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Budgeting in Kazakhstan

A roadmap for continued budgetary governance reform



Government of the Republic of
Kazakhstan

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By

Ivor Beazley, Ronnie Downes and Scherie Nicol

The Republic of Kazakhstan is the largest economy in central Asia, and one of the fastest growing in the region. Having benefited from oil wealth as well as a diversifying and liberalised economy, Kazakhstan envisages a progressive modernisation of the political, administrative and juridical culture within the country. While strong progress has already been made on several fronts, other aspects of these envisaged reforms are at early stages.

This OECD review takes stock of budget reform efforts, and is designed to assist the national authorities in charting a course for future reforms and innovations.

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Foreword

Kazakhstan is central Asia's largest and most dynamic economy, with a leadership that is ambitious for the country to take its place among the most developed nations of the world. To achieve this objective, the authorities in Kazakhstan have embarked upon a multi-faceted course of reform and modernisation embracing many dimensions of public policy, including by reference to OECD standards and principles.

As stated in the OECD Recommendation on Budgetary Governance (OECD, 2015^[1]), the budget is “a central policy document of government, showing how annual and multi-annual objectives will be prioritised and achieved... The experience of recent years has underlined how good budgeting is supported by, and in turn supports, the various pillars of modern public governance: transparency, integrity, openness, participation, accountability and a strategic approach to planning and achieving national objectives. Budgeting is thus an essential keystone in the architecture of trust between states and their citizens.”

This understanding of the role of modern budgeting is shared by the authorities in Kazakhstan, who have undertaken a series of major reforms over recent years aimed at bringing national systems in line with good international practice. This OECD review takes stock of these reform efforts, and is designed to assist the national authorities in charting a course for future reforms and innovations. Indeed, the OECD perspective is that sound budgetary governance is a prerequisite for success in other fields of public policy, and therefore this review is intended to provide a timely and helpful underpinning for Kazakhstan’s broader strategic agenda.

This OECD Budget Review reflects the state of budgetary governance in Kazakhstan as of early 2018, and is authored by Ivor Beazley (Senior Policy Analyst), Ronnie Downes (Deputy Head of Division) and Scherie Nicol (Policy Analyst), all of the Budgeting & Public Expenditures Division, Public Governance Directorate of the OECD. The review was broadly co-ordinated with a parallel review conducted independently by the PEFA Secretariat, in order to provide the Kazakh authorities with a range of qualitative and diagnostic perspectives to inform their future plans. The OECD would like to thank the Government of the Republic of Kazakhstan for helpful discussions on all issues during the review process. The OECD would also like to thank all the stakeholders and institutions listed who took part in this review: Ministry of National Economy of the Republic of Kazakhstan; Ministry of Finance of the Republic of Kazakhstan; Ministry of Healthcare of the Republic of Kazakhstan; Agency for civil service and anti-corruption affairs of the Republic of Kazakhstan; Accounts Committee for Control over Execution of the Republican Budget; Senate of the Parliament of the Republic of Kazakhstan; Mazhilis of the Parliament of the Republic of Kazakhstan; The Executive Office of the President of the Republic of Kazakhstan; National commission on women’s affairs, family and demographic policy; Akimat of Astana; National chamber of entrepreneurs of the Republic of Kazakhstan “Atameken”; JSC “Economic Research Institute”; JSC “Center for trade policy development”; Soros Foundation Kazakhstan; Sange Research Centre; Zertteu Research Institute

Acronyms

CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
ERI	Economic Research Institute
FSED	Forecast of Social and Economic Development
KZT	Kazakh <i>Tenge</i>
OECD	Organisation for Economic Cooperation and Development
MNE	Ministry of National Economy
MoF	Ministry of Finance
NF	National Fund of Kazakhstan
NBK	National Bank of Kazakhstan
PPP	Public Private Partnerships
SMEs	Small and Medium-sized Enterprises

Executive Summary

The Republic of Kazakhstan has been pursuing a series of economic and administrative reforms since independence from the former Soviet Union in 1991. It is now the **largest economy in central Asia, and one of the fastest growing**, benefiting from oil wealth as well as a diversifying and liberalised economy. Traditionally the institutional environment has been strongly centralised; the country's strategic development plans (see below) envisage a progressive modernisation of the political, administrative and juridical culture within Kazakhstan. While strong progress has already been made on several fronts, other aspects of these envisaged reforms are at early stages.

The system of public financial management in particular has been the subject of wide-ranging reforms over recent years, aimed at strengthening the capacity to support the country's strategic development. The institutional architecture, including a strategically-oriented Ministry of National Economy (MNE), an implementation-focused Ministry of Finance (MoF) and a highly developed Budget Code, provides a professional and efficient basis for budgeting. Many aspects of Kazakhstan's framework already **conform well to the principles set out in the OECD Recommendation on Budgetary Governance**, to which the authorities have committed to adhere.

An over-arching goal of budgetary governance in Kazakhstan is to forge **clear links between strategic plans and budgetary processes**. At the highest strategic level, the country is guided by the "Kazakhstan 2050 Strategy", announced by the President in 2012, which aims to position Kazakhstan among the world's 30 most developed economies by 2050. The *Nurly Zhol* ("bright path") programme, announced in 2014, focuses on ambitious infrastructure development; while the "100 Concrete Steps" announced in 2015 specifies a series of measures in various institutional spheres aimed at achieving a "modern state for all".

Against this strategic and developmental backdrop, the **results orientation of budgeting** has been notably well developed over recent years. Priorities for the country's "social and economic development model" are agreed by the government and advanced by the MNE, and are duly reflected in the annual strategic plan of each ministry. Arising from recent reforms, the programmes set out in each strategic plan are generally aligned with the budget programmes of each ministry; and managerial responsibility has been clarified in each area. Further refinements should include a stronger enforcement of the "one-to-one" principles of aligning planning and budgetary programmes; a more normative medium-term expenditure framework that links resources and key goals while respecting the fiscal rules; a broader selection of indicators (to encompass service-delivery objectives, customer experiences and gauges of programme efficiency); and accountability mechanisms for cross-cutting objectives in areas such as gender equality, environment and other Sustainable Development Goals.

The Kazakh system employs a limited number of tools to provide a critical assessment of budget programme expenditure. The strategic plan is subject to an annual evaluation by the MNE. This process is supported by formal programme evaluations which use a range of criteria, including disbursement of approved funds and achievement of specified indicators: performance deemed insufficient against these criteria generally has implications for budgetary allocations. Compressing all such evaluative information within the budget calendar inevitably poses administrative strains. It is recommended that Kazakhstan develop a **richer multi-year continuum of evaluative and performance information**, using distinct but complementary processes of monitoring, evaluation, performance-

budgeting indicators and spending review, and to draw upon results of these exercises across the annual and multi-annual budgetary cycles. Developing this approach should build upon existing institutional and procedural strengths: in particular, evaluative exercises should in future be conducted *ex ante* as well as *ex post*, and explicit synergies should be fostered with established Regulatory Impact Assessment models and with the expertise of the Economic Research Institute (ERI). Infrastructure evaluation is a case in point, requiring systematic appraisal across the project cycle, and making no unnecessary distinctions (at appraisal stage) between different financing modalities – traditional infrastructure procurement, public-private partnership (PPP) or other. More generally, there is scope for establishing tracker systems for major projects – whether capital or current expenditure – and for using visual tools (e.g. “value maps”) to highlight the depth of evaluation that has been conducted in different areas.

The country’s oil wealth is stewarded via a **National Fund**, which operates according to clear legislative criteria: the intention to move toward the “Santiago Principles” of good practice for managing sovereign wealth funds should yield further benefits including enhanced transparency and sustainability. In the medium term, **prudent fiscal management** will require clearer rules for managing the non-oil budget, and significant progress has already been made in this area. In this context, there is scope to strengthen the **independent character of the professional advice and oversight** regarding adherence to fiscal rules, economic forecasting and fiscal management, leveraging the pre-existing role of the ERI.

The budget is conducted within a **clear and well-observed annual calendar**, and framed within a three-year rolling cycle. Up to recent times, the focus in Kazakhstan has been weighted more towards responsiveness and agility, than towards stability and fixity in both budgeting and planning. Thus, the annual budget has been subject to multiple revisions during the course of the implementation year, matched with adjustments and updates to each strategic plan. On foot of reforms initiated by the parliament, from 2018 the major budget revisions are limited to once per year. It would be advisable for revisions to the strategic plans to move towards a similar degree of stability. Likewise, the three-year rolling forecasts should **develop a more stable and normative character** to guide the evolution of the public finances and to support planning within ministries, taking account of the clarified fiscal rules outlined above. The annual budget cycle should more clearly distinguish between the fiscal policy phase (spring) and the traditional resource-allocation phase (autumn), building on good practice from various OECD countries, while also ensuring closer alignment and sequencing with the national planning cycle.

The progressive introduction of **accrual accounting** methodologies is positive, provided that the role and intended uses of this additional information is specified in advance, such that the new approach helps to clarify, rather than obscure, policy-relevant signals within the budgetary documentation. Emerging good practice from OECD countries suggests a dual approach, using both cash- and accrual-based approaches in a consistent and complementary fashion, while supporting parliamentarians with concise interpretative notes. Kazakhstan could take further steps to improve comprehensiveness and transparency through disclosure of guarantees and contingent liabilities and the presentation of a balance sheet showing the government’s net worth.

The **parliament itself has a high level of engagement** with the annual budget, in international terms. The lower house (the Majilis) is the initial forum for detailed budget scrutiny, and there is a strong role for the budget committee with a structure for sector-specific committees to feed into the overall scrutiny task in line with OECD best practice.

The senate also conducts its own independent budget scrutiny, and may submit amendments of its own, which – subject to an agreed position with the Majilis – are incorporated into the budget proposal. At present the parliament has no oversight role in relation to the Forecast of Social and Economic Development. However, the principle of *ex ante* engagement of parliament could usefully be brought to bear upon this process as part of a new Spring Fiscal Policy phase. Members of parliament have access to support staff, and the Budget Committees of both chambers also have small support units. However, parliamentarians do not have access to an independent research service or specialist budget analysis office as is common across OECD countries. The introduction of an independent research service for the Kazakh parliament could serve to further strengthen parliamentary budget oversight.

The **Accounts Committee** – the national audit institution – supervises and quality-assures the work of independent public audit, and is composed of members appointed by the President and both houses of parliament. It conducts its work by reference to international INTOSAI standards. The findings of the Accounts Committee are afforded a high degree of respect: its recommendations on the annual Budget Execution Report, once adopted by the parliament, have a binding status. Since 2017, the Accounts Committee also supplies an independent evaluation report on the draft budget submitted to parliament, to assist and inform the parliament’s scrutiny work. To ensure the impact of this latter innovation, the Accounts Committee should continue to focus on a narrow theme each. In general, the impact of the Accounts Committee’s work could also be made more transparent by publicly tracking the executive response to audit recommendations. Its independence could also be underpinned through passage of a specific law bringing Kazakhstan in line with the principles of the Lima Declaration on independence of supreme audit institutions.

Kazakhstan has made improvements in **budget transparency**, in line with recommendations of the *2016 OECD Integrity Scan*. In particular, there have been important developments in recent years in relation to access to information, the development of an online “Open Budgets” portal, and the introduction of Citizens Budgets and central guidelines for their compilation. These represent steps forward for budget transparency in Kazakhstan. In common with the experience of other countries, these new initiatives need to evolve so that they are designed to anticipate and support the needs of users and function effectively as tools which improve budget transparency, engagement and accountability. These developments should be complemented by further developments to budget documentation in Kazakhstan which improves its comprehensiveness, in line with international standards.

In terms of **citizen engagement**, the introduction of multi-stakeholder “public councils” within each ministry is an innovative development with significant positive potential. At this early stage of implementation, the successes of public councils have been uneven: government bodies, including the MNE, should actively disseminate the lessons of the success stories (such as Almaty city) to other areas through developing guidelines for public councils that ensure their political independence. Effective public councils, together with Ministerial meetings and blogs, provide ideal tools for soliciting civil society views on budget priorities as part of an elaborated *ex ante* budget phase (see earlier recommendation).

The introduction of **gender budgeting** is at early, explorative stages in Kazakhstan. Some elements of the public governance framework – including the existence of a central institution to lead on its implementation – provide strong foundations for the introduction of gender budgeting. Initial efforts are focussing on incorporating a gender dimension into

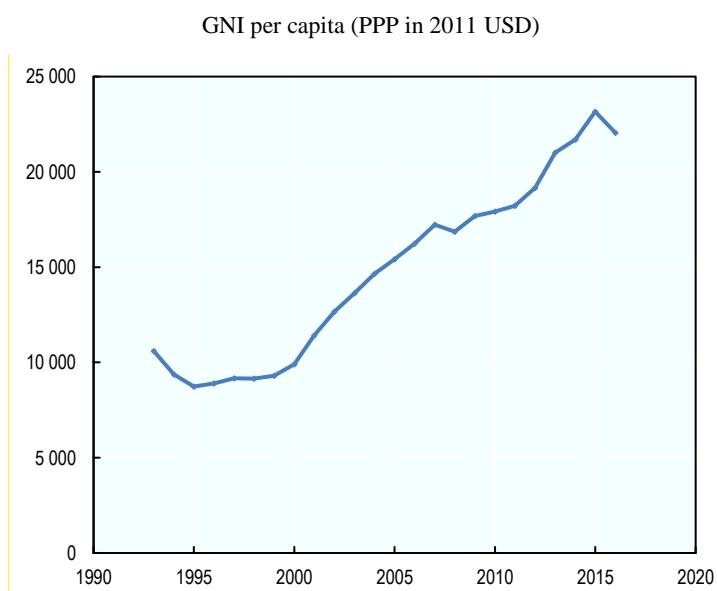
the planning and performance framework. Kazakhstan has taken positive steps since 2016 to advance this agenda. For example, the Decree of the President of the Republic of Kazakhstan dated December 6, 2016 No. 384 approved an overarching Gender Equality Strategy (“the Concept of Family and Gender Policy in the Republic of Kazakhstan until 2030”). Suggested areas of focus would include clearer, more systematic mainstreaming of the national gender equality strategy within ministry strategic plans, going beyond obvious “gender-related” programmes to include all major programmes. Beyond this, Kazakhstan could further strengthen its application of gender budgeting practices across the budget cycle, in particular through the introduction of *ex ante* gender impact assessment; and a Gender Budget Statement illustrating how the annual budget supports national gender equality goals.

