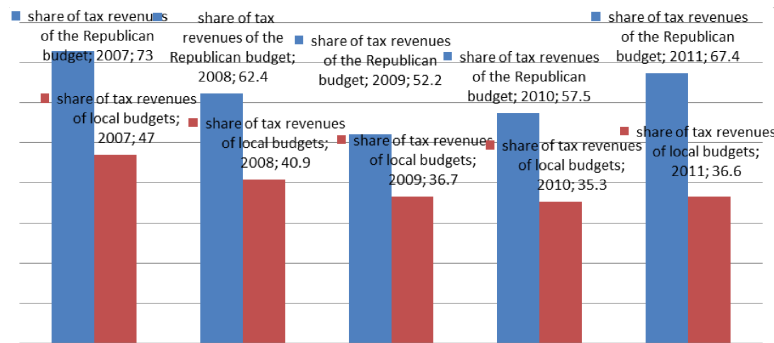
Drawing 1- Share of income taxes of the Republican and local budgets (as% of total volume of revenue)
* Note: according to the Ministry of Finance of RK

The regional authorities granted limited powers in the area of own revenues and they do not provide sufficient capacity for growth in tax revenues.

Traditionally the interbudgetary relations deals with redistribution of income between the budgets at various levels through the implementation of budget management in order to achieve vertical and horizontal balance of local budgets.

Regulatory mechanism of interbudgetary relations in Kazakhstan based on institutionalization between levels of income and expenditure budgets, as well as the system of transfers.

The current system of income distribution and expenditure responsibilities between levels of budgets in the ROK has a number of advantages over previous systems. For example, are common to all regions distinguish of profitable and consumable powers, eliminating individual perks for individual regions.

At the same time, the mechanism of regulation of interbudgetary relations need to be improved. A unified approach to the territories should not be to same (common) size limits deductions and common methodologies for their calculation. The factors to be included in the formula (population, budgetary revenues and expenditures and so on) must be the same for all territories, but will have different numerical expression that will better reflect the particularities of each region [1, p. 87].

Fiscal exemptions reduce the incentives of local Governments increased the tax potential of regions. It is worth pointing out that the budget legislation equitable mechanisms to offset the effects of the practice in cases of failure of donor regions tax income forecast plans.

The amount of budgetary subventions and seizures shall be established by law for a period of three years and must be unconditional execution regardless of income dynamics in the profitable part of the local budget.

However, in a situation of declining tax revenues as a result of changes in the socio-economic development of the regions, the amount of the unconditional commitment to budgetary exemption becomes a significant loss directly affected the interests of territorial development policies and able to influence the level of budgetary expenditures in the region.

In this connection, it is worth paying attention to the possibility of resuming use of budgetary legislation preceding the adoption of the budget code, regulated, that in the case of underperformance of regional budgets (budgets of Astana and Almaty) fiscal exemptions in the Republican budget made in proportion to the percentage of revenues of local budgets.

The compensatory mechanism in this manner will allow more objective approach to the use of negative transfers and reduce the tool's negative influence in case of inaccuracies in the calculation of transfers.

Special attention should be paid to enhancing mutual accountability participants in intergovernmental fiscal relations to each other, to the people, institutions and organizations. Financial assistance should be conditioned on the "transparency" of regional budgets and budgetary policies, the strengthening of the role of State financial control over compliance with fiscal and tax laws [2, p. 83].

In the Russian Federation to deal with budgetary availability of different types of municipalities and the settlement of tax revenues generated funds financial support to municipalities which are accumulated at the federal or regional level. These funds support local self-government are established in many foreign countries and their main objective is financial alignment, i.e. financial assistance to municipalities, which is weaker on certain economic and social performance [3, p. 119].