1. Policy and Institutional Context for Budgetary Governance

1.1. Economic and developmental context

There has been profound transformation in Kazakhstan, both economically and socially, since the country declared independence in 1991. The transition years were turbulent and tough on Kazakhstan, with a 31% contraction of real gross domestic product (GDP) in the first four years, hyperinflation, and the loss of 1.6 million jobs throughout the 1990s. However, the economic recovery since the 1990s has been remarkable, with real GDP growth averaging almost 8% per annum and the creation of 2.3 million jobs. At the same time, income has grown dramatically, with gross national income (GNI) per capita more than doubling between 2000 and 2016 in purchasing power parity (PPP) terms and two Kazakhs out of three are now satisfied with their standard of living.

Figure 1. Income has grown dramatically in Kazakhstan since the year 2000



Source: (World Bank, 2018[2])

In 2012, the President of Kazakhstan set the overarching objective of Kazakhstan becoming one of the 30 most developed countries in the world by 2050. Under this overarching

objective, the Kazakhstan 2050 Strategy sets priorities for economic, social and political development (see Box 1).

Box 1. Kazakhstan's vision for 2050

In December 2012, President Nursultan Nazarbayev presented the vision of Kazakhstan for 2050 and the strategy which is to serve as the foundation of Kazakhstan's development over the coming decades. The vision for 2050 calls for widespread economic, social and political reforms. The "main goal is to join the group of 30 most developed countries" by 2050.

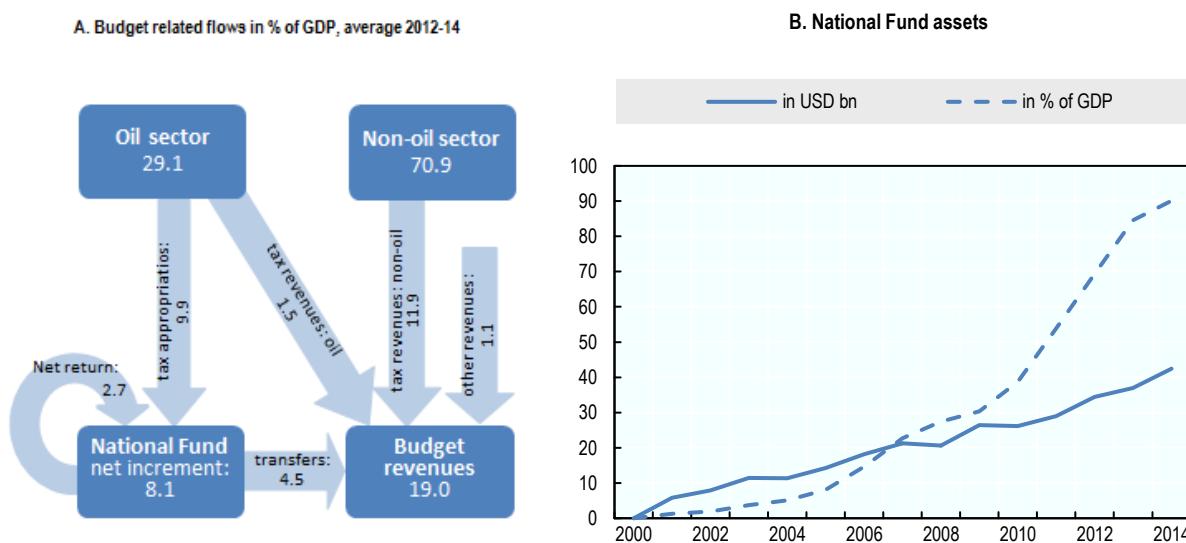
This was followed, in January 2014, by the presentation of a plan to achieve the vision in a speech entitled "Kazakhstan's way – 2050: Common Aim, Common Interests, Common Future". In this State of the Nation address, President Nazarbayev outlined two stages of the 2050 strategy. The first stage covers the period until 2030, during which Kazakhstan aims to make a modernisation leap. The second stage covers the period from 2030 to 2050, when the focus will be on sustainable development through growth of the knowledge economy. During this address, President Nazarbayev also outlined 10 key projects to be implemented, to help deliver the 2050 strategy.

In May 2015, President Nazarbayev announced "100 Concrete Steps to Implement Five Institutional Reforms". The concrete steps are grouped under the following five institutional reforms: 1) formation of a professional state apparatus; 2) the rule of law; 3) industrialisation and economic growth; 4) identity and unity; and 5) formation of an accountable government.

Economic growth since the 1990s has been fuelled by growth in the oil and gas sector. This sector remains important for Kazakhstan's economy, accounting for a sixth of GDP. Taking related activities into account, the oil and gas sector contributes as much as 30% of GDP, almost a third of budget revenues and close to two-thirds of exports.

Managing Kazakhstan's significant oil wealth is one of the authorities' main policy challenges. A National Fund (NF) was established in 2000 as both a stabilisation fund and a savings fund (International Monetary Fund, 2017^[3]). This reduces the government's dependence on oil and gas revenues and helps avoid unintended economic consequences, such as "Dutch disease"^[1]. The NF is managed by the National Bank of Kazakhstan (NBK).

The value of the NF has increased substantially since its creation, as a result of high transfers and investment returns (See Figure 2). Most of the fund is denominated in foreign currencies, and the portfolio is managed by foreign companies (OECD, 2016^[4]). The intention is to move toward international principles of good management which should yield further benefits including enhanced transparency and sustainability.

Figure 2. Oil revenues fuel the National Fund and the government budget

Note: Assets of the National Fund as share of GDP increased by 4.5 percentage points per annum during 2012–14, reflecting annual increments of 8.1% of GDP and the mathematical impact of GDP growth on the stock of assets.

Source: (OECD, 2016^[4]) and (International Monetary Fund, 2017^[3])

As noted in the *OECD Multi-dimensional Review of Kazakhstan* (2016), “Annual guaranteed transfers from the NF to the budget of the central government amount to USD 8 billion plus or minus 15% depending on the phase of the economic cycle. In addition, targeted transfers can be made by presidential decree for socially significant projects if alternative funding sources are insufficient. For example, during 2014–15, targeted transfers of USD 5.4 billion were made mainly to support the recovery of the banking sector, to provide bank lending to small and medium-sized enterprises (SMEs) and to finance infrastructure projects. For the period 2015–17, annual transfers of USD 3 billion supported sustainable economic growth and employment within the new State Programme of Infrastructure Development (*Nuryly Zhol*). Transfers from the NF are possible as long as its assets remain above 30% of GDP at the end of each financial year and annual expenditures on public debt service do not exceed 4.5% of assets managed. The overall framework ensures steady budget support, while providing sufficient flexibility to deal with transitory shocks to the economy, and the USD 8 billion rule governing transfers from the oil fund to the budget is consistent with the permanent income approach (World Bank, 2013^[5]).”

Kazakhstan’s reliance on natural resources and its geographic position both expose it to potential external shocks. Indeed, large oil-related flows have challenged macroeconomic and financial stability in the past, mainly through large exchange rate devaluations and instability in the banking sector. Fluctuations in raw material prices, the economic performance of its main trade partners (in order of importance, the European Union, the People’s Republic of China and the Russian Federation) and geopolitical tensions have important effects on economic performance. Kazakhstan is landlocked, which makes it dependent on its neighbours for the efficiency of logistics networks. Ties with the Russian

Federation are strong and further sustained by the creation of the Eurasian Economic Union in January 2015.

Sources of growth beyond natural resource sectors remain under-developed. With labour force participation at almost 80% and unemployment at 4%, there is little scope for further activation of workers. However, employment is concentrated in the least productive sectors, especially agriculture, which employs 24% of the workforce but produces only 5% of GDP. Shifting labour to more productive sectors has the scope to boost GDP per capita (OECD, 2016^[4]).

The dominance of the public sector constrains investment and dynamism. Public and state-owned entities still account for around a third of GDP. Strong price controls in a number of markets, discretionary intervention by state actors and limited competition constrain opportunities for new entry and innovation. A privatisation programme is being implemented and legislation adopted in 2015 limits the extent to which state-owned enterprises can intervene in certain sectors.

Diversification has progressed modestly but faces multiple obstacles. Manufacturing and knowledge-intensive services have experienced growth in employment and productivity since 2011 but remain small. The market structure still limits competition and contestability, and there is ample room to lower regulatory burdens and improve the business climate (OECD, 2016^[4]).

1.2. Legal and Constitutional Framework and the direction of recent reforms

The legal framework for budgeting and public financial management emerged following the declaration of independence in 1991. It comprises relevant laws in the areas of budgeting, regional governance, state auditing, anti-corruption and disclosure of public information.

Under the 1995 Constitution the Parliament of Kazakhstan, comprising an upper house (Senate) and a lower house (Majilis), has the power to approve or amend the national or “republican” budget. The annual law "On the Republican Budget" is submitted to parliament no later than 1 September. Consideration of the Republican Budget takes place in separate meetings of the two Chambers, with sequential consideration first in the Majilis and then in the Senate, and the budget approved by 1 December. In addition to consideration by the two chambers, the annual budget, financial statements and audit reports are scrutinised by the Committee on Finance and Budget and by sectoral committees (see Section 4.1 for further information).

The government exercises executive power in respect of the budget, developing fiscal and economic policies, preparing and submitting the budget to Parliament, executing the budget and reporting back to parliament on its execution. Macro-economic policy and strategic planning are the responsibility of the Ministry of National Economy (MNE), while budget formulation, execution and financial reporting are the responsibility of the Ministry of Finance (MoF). The budget package presented to parliament includes a Forecast of Social and Economic Development (FSED) including the main fiscal parameters of the budget; strategic plans of the ministries and the main budget document. An additional explanatory note provides a narrative description of the fiscal outlook and explains the allocations to, and objectives of, the budget programmes (see Section 3.1 for more details).

1.2.1. Budget Code

The Budget Code (2008) is the main legal document governing the budget process. It regulates the budget process across all levels of government and has reference standards for sub-legal regulatory acts governing functions such as, public procurement, and state audit and financial control, which are subject to separate laws. However, neither extra-budgetary funds nor tax expenditures are included within the scope of Budget Code. The coverage of the Budget Code is outlined in Figure 3.

Figure 3. Coverage of the Kazakhstan Budget Code

BUDGET SYSTEM	BUDGET PLANNING	BUDGET EXECUTION
<ul style="list-style-type: none"> ▪ Principles of the budgetary system ▪ Types and levels of budgets ▪ Budget structure ▪ Central and local governments reserves ▪ Formation and use of the National Fund ▪ Types of budget programs ▪ Interbudgetary relations between the levels of budgets ▪ Distribution of revenue and expenditures between the levels of budgets ▪ Issues of Budget Commissions 	<ul style="list-style-type: none"> ▪ Development of the Forecast of Social and Economic Development ▪ Development of strategic plans, approaches to the budget programs formation ▪ Contents of budget requests ▪ Procedure for reviewing draft strategic plans, budget programs and budget requests ▪ Issues of budget investments planning ▪ The process of forming the draft budget, its consideration in Parliament (and local representative bodies) ▪ Process for approving budgets 	<ul style="list-style-type: none"> ▪ Budget execution issues ▪ Updating and adjusting budgets ▪ Budget sequester ▪ Budget monitoring ▪ Evaluation of results ▪ Financial and budget reports ▪ Preparation and approval of annual reports on budget execution ▪ Preparation of the report on the formation and use of the National Fund ▪ Issues of public debt and borrowing

Source: (Government of Kazakhstan, 2018[6]).

The Budget Code sets out 14 budgeting principles (see Box 2) and is a comprehensive and detailed document describing the mechanisms for the preparation and execution of the republican budget, and for the financing and uses of the NF.

Box 2. 14 Budgeting principles set out in Kazakhstan's Budget Code

1. Unity, unified budget classification and budget procedures
2. Completeness - inclusion of all receipts and expenditures and the prevention of netting off
3. Realism - budget indicators are consistent with the approved (adjusted) fiscal parameters
4. Transparency - mandatory publication of strategic plans, budgets and reports on their implementation, including the revenues and expenditures of the National Fund
5. Consistency - observance of previously adopted budgetary decisions
6. Effectiveness i.e. a budget aimed at achieving results set out in strategic plans, territorial development programmes and budget programmes;

7. Independence - operational autonomy of sub-national government to retain their own revenues and to be adequately funded for devolved responsibilities
8. Continuity - in respect of multi-annual commitments;
9. Reasonableness - budget basis in law;
10. Timeliness - prompt crediting of revenues, transfer of funds to sub-national governments, processing of payments and recognition of commitments;
11. Cash Unity - all receipts and payments are made through the single treasury account;
12. Efficiency - achievement of results at least cost;
13. Responsibility - of responsible officials to comply with relevant legislation;
14. Targeting and purposive character - the use of budget funds to achieve performance goals.

1.2.2. Fiscal Rules and the National Fund (NF)

Clear fiscal objectives, including legally-grounded fiscal rules, are helpful to governments seeking to pursue a sound and sustainable fiscal policy. Well formulated rules, and the government's adherence to them, strengthen the government's credibility. In resource-rich countries such as Kazakhstan, such rules can also help to ensure that natural resource endowments are used prudently.

Kazakhstan includes a limited set of fiscal objectives in the Budget Code. In addition, the rules governing the operation of the NF, and the amounts that can be transferred to the budget, effectively constitute additional fiscal rules. Until 2016 the key fiscal indicator that guided the development of the budget was the budget deficit. This was 3.1% in 2017, forecast to decline to 1% of GDP by 2020. However, excluding transfers from the NF, the deficit was much larger, exceeding 10% of the budget in 2017. The balance of funding came from drawing down resources from the NF; over the medium and longer term, such an approach would run the risk of being unsustainable.

In 2017, the Budget Code was amended to include specific targets to reduce the non-oil deficit as a percentage of GDP (from 12% in 2017 to 7% by 2020 and 6% by 2025). The MNE is responsible for monitoring and reporting on this.

In parallel a new “Concept for the Formation and Use of the National Fund” was adopted in 2016, with the aim of stabilising the NF and reducing budgetary dependence on oil revenues, which have in the past accounted for more than 40% of total budget revenues. It establishes a number of rules regarding maintenance of the NF and the size of transfers to the budget as follows:

- Upper monetary limit on the amount that can be transferred from the National Fund to the republican budget (KZT 2 000 billion per annum by 2020).
- The total value of the NF should not drop below 30% of GDP.
- Total public debt, including the debt of SOEs, should not exceed the assets of the NF.

These rules concerning the maintenance and operation of the NF effectively introduce a new discipline to fiscal policy. To be effective, such rules would need to be complemented with additional mechanisms to ensure the value-for-money of existing allocations and to help identify areas for reallocation of existing resources. This latter topic is addressed in Section 2.3.

1.2.3. Sub-national government budgets

In Kazakhstan there are three levels of sub-national government each with budgetary powers. The regions (*oblasts*) and major cities (cities of republican significance) plus the capital form the first layer, the second layer is made up of districts (*rayons*) and major municipalities, while the third layer is made up of villages and rural settlements (*auls*).

Decentralisation is an important priority within Kazakhstan's national institutional transformation agenda. According to the Constitution (clauses 85, 86 and 87) sub-national budgets are independently developed by local governments (*akimats*) and approved by local representative bodies (*maslikhats*). The 100 Steps programme also included one step to make local governments of villages, *auls*², and towns responsible for their own budgets.

The recent election of local executives (*akims*) at the village and rural community (*aul*) level, was an important step towards fulfilment of the government's commitment to increase local decision-making and create self-governing entities at village and rural community level. However, the election process was indirect and with certain limitations with the result that *akims* are seen as part of the overall executive system, representing the President and Government in their administrative units.

The taxation powers of local governments are very limited, since taxation is governed by the Tax Code and tax administration is centralised, and sub-national governments remain highly dependent on central government which finances approximately 60% of sub-national government spending. This is provided by central government in the form of revenue assignments, targeted transfers and equalisation grants. The system of equalisation grants is based on the principle that there should be equal provision of common services across the country.

In more general terms, the budgeting principles that are set out in the Budget Code are applied with necessary changes at regional and local levels, as indicated in the relevant sections throughout this report. Across OECD countries and further afield, ensuring the effective decentralisation of budgeting and service-delivery, while retaining fiscal discipline, control and integrity, is a major challenge. Ensuring sound multi-level budgetary governance is a complex and multi-faceted subject, which goes beyond the specific focus of this report, although specific points are indicated where they arise.

1.3. Institutional roles and responsibilities

1.3.1. Main institutions and their responsibilities

The Republic of Kazakhstan is a unitary state with a presidential form of rule. The Constitution of the Republic, together with Constitutional Law, set out the status and powers of the President of Kazakhstan. The President determines priorities for Kazakhstan's development in an annual address. These priorities are taken into account when the Republican Budget is being prepared.

The **Ministry of National Economy (MNE)** is the central authorised body for state planning. It exercises leadership and inter-sectoral co-ordination in the field of strategic and economic planning, elaboration and formation of budgetary policy, and formation and implementation of state policy relating to regional development. The MNE also has responsibility for producing the Forecast of Social and Economic Development (FSED).

The **Ministry of Finance (MoF)** is the central authorised body for budget planning, budget execution, accounting, budget reporting and, within its competence, local budgets, and the

National Fund of the Republic Kazakhstan on the basis of the report of the National Bank of the Republic of Kazakhstan. According to Article 71 of the Budget Code, the Ministry of Finance prepares the Republican Draft Budget and submits it to the Republican Budget Commission.

Further information on the differential roles of the MNE and MoF in budgeting is provided in Figure 1.4.

Figure 4. The different roles of the MNE and the MoF in budgeting

MINISTRY OF NATIONAL ECONOMY	MINISTRY OF FINANCE
Forms fiscal policy and the policy of interbudgetary relations	Executes budget planning and execution
Develops the Forecast of Social and Economic Development of the country for 5 years,	Provides spending limits for ministries for 3 years
Projects budget parameters for 3 years (income, expenditure, deficit),	
Projects the National Fund parameters	
Prepares a conclusion to the drafts of strategic plans and budget programmes of ministries	Prepares the conclusion to the budget requests of ministries
Introduces proposals for the use of the National Fund	The working body of Republican Budget Commission Provides for the submission to RBC of budget requests, draft strategic plans and budget programs
Develops the draft Law on Guaranteed Transfer from the National Fund	Forms the draft of the republican budget Develops the draft Law on the Republican Budget

Source: (Government of Kazakhstan, 2018[6])

The **Republican Budget Commission (RBC)** is chaired by the Prime-Minister of the Republic of Kazakhstan. The Prime-Minister of the Republic of Kazakhstan also appoints its members. According to the Decree of the Government #10 (dated 15 January 2018) “On the Republican Budget Committee” the members of the Republican Budget Commission are:

- The Chair of the Committee on Finance and Budget of the Senate of the Parliament of the Republic of Kazakhstan;
- The Chair of the Committee on Economic Development and Entrepreneurship of the Senate of the Parliament of the Republic of Kazakhstan;
- The Chair of the Committee on Finance and Budget of the Majilis of the Parliament of the Republic of Kazakhstan; and
- The Chair of the Committee on Economic Reform and Regional Development of the Majilis of the Parliament of the Republic of Kazakhstan.

Members consider budget applications, draft strategic plans, budget programmes of budget programme administrators and the draft Republican Budget, before it is tabled to the Parliament of the Republic of Kazakhstan. The draft law on the Republican Budget is submitted to the parliament no later than 1 September each financial year.

The **Parliament of the Republic of Kazakhstan** has two houses; the upper house (Senate) and the lower house (Majilis). The approval of the Republican Budget, and any modifications to it, takes place in a separate meeting of the Chambers by a sequential consideration first in the Majilis and then in the Senate no later than 1 December of each financial year – see Section 4.

The **authorised body for internal state audit** is an agency of the Ministry of Finance of the Republic of Kazakhstan that exercises, within the competence of the central executive body, realising and controlling functions in the sphere of internal state audit and financial control, state purchases, state property, audit activities, accounting and financial reporting. It also reviews the reasons for violations of legislation on the performance of the republican and local budgets and performs control over the execution of decisions that follow from control activities.

The **Accounts Committee** for Control over Execution of the Republican Budget (Accounts Committee) is the supreme authority of state audit and financial control, executing external audit and financial control over the execution of the republican budget. It is directly subordinate and accountable to the President of the Republic of Kazakhstan. The Accounts Committee assesses and verifies the effective and lawful management of national resources.

A summary of the main institutions involved in the budget process and their role is provided in Figure 5 below.

1.3.2. Oversight of public finances

Independent oversight of financial management is provided by the Accounts Committee of the Republic of Kazakhstan, which is the country's supreme audit institution (supreme authority of state audit and financial control). Its mandate is set out the Law on State Audit and Financial Control, which establishes that the work of the Accounts Committee is independent, understood as the interdiction of any interference in the performance of state audit and financial control (article 6). At the same time the President of the Republic, based on the Constitution, appoints head of the Accounts Committee and two of its members for a period of five years, while three additional members are named by each of the chambers of the Parliament (making a total of nine members), and the President approves the Committee's general method of work, the size of its staff and other aspects of its activity, and can request specific audits. The fact that the head of the supreme audit institution can be removed without legislative or judicial approval may be perceived as limiting its *de facto* independence – see Section 4.2.

With regard to independent scrutiny of macro-fiscal policy, Kazakhstan does not currently have an independent fiscal council, such as exists in an increasing number of OECD countries. The OECD Recommendation on Budgetary Governance calls on governments to “consider how the credibility of national budgeting – including the professional objectivity of budget forecasting, adherence to fiscal rules, longer-term sustainability and handling of fiscal risks – may also be supported through independent fiscal institutions (IFIs) or other structured, institutional processes for allowing impartial scrutiny of, and input to, government budgeting” (principle number 10). The Economic Research Institute (ERI) is an agency under the aegis of the MNE, which is assigned specialist functions including in the area of economic analysis in support of the country's macroeconomic development. Should Kazakhstan decide to strengthen capacity to carry out independent assessment of adherence to fiscal rules and macro-economic scrutiny one possible approach

would be to expand the existing functions and independence of the ERI consistent with international good practice with regard to IFIs.

Figure 5. Major institutions involved in the budget process



1.4. Recent Reforms and Future Directions

1.4.1. Progress to date

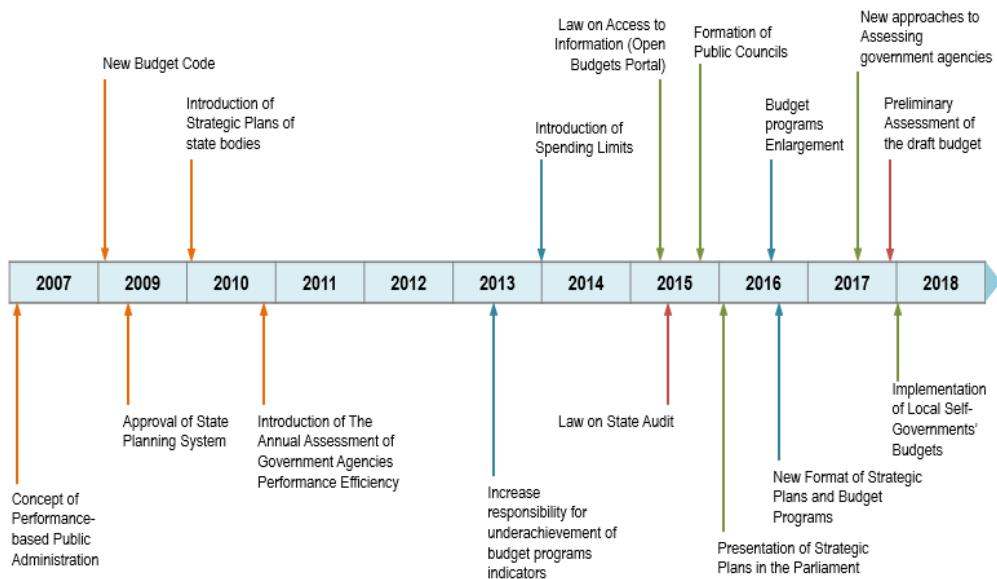
Kazakhstan has been active in reforming and modernising its budget systems over the past decade, with the objective of meeting OECD norms and international standards, consistent with Kazakhstan's goal to become one of the top 30 developed states of the world by 2050. As indicated above, a flagship "100 Concrete Steps" programme was adopted in 2015 to improve the transparency, accountability, and efficiency of public administration as well as to support economic diversification and competitiveness. The main reform initiatives and achievements of the past decade, including continuing reform initiatives, are outlined below.

- Kazakhstan adopted **accruals-based accounting** in 2009 using International Public Sector Accounting Standards (IPSAS), and by 2013 all government entities were using the accruals basis (see Section 3.3 for more information). In parallel with the implementation of budget management on an accrual basis, the cash approach remains, which is still of great importance for financing state operations. In 2017, norms were introduced into the Budget Code of the Republic of Kazakhstan (which will take effect from 01/01/2020 for the republican budget, and from 01/01/2023 for local budgets) to supplement the draft budget with accruals information by compiling consolidated financial forecasts. This reform is currently being implemented.
- Kazakhstan has introduced **results-based budgeting**. The approach was developed over several years and has been fully implemented at national level since 2016. The

approach is applied across all line ministries and covers all expenditures. Results-based budgeting is in the process of being extended to agencies and sub-national government, including agreements between national and local executive bodies on the performance of fiscal transfers (see Section 2.2 for more information).

- A general law on **access to information** requires government departments to put all regulatory acts on publicly accessible official websites. From 2012, budget execution reports have been available on the Ministry of Finance websites and from 2017 the Ministry of Finance is required to disclose additional information on the budget formulation, execution and audit (see Section 4.3 for more details).
- Under the “100 Concrete Steps” programme the government is increasing **devolution** of decision making to the local level, with the objective of improving accountability and strengthening citizen’s voices. A new lower tier of local government has been established in rural areas, *auls*, villages, and cities with regional significance, alongside mechanisms to allow citizens to participate in discussions around budget priorities in regional centres and cities of republican significance.
- Changes have been made to the operation of the **National Fund** in order to safeguard its assets and prevent further depletion, as explained in Section 1.2.
- A new system for **auditing and public spending** has been introduced, promoting the risk-based audit practices similar to those of leading international audit companies and moving away from the traditional system of pre-audit and detailed operational control. A new Law on State Audit and Financial Control was enacted in 2015 and under the new system the Accounts Committee carries out three types of audit:
 1. Financial statement audits - assessments of the reliability and validity of financial statements, as well as the financial condition of the object being audited;
 2. Efficiency audits - evaluation and analysis of the activities of the object being audited in terms of efficiency, economy, productivity and effectiveness.
 3. Compliance audits - verification of the extent to which the object being audited complies with the laws of the Republic of Kazakhstan, as well as relevant acts of the quasi-state sector.
- Kazakhstan is in the process of implementing reforms designed to improve the **accessibility of budget documents** and to promote **greater consultation** with the public and civil society organisations. The Civil Budget is being developed as a tool to make the budget more understandable and accessible to the public, including budgets at local and regional level. These will include charts, diagrams and explanations designed to elucidate the budget. Kazakhstan is also in the process of establishing public councils to enable civil society organisations and individual citizens increased voice in the budget process (see Section 4.4 for more information).

Figure 6 summarises the budget reforms which have been implemented over the last decade.

Figure 6. Budget reforms in Kazakhstan since 2007

Source: (Government of Kazakhstan, 2018[6])

1.4.2. Assessment and future orientations for reform

Kazakhstan has made impressive progress in solidifying the legal and institutional basis for budget reform, in line with good practice internationally. In particular the Budget Code is a firm anchor for the budget process and the institutions involved have clear and well-defined roles. Some elements of the reform agenda are still undergoing evolution, in line with the international experience that reform in one area of budgetary governance – e.g. fiscal rules and a stronger fiscal constraint – necessitates reforms in other areas – e.g. programme evaluation and performance-based re-prioritisation.