In Kazakhstan we have also to consider the possibility of establishing a Fund of financial support of areas (FFPO), following the example of the Orenburg
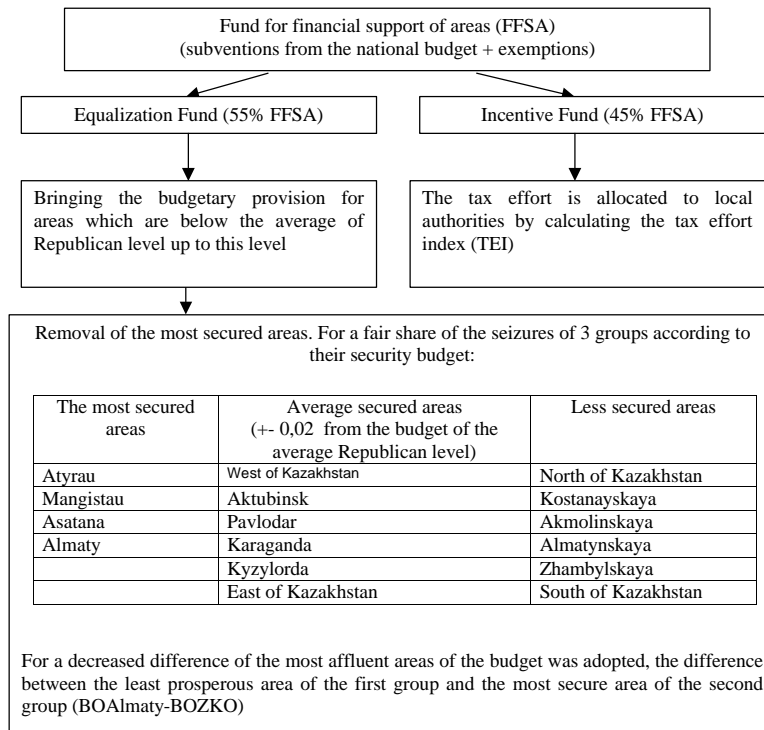
Drawing 2- Budget alignment model of regions of Kazakhstan.

* Note: compiled by author

region of Russia. This Fund should include alignment and Fund incentive fund that allows for alignment of budget availability and enhance area units incentives for local authorities to increase their revenue base.

The practice of transfers from the State budget transfers to the budgets of disadvantaged regions could be improved by defining fiscal security units per one inhabitant, since it is the provision of services should be the primary budget to local authorities.

Budget availability per capita is calculated with the following formula [4, p. 60-62]:

$$BOi = SDi/Hi * IBRi, \qquad (1)$$

where is budget availability BOi of the 1st area (major city);

SDi – its own revenues of the 1st area (major city);

IBRi-index of budget expenditures for the 1st area (major city).

Budgetary cost index takes into account price differences between the regions of Kazakhstan, who, as we know, are considerable. This indicator is calculated by the following formula:

$$IBRi =/pm, Pmi \qquad (2)$$

where Pmi – the minimum living cost for the i-th area (major city);

PM: the average cost of living in Kazakhstan.

International territorial budget alignment of Kazakhstan proceeds from the tasks of modern economic structure in terms of deployment of its modernization. Structure of GDP production is determined by regional disparities, unequal distribution of productive forces in the territory of the Republic and the different levels of development of individual regions.

Regions of the Republic have significant differences in the placement of productive forces, number and structure of population, living of the tax base and, therefore, different possibilities in shaping the revenue side of the budget. The development level of regions and their role in the economy of the country is also different. In this regard, our regions are divided into 3 groups according to their own financial resources endowments.

In Figure 2 the scheme, under which most appropriately allocated between local budgets in Kazakhstan. Foreign experience shows that the optimal balance between the Fund and the Fund incentive

Table 1: Budgetary provision for territorial units in 2011.

Areas	Budgetary provision		
	Own income	Applying General transfers	Allocating resources of the Fund of financial support of areas
Almaty	0.0867	0.0550	0.0734
Atyrauskaya	0.1446	0.1125	0.1480
Astana	0.0896	0.0772	0.0895
Karagandinskaya	0.0433	0.0718	0.0585
Mangistauskaya	0.0921	0.0831	0.0981
Aktubinskaya	0.0561	0.0742	0.0731
Zapadno-Kazakhstanskaya	0.0644	0.0928	0.0868
Pavlodarskaya	0.0455	0.0630	0.0680
Almatinskaya	0.0199	0.0487	0.0587
Vostochno-Kazakhstanskaya	0.0320	0.0748	0.0635
Yuzhno-Kazakhstanskaya	0.0117	0.0484	0.0560
Kyzylordinskaya	0.0370	0.0845	0.0693
Kostanaiskaya	0.0259	0.0607	0.0659
Akmolinskaya	0.0235	0.0619	0.0683
Severo-Kazakhstanskaya	0.0273	0.0861	0.0788
Zhambylskaya	0.0160	0.0704	0.0677
Average rate	0.0510	0.0728	0.0765
Gap	12.3577	2.3250	2.6452

alignment is 60: 40 respectively, but based on the results of practical calculations, we believe that the most effective for Kazakhstan is 55: 45 ratio [5].

Index of tax effort shall be calculated as follows:

$$INU_i = (K_i/A_i)/(/),\qquad(3)$$

where K_i is the sum of the cash execution of tax revenues of local budgets on the i-th region (the city of the Republican significance);
AI – plan of tax revenues of local budgets on the i-th region (the city of the Republican significance).