To move further in the direction of the OECD Recommendation on Budgetary Governance, the following lines of future reform seem the most relevant for Kazakhstan:

- consideration of how the credibility of adherence to fiscal rules, which target the underlying non-oil budgetary balance, and fiscal planning could be enhanced through independent and professional perspectives being brought to bear upon the process; for example through building upon the established role and independence of the ERI;
- assessment of the potential for an expenditure growth rule, which is increasingly used in OECD countries, and also has the benefit of providing incentives for a reform of the tax base, which would be in line with Kazakhstan's broader reform agenda;
- a careful review of multi-level fiscal governance arrangements, to ensure that the benefits of more localised, responsive service delivery are matched with budgetary discipline, central co-ordination and financial control, in the interests of integrity and transparency;

2. Strategic Planning and Budgeting

2.1. Medium-term budgetary management

2.1.1. Strategic context for medium-term budgeting

Developing a strong medium-term perspective within the budget process has considerable value in maintaining aggregate fiscal discipline, aligning spending with national objectives, setting boundaries for the main categories of expenditure, and providing a stable framework within which ministries can plan activities.

In Kazakhstan the “Development Strategy of Kazakhstan until 2050” provides a long-term planning perspective. Supporting this, the 10 year Strategic Development Plan (SDP), currently to 2020, sets out in more detail the goals, priorities, strategy and expected results with their indicators and targets.

The initial phase of budget development in Kazakhstan is the preparation of the annual Forecast of Social and Economic Development (FSED), prepared by the MNE. The FSED is a rolling five-year forecast that takes its direction from the Development Strategy of Kazakhstan until 2050, and the Strategic Development Plan until 2025 and the President’s annual message. Macroeconomic assumptions combine forecasts of internal factors such as population, labour participation and inflation rates, and external factors such as the growth of the world economy and trade, commodity prices and exchange rates. GDP is forecast using the production method and carried out in accordance with the System of National Accounts (2008). Projections for different sectors of the economy are prepared by line ministries and agencies, and reflect the main directions of economic policy and sector priorities for new spending.

In recent years the FSED, strategic plans and the budget itself have been subject to multiple revisions during the year as economic and fiscal conditions have been subject to rapid changes. For example the FSED for 2016-20 was revised 3 times due to changing global economic conditions. Under normal circumstances, the FSED is revised just twice a year.

Kazakhstan has a system of three-year rolling budgets, with the outer two years representing indicative rather than binding commitments. However this medium term budget is not currently a main focus of discussions around strategic resource allocation. The Medium Term Expenditure Framework (MTEF) has the potential to be developed into a more significant tool for strategic resource allocation, complementing the FSED by providing a more detailed rationale for decisions to shift resources between sectors and within sectors on the basis of alignment with policy priorities.

The strategic planning process at the sector level was overhauled and simplified in 2012-13. One of the main objectives of the overhaul was to improve the alignment of strategic plans both with the Strategic Development Plan and with the budget. Ministry strategic plans now include descriptions of budget programmes, together with key performance indicators and targets. While this represents a significant achievement, the quality of the strategic plans and the design of budget programmes is uneven and the strategic plans do not manage to fully reconcile strategic objectives with hard budget constraints.

2.1.2. Strategic planning and budgeting at sub-national level

Efforts are currently underway to improve the strategic alignment of the budget at local government level. The process of preparing a Forecast of Social and Economic

Development (FSED) exists at the second tier of government, i.e. the *oblast*, the city of republican significance and the capital Astana. At this level of government the FSED contains:

- trends, priorities, target indicators and indicators of social and economic development
- a forecast of social and economic development
- budget parameters, including forecast revenues and expenditures, new expenditure initiatives and a list of priority budgetary investments.

The forecasts are developed by the local authorised body on state planning and approved by the local executive. The FSED of the Republic of Kazakhstan, having been approved by the Republican Budget Commission at the first stage of the project, and approved by the Government at the second stage³, is used as a basis for the FSED for the regions, the city

of the republican significance, and the capital Astana. 2.1.3. Summary assessment and recommendations

Frequent updates to an economic forecast help improve its accuracy, but can compromise the ability of stakeholders to track actual performance against original expectations, and thus transparency and accountability. In the case of Kazakhstan, limiting revisions to once a year at the mid-year point would facilitate greater transparency and accountability. It would also align the frequency of the forecast with many OECD countries that produce an initial forecast to inform the budget, and a mid-year forecast update.

As part of the proposed new spring phase of the budget preparation process, the three-year rolling forecasts should provide a normative framework to guide the evolution of the public finances and to support planning within ministries, and taking account of clarified fiscal rules.

2.2. Results based budgeting in Kazakhstan

After several years of preparatory design work, Kazakhstan introduced “results based budgeting” in 2016, based on a 2013 amendment to the Budget Code (2008). The principal components of the new system are as follows;

- A 5-year FSED incorporating fiscal projections is developed on a rolling basis annually,
- Streamlined strategic and operational plans for ministries and other state bodies,
- Three-year medium term budget plans, prepared by ministries and agencies on a rolling basis, including performance indicators and targets,
- An explanatory note, forming part of the budget package presented to parliament, explaining past and planned programme performance, issues and proposed actions to achieve performance goals,
- Organisation of the budget on the basis of programmes,
- Programme managers with increased budgetary autonomy and accountability for achieving performance goals, and
- Memorandums committing to the achievement of programme objectives.

The Budget Code (Art. 32) requires that all government ministries and agencies develop budget programmes, including their total expenditures, and including indicators of programme effectiveness, efficiency and quality.

The development of budget programmes is closely linked to the development of the 3 year budget plan and to ministry level strategic plans. Budget programmes in Kazakhstan are based on major state functions and reflect the organisational structure of the government and the public services that they provide. Several types of programme are defined in the Budget Code. These include programmes for the provision of public services, transfers between levels of government, capital investments, credits etc.

Programmes are divided into “current” and “development” programmes, corresponding to the distinction in the unified budget classification. Budget programmes may be further broken down into sub-programmes and activities, subject to the performance measures and results being consistent with those of the main budgetary programmes.

While the MNE provides some central guidance and oversight of the development of strategic plans and budget programmes, in practice responsibility for the definition of programmes, performance indicators and targets is largely devolved to line ministries and agencies. As a result, there is wide variation across ministries both in the number of programmes and in the quality of performance indicators and targets. For example, the MNE is responsible for more than 15 programmes while some smaller agencies have only one programme with no sub-programmes.

Information about budget programmes and performance information is included in the strategic plans of ministries and in an additional “Explanatory Note” that accompanies the main budget document. The explanatory note contains a brief description of the proposed budget programmes, the rationale for changes to the base cost, analysis of results achieved and the reasons for significant changes to budget programmes as compared to the previous year. The FSED, the strategic plans, budget and the explanatory note together form the main elements of the budget package, which is discussed and debated in parliament by the relevant finance and sectoral committees.

Results-based budgeting is in the process of being extended to local government. The regions (*oblasts*) and important cities are already required to develop budget programmes, approved by the relevant local elected bodies. For targeted transfers to sub-national governments, the performance indicators and targets are reflected in local budget programmes.

2.2.1. Numbers and types of budget programmes

The 2016 budget was broken down into 270 programmes, spread across 33 government bodies, giving an average of around 8 to 9 programmes per ministry. This was a substantial reduction in number compared to the previous year when there were more than 500 programmes. However, the number of programmes within each ministry or agency varies widely; with some ministries like MNE and the Ministry of Industry and Trade having a large number of programmes (more than 30) while other entities, such as the Constitutional Council and the Accounts Committee, have just one or two programmes each.

2.2.2. Performance indicators

The quality of indicators and targets varies considerably across ministries and agencies. Ministries with fewer programmes generally seem to have better quality KPIs, while a number of policy ministries (e.g. innovation, energy, education and science) have found it challenging to come up with good quality, relevant indicators. The MNE plays the main co-ordinating role within government, including alignment of programmes that together

contribute to the achievement of cross cutting goals. The MNE itself has a number of high level, cross-cutting indicators, such as the achievement of budget balance and GDP growth.

The performance-based budgeting reforms are supported by ongoing performance-oriented reforms of the civil service, parliamentary budget oversight and changes in audit practices. Under the 2015 “100 Concrete Steps” programme the government is committed to strengthening accountability and creating a modern, meritocratic civil service, including a transition to salary increases based on performance and results and sanctions for non-performance. The performance of civil servants will be assessed on the basis of achievement of annual objectives; the performance of state agencies will be assessed based on achievement of strategic plan objectives; and the performance of ministers and *Akims* will be assessed based on indicators of the quality of public services. An additional measure to strengthen accountability is the introduction of annual public statements by heads of state agencies on the achievement of key objectives, and publication of these reports on official websites.

2.2.3. Performance reporting and accountability

The annual report on budget execution includes detailed reports on the achievement of performance targets. Following the year end, based on reports from line ministries, the MNE prepares an opinion on each programme and the extent to which it has met its objectives and this report goes to the President for review. Results reported by line ministries are also subject to review by internal auditors.

Accountability for delivering results is further strengthened by a provision (set out in the Budget Code) that each budget programme should have a designated official administrator who is responsible for planning and execution of the budget programme, and who is liable in the event of failure to achieve the results of the budget. In addition state agency managers sign a memorandum committing the manager to deliver the programme objectives.

In spite of a strong accountability framework however, the consequences of under (or over) performance are unclear and mostly consist of closer scrutiny rather than budget cuts or the dismissal of the programme manager.

In OECD countries there has been extensive experimentation with systems and procedures to strengthen accountability for performance, both financial rewards and sanctions for individuals, and budget increases or cuts for spending programmes, based on whether or not performance targets have been achieved. A few experiments with automatic budget cuts for poorly performing programmes have been scaled back or discontinued (e.g. Korea). The number of exogenous factors affecting performance explains one reason why automatic budget cuts are rarely an effective response to under-performance, which may be due to many reasons including poor programme and policy design, poor specification of performance indicators, unrealistic targets, unforeseen risks etc. OECD countries’ experience suggests that in-depth analysis is needed to understand the reasons for good and bad performance and identify good solutions.

Similarly, experiments in using bonuses to improve performance have been largely unsuccessful. The results of performance-related pay policies in OECD countries have been surprising in many ways. Staff are less motivated than might have been expected by the prospect of more money for working better. But performance-related pay can help improve performance when it is applied properly in the right managerial context, if not because of the financial rewards then indirectly through the changes in work and management organisation needed to implement it. While there is little evidence that individual rewards

and sanction are effective in delivering improved organisational performance there are many examples where a system of strong rewards and sanction has worked against the public interest, by incentivising agencies either to set easily achievable targets, or to manipulate or even falsify performance data. Cases of fraud, while rare, generally results in substantial damage to the reputations of political leaders and erodes public trust in government. Approaches that appear to have been more successful include performance contracts between line ministries and agencies. This works best for more routine service delivery functions with clear outputs and performance measures. Individual performance agreements for very senior officials may also be effective when senior executive reputations and career progress is linked to good performance. At lower levels in the administration, individual performance objectives should be aligned to higher level programme objectives through the process of annual objective setting and appraisal for individual staff. Publication of performance information enabling comparison, for example between schools or hospitals in different regions or cities, can act as strong motivators to improve performance, especially when supported by dissemination of best practices and regular routines of performance monitoring within agencies designed to identify and respond to problems in programme execution.

2.2.4. Assessment and future orientations for reform

The performance orientation of the budget has been notably well developed over recent years. In particular there are strong links between the government's strategic goals and budget programmes at the sectoral level. Managerial responsibility for programme delivery has been clearly identified although accountability for performance is limited in practice. The quality of the design of budget programmes, indicators and targets remains uneven however, and there are wide variations in the number of programmes across different parts of government. Performance budgeting is not yet well supported by other tools of performance, specifically programme monitoring and evaluation is limited. Additionally, the practice of carrying out spending reviews, widely used in OECD countries, has not yet been adopted by Kazakhstan.

Government bodies, including the MNE, should play a stronger role in managing performance budgeting, in particular keeping data volumes manageable and ensuring effective use of data. This could include setting an upper limit on the number of programmes and identifying a small number of performance measures for closer scrutiny and attention by management. Successful approaches instituted by other countries include regular in-year performance discussions and identification of a limited set of "priority goals" that become the focus for regular attention from senior management.

Government bodies should also work to improve the quality and relevance of performance measures. The government could differentiate, for example, between service delivery programmes and policy programmes. For service delivery, there could be increased use of measures of service delivery quality and efficiency. These should also incorporate measures of citizen satisfaction. To support this process the government may also need to establish standards for service delivery, focused on the citizen experience. For policy functions, the focus could be more on milestones, outputs and economical use of resources.

Box 3. Development of quality performance indicators

The quality of performance indicators can be summarised by the acronym SMART, standing for:

- Specific
- Measurable
- Achievable
- Realistic
- Time bound

In practice, the selection of the best performance indicators also depends on good sector knowledge and judgement, and indicators may be refined improve over time through a process of trial and error. This process can be sped up through the provision of central guidance and training. A number of governments have developed detailed guidance on the development of performance indicators.

One of the most comprehensive sets of guidance is provided by the Government of the Commonwealth of Australia (www.finance.gov.au/resource-management/performance/). Other governments have developed similar guidance on the development of performance indicators in the context of evaluation, for example the Canadian Government's Treasury Board Secretariat (www.canada.ca/en/treasury-board-secretariat/services/audit-evaluation/centre-excellence-evaluation/guide-developing-performance-measurement-strategies.html). Another source of useful guidance in English is the US Performance Improvement Council, which supports the US administration in implementing the Government Performance and Results Modernization Act (<https://pic.gov/>).

Ministries could develop a stronger performance culture through regular use of performance information for internal management purposes. The practices, seen in a number of OECD countries of identifying a subset of priority goals for senior management attention and the development of “dashboards” to help senior managers track progress could usefully be emulated by individual ministries. A good example from OECD countries experience is the USA’s practice of identifying Agency Priority Goals, supported by action plans and quarterly performance management meetings and reports.

2.3. Performance monitoring, evaluation and the role of spending reviews

2.3.1. Programme performance monitoring and evaluation

Ex-ante evaluation of programmes is carried out mainly through the process of budget preparation and scrutiny of strategic plans and budget proposals by the MNE. Such evaluation is focused on the development budget (capital spending) rather than on the recurrent budget. In addition there is a formal requirement for *ex-ante* evaluation of the impact of all new laws. A multi-disciplinary approach is followed to regulatory impact analysis, with external input from academic institutions as well as analysis by the MNE of the economic and budgetary impact of all proposed new laws.