The amount of financial assistance from the Fund, shall be determined by the formula:

$$FPFS_i = FS * INU_i,\qquad(4)$$

where, FS = volume incentive Fund;
INU_i – tax index of the ith area (major city).

Estimates for this model are shown in Table 1.
Calculations have shown that the distribution of the Fund financial support for areas the average budgetary provision in the Republic increased by 50% over budget and own income security to 5% compared with the budget
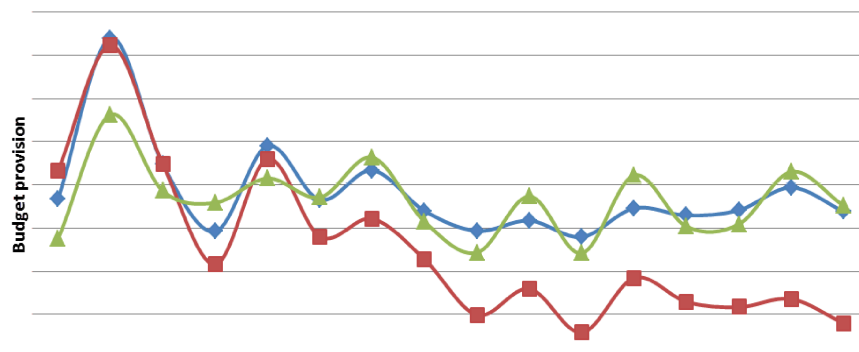
Curve in Blue: Budgetary provision for the means utilization of the financial support Fund per area
Curve in Red: Budgetary provision with own income
Curve in Green: Budgetary provision applying general transferts
Fig. 3: Budget provision per territorial units in Kazakhstan for 2011 year
* Note: compiled by author

for the security system of transfers. The gap in the budget provision between the most and least affluent areas reduced from 12.4 times up to 2.6 times. When you apply transfers a gap of 2.3 times, i.e. a little less than in allocating resources of the Fund, but in our opinion this is offset by a significant stimulant effect that is achieved in applying our model alignment [6].

The Advantages of this Method Are: First, justice in the allocation of financial support to Fund areas as the area with the lowest budget provision, even after giving financial assistance to remain in last place, that is, will not be able to not only stay ahead and even catch up with any area not receiving funds from the Fund. This approach to the allocation of funds rank areas does not change. In addition, it will support the necessary incentives to increase incomes through their own efforts;

Secondly, financial support from the Fund covered all areas, budget availability is below the average for the Republic;

third, accounted for the difference in prices in different areas, as reflected in the index. It takes into account the differences between regions, not only in number of end-users, but also on the cost of the services provided. The index shows how much more (or less) it is necessary to spend State funds on a per capita basis in a specific area;

Fourthly, considered an indicator reflecting the tax effort of territorial units to raise taxes in the budget.

Quality of budgetary problems of regionalism in Kazakhstan requires a comprehensive approach. Financial problems of autonomy regions should aim to stimulate the development of its own tax base, creating incentives for local authorities to build their own sources of formation of local budgets. In this regard, the model of financial equalization based on granting of transfers from the Republican budget, it is appropriate to complement the accompanying instruments [7].

The practice of tax differentiation between levels of budget system in RK involves enrollment in local budgets of individual income, social status and property taxes. Accordingly, the amount of these taxes is only indirectly depends on the level of development of production, enterprise development, investment activity, the structural transformation of the economy of the regions. This fact causes weakness and inertia of the local authorities in shaping our own income, enhancing life's dependent moods.

In this regard, the main lever for strengthening the revenue base of local budgets should be the transfer of certain types of taxes from the national level to the local.

Corporate income tax transfer is impractical, as this entails reducing revenues of the Republican budget. In addition, the gap between the budget will increase only regions security.

Transfer to local VAT on imported goods is also impractical, since these taxes are paid mostly in border areas.

There is a possibility of transmission in full payment of VAT on goods of the domestic production of local budgets. This type of tax is not as substantial amount in revenues of the Republican budget and has the most even distribution of taxable base. Income TAX depends directly on the level of development of entrepreneurship that will create incentives for local authorities to create favorable business climate.

It would be appropriate to mention the experience of Germany, where the tax is the main tool of inter-budgetary vertical and horizontal alignment [8]. In a stable relationship, it is divided between the two levels of the budget system. In Kazakhstan it is possible to distinguish VAT revenues between Central and local budgets in the ratio of 60: 40.