A new system of *ex-post* evaluation of spending was introduced in 2017. This shifted the focus from the exercise of financial discipline to the achievement of results, with budget programmes as the unit of analysis. Each year the budget results of 15 ministries and every

akimat are evaluated by the MNE. Ministries that are considered sensitive for security reasons are excluded from the evaluation exercise.

These evaluations are broad in scope but limited in the depth of their analysis. There is a strong focus on the achievement of output and outcome targets. Programmes are measured and compared based on meta-indicators such as the percentage of targets achieved, the percentage of budget spending achieved and the level of adherence to budget discipline. The methodology is being developed progressively to address some of the continuing challenges in respect of the quality of performance indicators and targets. From 2018, the evaluation process will also look at the appropriateness and relevance of the targets and the extent to which performance information is used by the ministries. One major limitation of the approach is that the evaluation only looks at the development part of the budget, not the administrative expenditures.

While the attention to evaluation is a welcome development, international experience indicates that in order to be effective, the evaluation framework should extend across the budget cycle, with varied and nuanced approaches at different stages. Such a systematic approach – e.g. as in the case of Chile (see Box 4) – involves, in first instance, a systematic process of *ex-ante* evaluation of proposals for new policy initiatives or programmes, including the identification of performance indicators and targets that provide an important baseline for future monitoring and evaluation. Other relevant examples include the UK practice of developing “single departmental plans” which is a more holistic approach incorporating the discipline that performance targets can only be included if supported by sufficient resources.

During programme implementation, good practice in OECD countries is to put in place management routines within line ministries and agencies to encourage regular monitoring and review of programme performance during the year. In this way problems may be identified early in the implementation of a programme and course corrections made in a timely manner. For example, the use of tools such as regular performance meetings, management, identification on a limited set of “agency priority goals” for senior management attention, and performance dashboards, are all features of the US Government Performance and Results Modernization Act of 2010. Implementation of this approach at the agency level is overseen by the White House Office of Management and Budget and additional technical support and advice is provided by the Performance Improvement Council.

Monitoring and evaluation is further supported by good quality annual reporting on the budget outturn. Line ministries and agencies annual budget execution reports should contain information about performance and results together with narrative explanations (evaluation) of the main reason for under/over-achievement that feed back into budget decision making. The UK’s annual reports and accounts provide a good example of integration of performance data into financial reports, incorporating analysis of performance. In Australia, wide variation in the quality of reports and the information contained in them led the Department of Finance, and the Australian National Audit Office, to jointly publish a [better practice guide](#) for performance information in annual reports (ANAO and Department of Finance and Administration, 2004). The guide contains practical advice on the main areas for improvement, including the performance reporting framework, data management and measurement, and explanation of results. The guide also contained a large number of good practice examples for agencies to consider and emulate where appropriate.

Classic programme evaluation is the process of *ex-post* evaluation, usually carried out at or near the completion of a programme or even later. This typically considers a broad range of issues, including the effectiveness, efficiency and relevance of a policy or programme as well as considering the quality programme management. Typically such evaluations are carried out by teams of independent experts with both technical and financial expertise. For cost reasons, a limited proportion of programmes is normally selected for evaluation each year.

In Chile the performance evaluation system is a core element of the countries performance budgeting system and the need for evaluation is embedded in the organic budget law. The Budget Department of the MoF oversees the process and has developed a number of different evaluation instruments to cover the full range of programmes while adhering to a consistent set of principles that are designed to ensure quality and impact. The main elements of the system are summarised in Box 4.

Box 4. Evaluation System in Chile – Summary

Legal Basis: State Financial Administration Law

Guiding principles of the evaluation system (independence, transparency, responsibility of Budget Directorate).

Types of evaluation (components of the Ex post Evaluation System).

Obligations for the evaluated institutions (provide information, comment on the evaluation reports, establish improvement commitments resulting from the evaluations, report the progress in complying those commitments).

No direct budgetary effects of the evaluations are established.

Components

Ex-ante evaluation of new programs

- Design of evaluation at the beginning of each new program. Established control groups, based on randomized trials whenever possible

Ex post programme evaluation

- Review consistency in design, execution and reporting of the programme, based on logical framework methodology.
- Performed by panels of 3 independent experts, selected by public tendering.

Ex post agency expenditure evaluation

- Assess consistency of the agency portfolio in relation to mission and objectives. Search for duplications, inconsistencies, opportunities to generate synergies and savings.
- Performed by consulting firms, universities, selected by public tendering.

Impact Evaluation

- Assess program effectiveness on basis of impact measures, using sophisticated evaluation techniques (CBA, CEA), control groups.
- Performed by consulting firms, universities, selected by public tendering.

Focused Evaluation

- Review cost, implementation and diagnostic that creates the public intervention.
- Performed by consulting firms, universities, selected by public tendering.

Principles

Independence: Performed by independent evaluators selected by public tender (panels of experts or universities and consulting firms).

Transparency: Results are public.

Reliability: technical quality.

Relevance: focused on improving public expenditure.

Opportunity: deliver information within the budget cycle

In Korea the programme evaluation process seeks to measure the relevance, efficiency, and effectiveness of a programme. The In-depth Evaluation of Budgetary Programmes institutionalised the in-depth evaluation process as part of the performance budgeting system. Every year, an evaluation panel is created for each of the group of cross-cutting programmes selected for evaluation. Panel members mostly come from public research

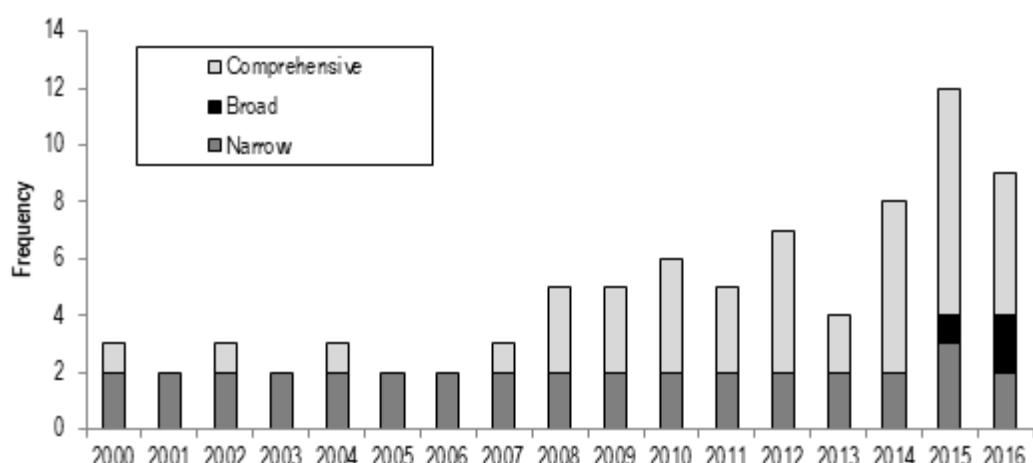
institutes and universities and since many stakeholders are involved in any given programme, the evaluation panel holds frequent meetings to collect inputs and feedback. The completed evaluation reports are considered by the central budget office, which decides whether to reflect these results in resource allocation changes or programme consolidation. Line ministries are required to report back with their follow-ups.

2.3.2. Spending reviews

An additional tool for evaluating and re-prioritising expenditure is the practice of conducting “spending reviews”. Such reviews differ from the normal process of evaluating new spending by looking critically at the justification for existing spending, which typically constitutes 80% to 90% of overall spending. Apart from identifying the scope for efficiency savings, to release funds for reallocation elsewhere (or to maintain macro-fiscal discipline), such reviews can also play a role in testing the alignment of existing spending with the government’s strategic priorities and goals.

Figure 7. Spending Reviews in OECD Countries

Analysis of the type and frequency of spending reviews 2000-2016.



Source: (OECD, 2016[7]).

As shown in Figure 7, spending reviews are widely used across OECD countries, but vary considerably in their scope and objectives. One type is a “comprehensive” spending review. This is normally carried out infrequently, for example when there is a need for a large cut in overall expenditure, or for a strategic realignment of spending to match the policy objectives of a new government. Good examples of the “comprehensive” approach are provided by the UK and Ireland, both of which used this approach to help make overall cuts during times of austerity. A more routine approach, followed in countries such as Canada, Denmark and the Netherlands, is to conduct more limited spending reviews of sector or a programme. There are also examples (such as Canada) where the government carries out horizontal reviews in areas such as spending on innovation or management of government’s fixed assets. These are driven more by performance than by fiscal objectives.

2.3.3. Assessment and future orientations for reform

Evidence-based decision making is as important in the budget sphere as in any other sphere of government policy. In the field of budgeting, evidence-based analysis should ideally be

used in the development, implementation and evaluation of spending programmes. In Kazakhstan, the evaluative part of budget analysis is limited to a broad-ranging, but somewhat shallow or one-dimensional, *ex-post* annual assessment of programme performance by the MNE, plus an external review by the Accounts Committee that includes an assessment of whether or not performance targets have been met.

In seeking to increase the use of evidence in policy making, the government should develop a richer, multi-year continuum of evaluative and performance information, using distinct but complementary processes of monitoring, evaluation, performance-budgeting indicators and spending review, and to draw upon results of these exercises across the annual and multi-annual budgetary cycles. The main elements of such an approach could include:

- *Ex-ante* evaluation or appraisal of spending programmes to include a performance-linked justification of expenditure and baseline performance measures/values that can be used for subsequent programme monitoring and evaluation.
- In-depth evaluations of a limited number of programmes each year that would include inputs from independent experts and consider a broad factors affecting programme performance, including programme design, management, funding, and the relevance of performance measures and targets.
- Spending reviews, either broad based or narrower in focus, the main objectives of which would be to identify scope for savings and to reallocate resources to match new government policy priorities.
- The Accounts Committee could also play a constructive role in improving the quality and use of performance data, developing a more evaluative perspective, focusing on such aspects as the relevance of performance indicators and targets, and the reliability of the reported data.

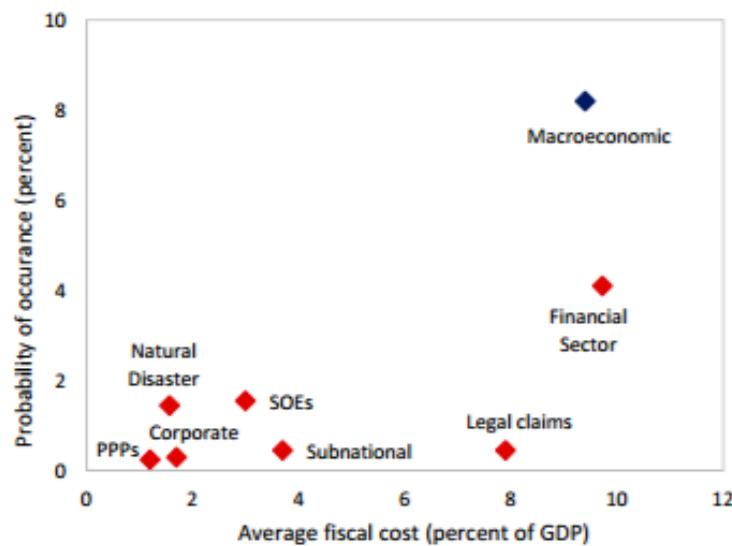
2.4. Management of fiscal risks and long-term sustainability of public finances

Kazakhstan is vulnerable to external macro-economic shocks as a result of its dependency on natural resources and its geographic position. This ties its economic performance to that of its main trade partners, the European Union, China and Russia and its exposure is further increased by its landlocked position which makes it relatively dependent on neighbouring countries' logistics networks.

Over recent years Kazakhstan has experienced a series of economic shocks that have put serious strains on the budget and depleted the reserves of the National Fund. Prudent management of public finances and strong balance sheets have been critical in enabling the government to use fiscal policy to stabilise economic activity in the short-run, for example through increased expenditure on social welfare programmes, and promoting economic growth over the longer term, for example through spending on public infrastructure and education. In the longer term Kazakhstan faces fiscal sustainability challenges arising from its dependence on natural resource revenues and demographic changes that mean the elderly population will increase from approximately 11% of the population to 15% by 2050.

Figure 8 illustrates the range of fiscal risks faced by governments and their relative probability and impact. Amongst the risks faced by Kazakhstan, macro-economic risks have been predominant, but Kazakhstan also faces rather high levels of potential exposure to other important types of risk, notably from the financial sector and from state-owned enterprises. Contingent liabilities, such as guarantees provided by the government to state-owned enterprises or to bank depositors are also significant and need careful monitoring.

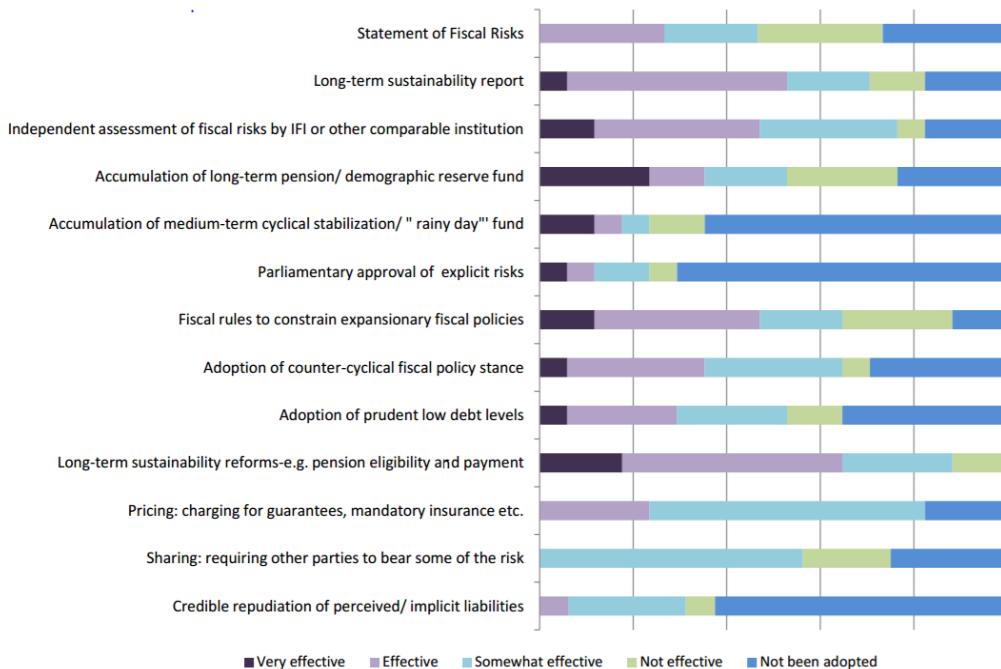
Figure 8. Fiscal Risks: Their likelihood and impact



Source: (International Monetary Fund, 2016[8])

The long-term sustainability of government finances may be affected by decisions that have little immediate impact, but have a long-term cumulative effect. Such factors include the depletion of natural resources that provide the basis for future government revenues, and changes in state pensions and other entitlements that will increase or decrease long-term liabilities. The impact of exogenous factors such as demographic change, points to value of modelling and analysis to improve understanding of the long-term sustainability of public finances and inform policy making.

OECD countries follow a number of broad strategies for managing fiscal risks and ensuring long-term sustainability of public finances. Figure 9 lists the range of strategies that OECD countries have adopted for the management of fiscal risks and long-term sustainability, together with countries' own assessment of their effectiveness.

Figure 9. Effectiveness of Fiscal Risk Management Tools

Source: Authors

Kazakhstan has already adopted a number of the strategies outlined in the preceding figure, notably the accumulation of a strategic reserve in the form of the National Fund, pursuit of low debt levels and fiscal rules that prevent expansionary fiscal policies. Kazakhstan also operates a small contingency reserve fund to cover emergencies and other unforeseen costs such as court decisions. These measures have proved their worth in recent years, enabling Kazakhstan to mitigate the effects of recent economic shocks. However, potential fiscal risks such as those associated with the financial sector, and state owned enterprises, have not been addressed so comprehensively.

Many OECD countries have adopted the practice of providing parliament and the public with analyses of fiscal risks and long-term sustainability and have further strengthened this by ensuring that this is backed up by an independent assessment. For example, Finland produces an annual “Overview of Government Risks and Liabilities” that categorises and rates risks, including risks from the financial sector, and provides information about long-term sustainability.

Other OECD countries have created special purpose reserves to deal with specific fiscal risks that they have identified such as Turkey’s Catastrophe Insurance Pool, financed by mandatory insurance payments, aimed at mitigating the fiscal risks from major earthquakes and Ireland’s long-term pension reserve, for which the government sets aside 1% of GDP annually.

2.4.1. Assessment and future orientations for reform

Kazakhstan’s prudent management of natural resource revenues provided a crucial balance sheet reserve in the period after 2014 that enabled it to prevent a severe economic downturn.

The introduction of new fiscal rules, linked to the National Fund, has helped to promote fiscal sustainability and should strengthen Kazakhstan's ability to withstand shocks in the longer term. Elements of long-term fiscal sustainability analysis, incorporating such factors as demographic change, are incorporated into strategic planning and policy development, but mostly at the level of line ministries. However, some important areas of fiscal risk remain largely out of sight, and additional steps could be taken by the government to align itself with OECD principles of budgetary governance, international public sector accounting standards and the IMF Code on Fiscal Transparency. Specifically, Kazakhstan could:

- Prepare an annual analysis of fiscal risks, classifying these by type and explaining and quantifying them (to the extent possible) to inform the budget preparation process, ideally published as part of the annual budget presented to parliament.
- Publish a report on long-term fiscal sustainability as part of the annual budget package.
- In this context, progressively include an analysis of longer-term impacts of factors beyond demographics, e.g. the Paris Agreement on climate change, decarbonisation goals and other environmental commitments.
- Maintain a central register of state guarantees and disclose state guarantees and contingent liabilities in the annual financial statements of the government, following IPSAS 19 (contingent liabilities) and the IMF Code on Fiscal Transparency.

3. Budgetary management and control

3.1. Developing and preparing the republican budget

3.1.1. Preparation of the draft republican budget

March-April: the Forecast of Social and Economic Development (FSED)

The starting point for the annual budget cycle is the preparation of the FSED draft by the MNE in April. This important document presents the government's updated economic forecasts and assumptions for the following five-year period. The FSED also contains an indication of the corresponding resourcing implications, based on latest economic projections (see Section 2.1). The FSED is presented and discussed by parliament in September, although in its final rather than draft form.

April: Determination of spending limits for budget programme administrators

Taking into account the FSED draft, the MoF prepares its initial assessment of expenditure allocations for each ministry and agency, taking account of fixed expenditures (administration and salaries), maintaining the existing level of public service activities and the scope for new policy initiatives, as well as the overall budget limitations arising from the National Fund Concept (see Section 1.2). As regards new policy initiatives, the FSED already contains an indication of the available scope, and so the prior discussions and agreements in parliament and government on this matter are reflected. In general, new measures must be aimed at (a) giving effect to new policy directions arising from the strategic and programme documents, as well as (b) accommodating cost increases and expanded policy mandates within existing programmes.

On this basis, the initial proposed allocations are disseminated to line ministries, not later than 1 May, as a basis for them to develop their formal budget requests. To this point in the cycle, the budget formation phase conforms well with OECD budget principle no. 1 which advocates “top-down” budgetary management, matching policies with available resources.

May 15 to end-July: Processing initial budget requests from line ministries

Formally, the initial draft expenditure limits are presented by the MoF to the senior administrators of the budget programmes within the various line ministries, along with a budget application pack – i.e. a set of forms for the upcoming planning period to justify the volume of expenditures and to submit additional requests. This process, which takes place in parallel with the development of draft strategic plans by the line ministries, must be completed by 15 May. It should be noted that, at this point, the “top down” nature of the budget process gives way to a strong “bottom up” phase, whereby the MoF must contend with a potentially very large volume of requests for additional resources. The analytical efforts involved in analysing and weighing the relative merits of these applications is considerable, and also makes it more difficult to adhere to the originally stated fiscal objectives.

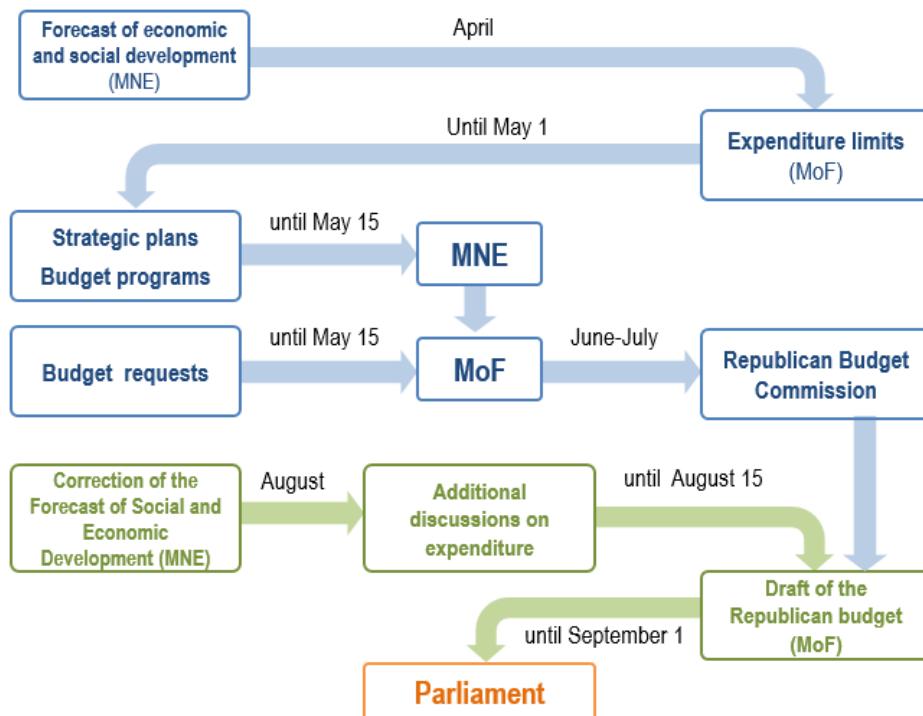
August: High-level political consideration and approval of the draft budget

Following its analysis of budget proposals, the MoF prepares the initial draft budget and submits it to the Republican Budget Commission, no later than 1 August, for its consideration. As outlined in Section 1.3, the Republican Budget Commission is a senior political forum chaired by the Prime-Minister, alongside the chairpersons of important committees of parliament. Such top-level political oversight lends extra authority to development of the draft budget, although it should be noted that the involvement of parliament chairpersons directly during the preparation of the draft budget is not standard international practice; and may indeed involve some tension with the parliament’s subsequent role in scrutinising the draft budget (see Section 4.1).

After consideration by the Republican Budget Commission, the draft budget is submitted to the government by 15 August. The official draft budget is finally submitted to the parliament for its consideration by 1 September (see Section 4).

A summary of the budget development process is provided in Figure 10 below.

Figure 10. The process for preparing and developing the Draft Republican Budget



Source: (Government of Kazakhstan, 2018^[6])

3.1.2. Structure of the draft budget

Formally, the Republican budget consists of the revenues and budgetary allocations for a three-year period including the budget year. However, only the first year is legally binding and must be executed; the figures for the second and third years are indicative and are routinely adjusted and updated by the time the following budget cycle comes around.

The republican budget is formed according to the structure established by the Budget Code, and consists of the following sections:

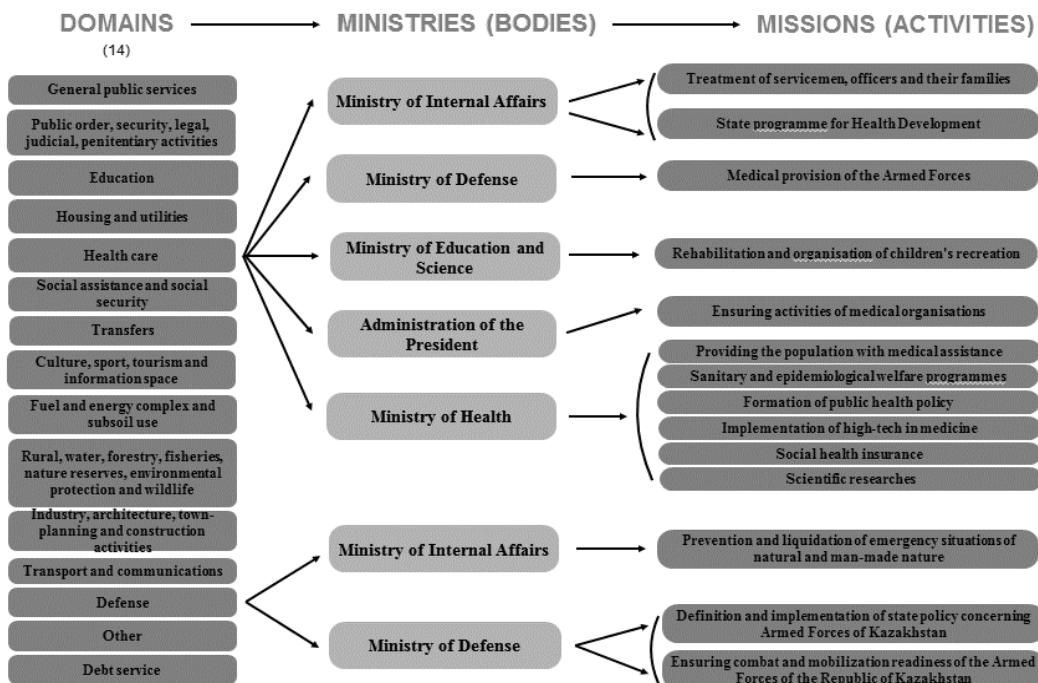
1. income: tax revenues; non-tax revenues; proceeds from the sale of fixed capital; receipt of official transfers;
2. expenditures;
3. net budget lending: budgetary credits; repayment of budget loans;
4. balance of operations with financial assets: acquisition of financial assets; proceeds from the sale of financial assets of the state;
5. budget deficit (or surplus); and
6. financing the deficit (or using a surplus) of the budget: receipt of loans; repayment of loans; movement of budget funds.

While the format of the budgetary information is consistent from year to year, there is no “official summary for decision-makers” to provide a digest of key policy-relevant points within this comprehensive corpus of information.

It is notable that the budgetary allocations are grouped in a thematic and programmatic manner which facilitates their linkages with the strategic planning documents. Figure 11

below gives an indication of how the budgetary information is structured into policy domains, responsible agencies and specific missions (or programmes).

Figure 11. Structure of the budget of Kazakhstan



3.1.3. Assessment and future orientations for reform

The annual budget preparation process is based upon the need for a close synergy with the annual planning process, which is good practice and in line with OECD budget principle Number 2 (“closely align budgets with the medium-term strategic priorities of government”). In addition, the budget formation phase attempts to conform to fiscal limitations, in line with OECD budget principle Number 1 (“applying top-down budgetary management, within these clear fiscal objectives, to align policies with resources over each year of a medium-term fiscal horizon”). However, the future reform agenda should address some immaturities within these areas, based upon the following priorities:

- a closer articulation and sequencing of the planning and budgeting elements, so that the synergy between these elements is more fully realised;
- a stronger role for top-down budgeting and fiscal discipline throughout the various phases of policy formation, while retaining a balanced role for policy flexibility in response to emerging issues; and
- a more mature and balanced engagement of parliament across the stages of the budget cycle.

Each of these elements are also linked to the strengthening and clarification of the medium-term expenditure framework, as outlined in Section 2.1.

In similar vein, it is becoming common practice in OECD countries for the budget cycle to be more clearly segmented or “semesterised”, with a strategic and macro-fiscal policy semester taking place before a budgetary allocation semester. Under this scenario, the early

part of the year is dedicated to setting the high level parameters of fiscal policy, with an indication of the “fiscal space” available to policy makers; and to deciding on key strategic priorities for the period ahead. The latter part of the year is then dedicated to settling the detail of budgetary allocations within these agreed high-level parameters. The advantage of such an approach is that it allows the government to manage the overall public finances in an effective “top down” manner, while also allowing for a vigorous debate on the details of tax and expenditure policy. In circumstances where all of these important questions are continually raised and adjusted during the budget formation cycle, and indeed during budget execution (see next section), there is a danger of the public finance targets being disrupted owing to an excessively “bottom up” momentum in resource allocation policy. In addition, the central ministries – the MoF and the MNE – risk being overwhelmed by a deluge of requests from line ministries, pre-empting the policy space for critical analysis and evaluation.