In order to strengthen the revenue base of local budgets, in our view, the need to review the mechanism for calculating property taxes – the land, the property tax and the tax on vehicles. Analysis has shown, their share of local budgets is very small. Therefore it is necessary to reduce benefits, raise the stakes. In our view, there are significant reserves. Because in foreign practice property taxes bring in large revenues to local coffers, there's taxation of property takes place at market value and we are assessing BTI.

Low levels of property taxation in Kazakhstan reduce the incentives for its efficient use, leads to various financial irregularities. The low level of penalties also creates the basis for evasion of the taxes.

The maximum flow in the revenues of local budgets provides an individual income tax, which predetermines the strengthening of its role in the process of reforming intergovernmental fiscal relations. Consider it appropriate to move from the flat tax rate to progressive. The total income of State budget of Kazakhstan DRUG USERS accounted for only 7.3%. The introduction of a progressive income tax rates by the Ministry of Finance of the Republic of Kazakhstan was planned for early 2011, but the implementation of that decision has been postponed. According to the Ministry of Finance of the Republic of Kazakhstan moves to a progressive scale of income tax would allow local budgets get 1.3% or 12.5 billion. tenge.
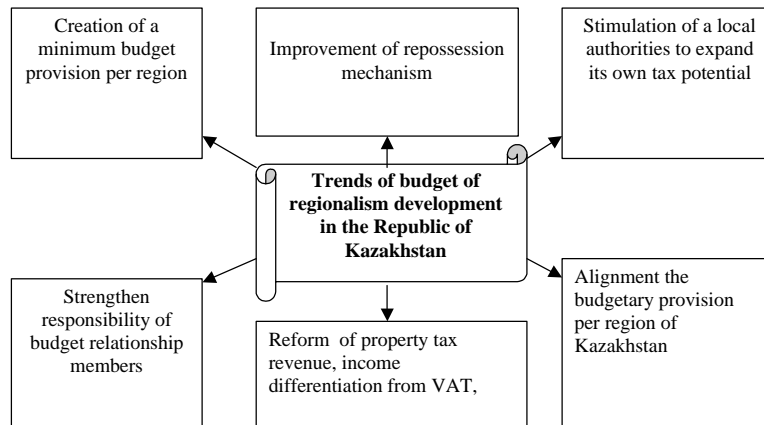
Fig. 4: Direction of the budget in the Republic of Kazakhstan of regionalism
*Note: compiled by author

One of the significant sources of formation of local budgets in the world practice is the issuance of municipal bonds. However, only the exterior advertising of KAZAKHSTAN Astana and Almaty. Issuing municipal bonds would lead not only to increased revenues and their autonomy, but also to address the problem of shortage of financial instruments of the stock market.

Consider it appropriate to use the methods of leveling a selective regional policy which manifests itself in stimulating inward investment in backward regions and provide the latest financial aid. [9] As is known, KAZAKHSTAN is a priority in the development of Astana and Almaty. It could be the impetus of involving other regions through cooperation in their development of Board towards highly organized urban habitats of the main part of the population. It is necessary to maintain compensating Rega-level policy for backward regions by providing them presenting guaranteed services of TI infrastructure alignment.

Implementation of these measures will contribute to the growth of revenues of local budgets, reduce dependence on transfers from the Republican budget. Increased interest of local authorities in the tax administration will enhances the effectiveness of fiscal control in the field [10].

In general lines of development in the Republic of Kazakhstan's budget of regionalism are presented in Figure 4.

CONCLUSION

Thus, the need to refine budgetary regionalism at the present stage of development of Kazakhstan is objective. It was conditional on the existence of many outstanding issues of organizational, managerial and legislative nature. In our view, in order to further improve the budgetary system of the Republic of Kazakhstan, as a matter of priority, should implement the following measures.

C Properly anchor the taxes between levels of Government (transfer to local VAT on goods to domestic production), so that all levels of Government-funded for the full provision of designated public services.

C Establish mechanisms of local interest in the development of their tax potential, reducing dependence on injections from the State budget.

C Make provision in budget legislation a proportional reduction of budgetary compensation mechanism in case of a reduction in tax revenue due to changes in the socio-economic development of the regions.

C To develop standards for tax and income distribution with clear their docking between levels of budget system that creates the prerequisites for deployment at the local government level of self-financing mechanisms whereby the formation expenses of each link is in direct dependence on the income earned.

C To develop a standard minimum budgetary endowment of regions, taking into account economic, social and environmental factors.

C To reform property taxes in accordance with the authors ' recommendations, as well as consider substituting a single rate of individual income tax on a progressive scale of.

C Special attention should be paid to enhancing mutual accountability participants in intergovernmental fiscal relations to each other, to the people, institutions and organizations.

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