3.2. Quality and oversight in budget execution

3.2.1. Processes of budget execution and monitoring

Cash management and the Single Treasury Account

With regard to cash management, Kazakhstan operates a single treasury account via the National Bank of the Republic of Kazakhstan for the purposes of cash management, monitoring and control. This account is operated by the MoF.

After the budget has been approved in parliament, administrators of budget programmes must prepare an Individual Plan for Obligations and an Individual Payment Plan. In addition, the MoF has available to it a consolidated plan for funding commitments, a consolidated revenue plan and financing for payments. Based upon these documents, the Treasury Committee of the MoF effects cash transfers to authorised beneficiaries.

Line ministries and other bodies carry out expenditures on the basis of an individual financing plan approved by the administrator of budget programmes. The MoF prepares, approves and maintains a consolidated financing plan for obligations, a consolidated plan for payments on the republican budget on the basis of individual plans of administrators of budget programmes. The government has the right to redistribute the expenditures of the republican budget in certain circumstances during the implementation of the budget (see the next section).

In executing their budget plans, the bodies concerned use cash flow forecasts. While these are available to the MoF, the forecasts are not published and so there is no public “profile” of expenditure and revenues to assist public oversight in regard to efficient budget execution.

Budget execution reports

Budget execution is monitored at federal level on the basis of monthly reports on revenues and expenditures, made to the MoF. In the event of inappropriate or inefficient use, the ministry may bring proposals to the Republican Budget Commission so that appropriate actions may be considered. Potential responses may include suspension or withdrawal of funding.

At regional and local level, budget execution is carried out on the basis of a monthly breakdown of the revenues and expenditures. As at national level, inefficiencies in

spending are the subject of consideration via the Republican Budget Commission as to the appropriate response.

The Budget Code specifies the requirements for the annual report on execution of the republican budget. In addition to standard details regarding financial execution, the annual report includes specific indicators of programme implementation and performance on the basis of evaluations and results achieved. In principle, this approach lends the annual execution report additional weight and policy relevance; and in particular the report forms a natural end-point, and focus of accountability, for Kazakhstan's system of performance budgeting. In turn, the Accounts Committee (the national audit institution -see Section 4.2) and the parliament (see Section 4.1) make use of the detailed information contained in the execution report.

A challenge for such an all-encompassing report is to ensure that key points of information are clearly communicated, and indeed that policy messages can be drawn from the extensive information. This challenge is particularly acute where different types of information – financial, performance-related and evaluative – are set alongside each other.

At both national and regional / local levels, pressures for additional funds can usually be accommodated in some fashion, within the budget year, rather than require the agency concerned to cut back on other expenditures: see the next section.

3.2.2. Budgetary flexibility and agility

Flexibility in execution

The Budget Code allows for some flexibility in the reallocation of funds within specific programmes and sub-programmes, if budgetary savings arise in the course of budget execution. However this flexibility does not apply for funds sourced from the National Fund. Similar provisions apply at regional and local levels.

In line with Article 111 of the Budget Code, reallocations of up to 5% may be authorised by the programme administrator within one programme area; reallocations of between 5% and 10% require consideration at the Republican Budget Commission.

Long-term commitments and budgetary “carry-over”

As regards the authority to enter into long-term commitments, the Budget Code specifies the types of expenditure for which this is permitted, including budget development programmes and procurement service contracts with a duration of more than one year. Interestingly, if there is a budget shortfall in the current year for such expenses, the government or local executive body can decide to finance them from balances at the beginning of the next financial year – effectively borrowing from the following year's allocation.

Unspent funds may, in general, be carried over into the following year for their original purpose. At the regional level, there is also flexibility to carry unused funds forward to the following year, for use in district budgets, again provided that the original purpose is observed.

In case of repeated underutilisation, in principle these specified development transfers should be returned to the higher budget that allocated these funds, before the end of the current fiscal year.

Supplementary budgets

Until recently, it was the practice in Kazakhstan that expenditure pressures, or indeed new and emerging priorities for spending, could be accommodated relatively easily by bringing forward amendments to the original budget. Significant reallocations within expenditure domains could be handled primarily by the executive branch of government, whereas reallocations across expenditure domains could be handled with approval from the parliament.

In 2016, the parliament expressed its reservations that this practice was occurring too frequently, in such a manner as to undermine the integrity of the original approved budget. As a result, these parliamentary adjustments have been limited to once per year. This brings additional stability and predictability to Kazakhstan's budget system, more closely in line with the OECD Budget Principles.

3.2.3. Assessment and future orientations for reform

In general terms, the budget execution procedures are well developed and well regulated, broadly in line with OECD budget principle Number 7 (“actively plan, manage and monitor the execution of the budget”). In particular the use and management of the single treasury fund reflects good practice, and the annual budget execution report carries an importance and policy relevance that is unusually strong in international terms. Future reform priorities should usefully focus on incorporating the broader range of international good practices as set out in the OECD Recommendation, including some relatively advanced elements, including the following:

- publication, at or near the start of the budget year, of a monthly profile of both expected expenditures and revenues, to form a basis for public transparency and parliamentary oversight regarding the faithful, disciplined execution of the budget, while also giving insights regarding its *de facto* financing
- clarification of the limitations and disciplines that should apply in the case of annual carryover of unused funds, to ensure that incentives to effective in-year execution are positive, and to avoid undue macroeconomic risks from accumulation of unspent reserves
- ensuring a correct balance is maintained between the flexibility of the executive branch of government to reallocate resources, on the one hand, and the authority of the parliament to approve and authorise major deviations from the original budget plan, on the other hand; and
- providing that the analysis of performance, evaluation and results, as contained in the annual budget execution report, is supplemented and enhanced through the use of additional reporting and oversight tools, to ensure that the execution report does not become over-burdened in this regard.

3.3. Accrual based budgeting and reporting

Accrual based budgeting and accounting has the advantage of providing a fuller, objective and undistorted picture of the financial position of the government and the true cost of budget decisions (Box 5). Accrual accounting is also a prerequisite for accurate cost accounting, which can yield useful insights on relative efficiencies across different administrative areas.

In OECD countries accrual accounting is far more accepted than accrual budgeting. While 73% of OECD countries use the accruals basis for preparing financial statements (and

another 9% are in the process of transitioning to accruals) only 29% have adopted accruals for budget preparation. The majority continue to prepare their budgets on a cash basis, while providing some limited accruals type information on debt, commitments and guarantees.

With advice from the ADB, IMF and OECD, the government has been moving steadily to implement accruals-based accounting and budgeting since the accrual basis (IPSAS) was adopted as the national standard in 2008. Implementation started in 2009 and accrual was extended to all public entities from 2013. Accounting policies have been developed on the practical application of the standards and the objective of providing a “true and fair view” is met by reporting on both the cash and accrual bases.

Reforms are underway to meet a new objective (Budget Code Art. 61-1) to produce consolidated, accruals based government financial statements. Rules are being developed that cover all relevant areas of accounting policy. The current goal is that for fiscal years 2021–23, all republican budget programme administrators will have to compile a forecast report on the financial position, a forecast report on financial activities, a forecast report on cash flows and a forecast report on capital flows, as well as explanatory notes to these reports.

Gaps remain in the application of the accrual concept in respect of revenue recognition, and the valuation of public assets and liabilities, including employee benefits. Some additional work will also be required to rationalise accounting systems to generate IPSAS compliant reports and to carry out independent financial audit of accruals-based reports.

Kazakhstan is rapidly expanding the use of public-private partnerships and concessions to provide public goods and services. This expansion is taking place mostly at sub-national level. Although this is subject to budgetary controls intended to limit the effect on future cash flows an important priority will be to improve disclosure of related financial commitments and contingent liabilities in local government accounts.

Box 5. Accrual budgeting and reporting in OECD countries

While “cash accounting” focuses upon transactions which move cash into and out of the public treasury, “accruals accounting” is based upon economic events, i.e. transactions that involve an exchange of value (including obligations or commitments), irrespective of when cash changes hands. Cash accounting has the benefit of simplicity, which is valuable in public financial management because many users of public financial documents – including parliamentarians, officials and the general public – would not be expected to have training in professional accounting techniques. However, cash accounting on its own can be manipulated more easily than accruals accounting, e.g. by deferring payments into another period to hide the costs associated with a decision, or bringing receipts forward in order to make the public finances look healthier than they really are. Accrual accounting also entails the maintenance of a balance sheet, showing the value of assets and liabilities and thus the entity’s “net worth”; as well as a cash flow statement reflecting the liquidity of the entity’s financial position.

Because of these advantages, accrual accounting has long been the norm among private companies. In the public sector, and especially in the central government sector, cash accounting has been more traditionally applied. However in recent decades, there has been a steady movement towards the adoption of accruals approaches in various aspects

of government budgeting and reporting. By 2016, 82% of OECD countries prepared their financial reports on the accrual basis, while 32% also prepared accrual budgets (incorporating either accrual, or cash, or both accrual and cash appropriations and related budget execution reports)¹. Where an accrual basis is used, the type of approach can vary widely, as countries opt to implement some or other parts of the generally recognised international standards (such as International Public Sector Accounting Standards (IPSAS) or the Government Finance Statistics Manual (GFSM)) in their nationally-defined accounting framework.

A number of factors have driven the trend towards accrual accounting, including (a) the development and refinement of the international standards mentioned above, (b) the increasing professionalisation of public financial management and (c) greater capabilities of financial management information systems (FMISs). However, the trend is also driven by a fuller appreciation of the benefits that can be obtained from using accrual as well as cash accounting. Among the key benefits are the following:

- **Quality and transparency:** Accounts prepared on a standard accrual basis include comprehensive information, which allows for the analysis of key features of public financial performance. Moreover, through correct matching of revenues and expenses, the full financial implications of policy initiatives are clearly visible from the outset.
- **Reliability and integrity:** Accrual accounts are less vulnerable to distortion through the manipulation of cash payments, and thus give a more reliable picture of the underlying financial position. Users of the financial reports – both domestically and internationally – can thus focus upon policy content and more readily appraise the true financial position.
- **Efficiency and productivity in government:** Accrual accounting is a prerequisite for effective cost accounting, encompassing the full level of resources consumed in delivering programmes, maintaining assets and servicing liabilities. This in turn underpins an agenda of administrative efficiency and productivity in the use and impacts of public funds.
- **Consolidated approach to public financial management:** The accrual basis, uniformly applied, allows for (and indeed requires) a consolidated approach to managing and/or reporting on the financial position of the public sector as a whole, or broad elements of the public sector, as distinct from the “budgetary central government” sector alone (ministries and agencies).
- **Quality in business processes:** In general terms, the disciplines of accrual accounting are associated with enhanced professionalism in business processes such as internal control; identification, monitoring and costing of liabilities, including contingent liabilities; and fiscal risk management as a whole.
- **Accountability:** a standardised, consistent approach to accruals reporting and budgeting forms a sound basis for planning, implementation, reporting and accountability across the budget cycle; and thus for supporting the functions of key institutional stakeholders such as parliament and the supreme audit institution.

Note: ¹ Australia, Austria, Canada, Chile, Denmark, UK, Island, Mexico, New Zealand, Switzerland

Sources: OECD/IFAC (2017), Accrual Practices and Reform Experiences in OECD Countries, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264270572-en>; IMF (2016), Implementing Accrual Accounting in the Public Sector. Washington, DC: International Monetary Fund, 2016.

3.3.1. Assessment and future orientations for reform

Measured against the OECD principle that government should ‘present a comprehensive, accurate and reliable account of public finances’ Kazakhstan performs well, and provides a quality of information comparable with many OECD countries. From 2018, Kazakhstan will produce an extensive set of financial reports and disclosures. In its further efforts to produce consolidated financial statements, and to introduce accrual-based budgeting, Kazakhstan is setting ambitious goals that, if achieved, would make it comparable to higher performing OECD countries. Suggested steps towards further improving the quality of financial reporting are as follows:

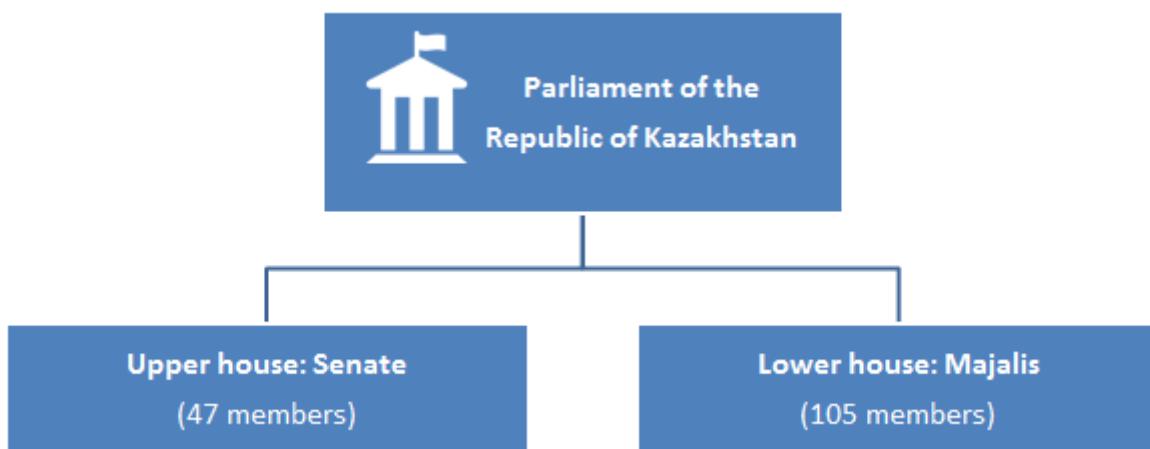
- In the context of the planned introduction of accrual-based budgeting, ensure that cash management issues receive due attention through active monitoring and use of the cash-flow statement.
- Present a more complete picture of government liabilities, including disclosure of PPPs and concessions in the balance sheets of local governments, (IPSAS 32).
- Move towards presentation of a full national overview of the public finances, including government’s net worth, in the form of consolidated financial statements, incorporating sub-national governments, the National Fund and the government’s investments in state-owned enterprises.

4. Budgetary Oversight and Accountability

4.1. Parliamentary engagement in the budget process

The Parliament of the Republic of Kazakhstan is bicameral with an upper house (Senate) and a lower house (Majilis).

Figure 12. The Parliament of the Republic of Kazakhstan and its houses



The Senate has 47 members. These are composed of two members from each region, the city of republican importance (Almaty) and the capital city (Astana), elected at joint sessions of the members of all representative bodies in each region or city. The remaining 15 members are appointed directly by the President of Kazakhstan. The term of office is six years, with half of elected members up for election every three years.

The Majilis has 105 members. These are composed of 98 members elected on the basis of party lists on a system of proportional representation and nine members chosen by the Assembly of Peoples of Kazakhstan. In the current parliamentary session, the National Democratic Party (“*Nur Otan*”) holds 82% of the elected seats.

The parliament plays an important role in the budget process at a number of stages, specifically:

1. **Budget approval:** The parliament is responsible for amending and approving the budget law of Kazakhstan, through consecutive consideration of issues first in the Majilis and then in the Senate.
2. **Financial audit:** Joint sessions of the Senate and Majilis approve the reports of the Government and the Accounts Committee on the implementation of the budget.

The following sections outline the role of the parliament across the different stages of the budget cycle in more detail.

4.1.1. Role of the parliament in budget approval

The Parliament commences its involvement in the budget process when the draft budget bill is submitted, no later than 1 September. The bill is first considered by the Majilis and then by the Senate.

In the Majilis, the Committee for Finance and Budgeting is the main committee which deals with approval of the budget. In addition, there are six sectoral committees, each of which is responsible for budget oversight in its own area. Upon completion of budget scrutiny, the sectoral committee conclusions are reported back to the Committee for Finance and Budgeting.

As soon as the draft budget bill is received, the Committee for Finance and Budgeting sends a letter to the sectoral committees to establish a working group with responsibility for reviewing the draft budget and the materials that accompany it, such as the socio-economic forecast, strategic plans and performance information relating to budget programmes, and reports from the Accounts Committee (see Box 6).

Upon completion of the working group review, the draft budget is considered at an extended meeting of the Committee for Budget and Financing. Subsequent to approval from the Committee, the draft budget is submitted to the Majilis plenary for debate and approval, before being passed to the Senate.

Box 6. Parliamentary Working Group on the Budget

The working group on the budget is responsible for reviewing the draft budget on behalf of Majilis members (a similar working group is also formed for reviewing budget execution). It comprises a member of the Committee for Finance and Budgeting and one member from each of the sectoral committees. The Committee for Finance and Budgeting is also able to invite initiators of the draft law, representatives of state bodies, consultative-advisory bodies, public associations, scientific institutions, experts and specialists to join the working group.

One member is appointed leader of the working group and the group forms a plan for its work, organising a series of meetings at which it reviews a small number (1-3) of budget programmes. During meetings of the working group, members can propose budget amendments.

The Senate also scrutinises the draft budget with the help of a working group. The working group holds roundtables and hearings involving stakeholders from the public, private and third sector, to inform its consideration of the draft budget. The findings of the working group are considered at a meeting of the Committee for Finance and Budgeting that all members of the working group and Senate can attend. The Senate then formally decides if it is amending and/or approving the budget at a plenary meeting, before sending it back to the Majilis. If the Majilis agree with the proposed changes from the Senate, then it is recommended for approval at the Senate. If the houses disagree then they can set up a Joint Committee with members from both houses to reach agreement.

For up to three months, the Majilis and the Senate can work together and scrutinise the draft budget. Each house tends to review the bill from its unique perspective; the Majilis principally from a political perspective and the Senate principally – although not exclusively - from a regional perspective. At the end of the process, the Senate has final responsibility for adopting the draft budget. This must occur no later than 1 December. Within two weeks of the budget being passed, the enacted Budget is made available to the public.

Box 7. Parliament's budget timetable

1 September

The Draft Republican Budget must be submitted to the parliament by this date.

1 December

Republican Budget Bill must be passed by parliament no later than this date.

1 January

Start of fiscal year.

To date, the budget has always received approval prior to the December deadline. There has never been an occasion when the budget has fallen. However, Article 74 of the Budget Code sets out provisions for this situation. Should the budget fall, the President has the

right to issue a decree on the republican financial plan for the first quarter of the next fiscal year, which will be in force until the parliament passes the budget law. The republican financial plan for the first quarter of the next fiscal year must be issued no later than 25 December and sets out a budget which is one fourth of the forecast republican budget for that year.

Amendment powers

The Kazakh Parliament has the power to amend the draft budget. The parliament can reallocate spending from one area of the budget to another, but all amendments must respect the budget limits set by the social economic development forecast.

In accordance with Article 76 of the Budget Code, when proposing amendments, members should adhere to the following principles:

1. **The principle of validity:** this means that proposed amendments should be accompanied by a written statement of the need to introduce these amendments, their compliance with the priorities of social and economic development, with appropriate calculations to them and proposals for adjusting indicators of territories development programmes, provided for in the budget programmes.
2. **The principle of compliance with the budget balance:** this means that when members make any changes or additions to the draft budget, additional sources of revenue or reduced costs should be identified to maintain the size of the budget deficit no more than the budget, set by the project.

Amendments put forward at working group meetings are subject to a vote, and accepted if the majority of parliament members on the working group vote in favour of the proposal. Amendments can also be put forward during Committee discussions so long as they are substantiated, signed by their initiators and contain relevant legal text.

Over the course of reviewing the draft budget in 2017, parliament members proposed 100 amendments amounting to KZT 260 billion (EUR 645 million). In the end, amendments to the value of KZT 22 billion (EUR 55 million) were agreed. For the most part, these amendments were funded by transferring spending from the Reserve Budget line to other areas of expenditure.

Supplementary budgets

Once the fiscal year has started, both the government and the parliament have the right to adjust the government budget once per year (as well as in emergency situations listed in the Budget Code). Budget amendments which change the overall spending total must be approved by parliament.

4.1.2. Role of parliament in oversight of financial audit

After the end of the fiscal year, the parliament must receive the Budget Execution Report from the government by 15 April. In addition, the Accounts Committee must submit its Report on the Execution of the Republican Budget, no later than 15 May.

These execution reports are considered sequentially by the Majilis and the Senate. Each house sets up a working group, in the same way they do for the draft budget, to review these execution reports. As part of its consideration, the working groups review reports from budget managers and also seek clarifications and explanations from public servants. The execution reports must be approved at Committee level before being submitted to a

debate in plenary meetings of the Majilis and the Senate where the Minister of Finance and the Chairman of the Accounts Committee make speeches.

After discussions in the Majilis and Senate, the execution reports of the government and the Accounts Committee are approved at a joint session of both chambers of parliament. The vote on budget execution is considered a vote of confidence, but to date the vote has always passed. The execution reports for 2016 were approved at a joint session of the chambers of parliament on 19 June 2017.

4.1.3. Budget documentation

The information that the parliament should, and usually does, receive as part of the draft budget package is set out in law. Parliamentary stakeholders report that the Explanatory Note accompanying the budget is particularly helpful in supporting parliamentary oversight of the budget. If parliament requires additional information, it also has the right to seek this from the government. In general, parliamentary stakeholders report that they are provided with the information they request.

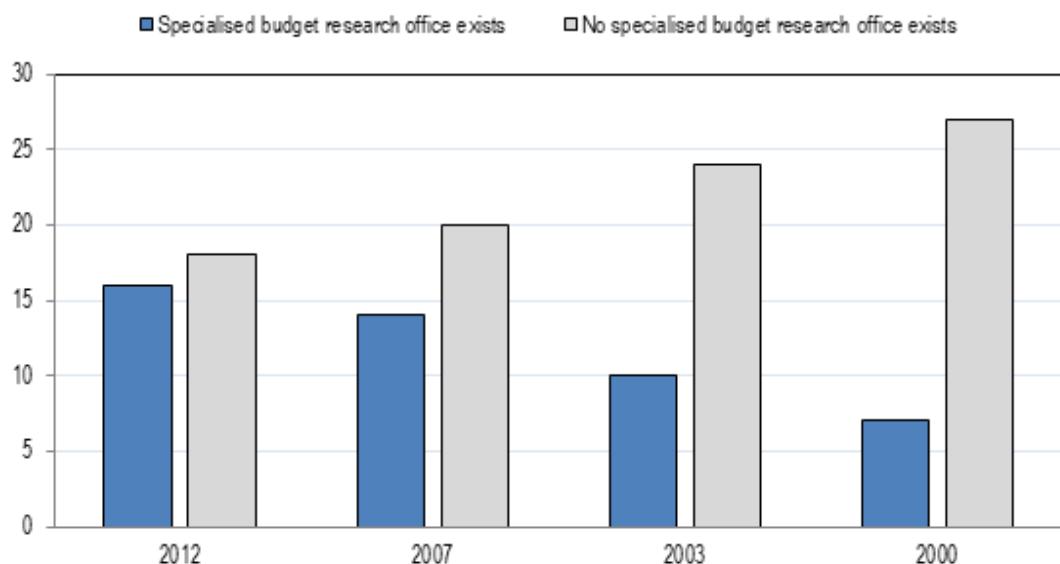
In recent years there has been a reduction in the number of budget programmes and parliamentarians report that, while there is less detail, the quality of information is better and the budget as a whole is easier to scrutinise. Where necessary, members can still request more detailed information on aspects within the enlarged programmes.

4.1.4. Analytical support

Members at both the Majilis and the Senate have assistants and volunteers who provide analytical support in relation to the budget. In addition, committees have a support staff of 3-4 experts who help collect budget information and draft budget amendments.

The Kazakh Parliament does not have an independent research service at parliament. This contrasts with the situation in most parliaments in OECD countries. The Kazakh Parliament may wish to consider setting up an independent research service. A research service would help provide specialist analytical budgetary support currently unavailable to parliamentarians and facilitate effective scrutiny throughout all stages of the budget cycle.

Not only do OECD legislatures tend to have access to several sources of technical capacity for budget analysis, but there is also a trend in OECD countries to establish specialised units that assist legislatures with budget-related research and analysis (see Figure 13). In some cases, these units are located within parliament, often as part of parliament's research services. In others, they are independent. In the past decade, the number of specialised budgetary research units has more than doubled, and in some cases their size has increased.

Figure 13. Existence of a specialised budget research office attached to parliament

Source: (OECD, 2012^[9])

Transparency and citizen engagement

The Kazakh Parliament posts information on its meetings and their focus on its website. Meetings of the Majilis and the Senate are also broadcast online. In addition, each Member of Parliament has their own webpage where they can post information on the topics they are looking at in detail.

Parliamentary committees often invite external stakeholders to roundtables or hearings on matters being considered. Stakeholders can also apply to the admissions office to watch committee meetings.

4.1.5. Assessment and future orientations

Overall, the parliament itself has a high level of engagement with the annual budget. The lower house (the Majilis) is the initial forum for detailed budget scrutiny, and there is a strong role for the budget committee and a structure through which sector-specific committees can feed into the overall scrutiny task, in line with OECD best practice. The senate also conducts its own independent budget scrutiny, and may submit amendments of its own, which – subject to an agreed position with the Majilis – are incorporated into the budget proposal.

At present the parliament has no oversight role in relation to the Forecast of Social and Economic Development and the setting of the fiscal ceiling. However, the principle of *ex ante* engagement of parliament could usefully be brought to bear upon this process. An option would be to submit the medium-term fiscal plan to the parliament for its formal approval as part of a new Spring Fiscal Policy phase (see Section 3). An example of how this is undertaken in Sweden is provided in Box 8.

Box 8. The role of the Swedish Parliament in fiscal policy setting

Sweden has a unicameral parliament (the Riksdag) elected by a system of proportional representation. The Spring Fiscal Policy Bill is presented by the government to the parliament on 15 April. It includes comprehensive information on the fiscal policy outlook, perspectives on fiscal risks and long term sustainability, and extensive baseline information on all areas of public spending. This provides for parliamentary debate on fiscal policy, in general terms. The Bill is voted upon in a single vote by Parliament in early June.

A functional benefit of the Spring Bill for parliament is providing a channel for parliamentary engagement in matters of fiscal policy prior to the drafting of the detailed budget. It also serves to introduce greater transparency to the budget process to the benefit of the Riksdag and the public in general.

Source: OECD Budget Review of Sweden 2016

While it is common OECD practice for parliaments to have and use budget amendment powers, the use of the Reserve Budget line in Kazakhstan to fund these amendments means that members are in effect not having to trade off budget proposals in one area for another. This does not equip members with the fiscal discipline that may be required if in the event of the Reserve Budget not being available to them.

Recent reforms have reduced the number of budget programmes, and improved the quality of budget information, although the volume of information presented to parliamentarians has not decreased significantly. These changes have been well received by parliamentarians, as have the changes which limit the number of supplementary budgets that can be tabled at the parliament each year.

Members of parliament have access to support staff, and the Budget Committees of both chambers also have small support units. However members do not have access to an independent research service or a specialist budget research office and this contrasts with the situation in most OECD parliaments. The Kazakh Parliament may wish to set up an independent research service, scrutiny unit or budget office to help provide specialist analytical budgetary support to parliamentarians and further promote effective budget scrutiny, particularly at the Majilis. This would help support parliamentarians effectively exercise their new right to call programme managers to parliament to explain performance, and support a heightened level of parliamentary engagement upon the introduction of a Spring Fiscal Policy phase (see Section 3). Examples from OECD parliaments are provided in Box 9.

Box 9. Resources to support budget oversight in OECD parliaments

The House of Commons Scrutiny Unit at the UK Parliament

The House of Commons Scrutiny Unit supports Select Committees in examining the expenditure and performance of government and the relationships between spending and delivery of outcomes. It does this by promoting the value of linking examination of spending with examination of outcomes, by helping committees analyse spending patterns alongside the performance and by pressing the government to improve the information available and promoting Parliament's interests of holding the executive to account. This includes contributing financial and performance material to committee inquiries, including briefings, questions, reports and analysis of impact assessments.

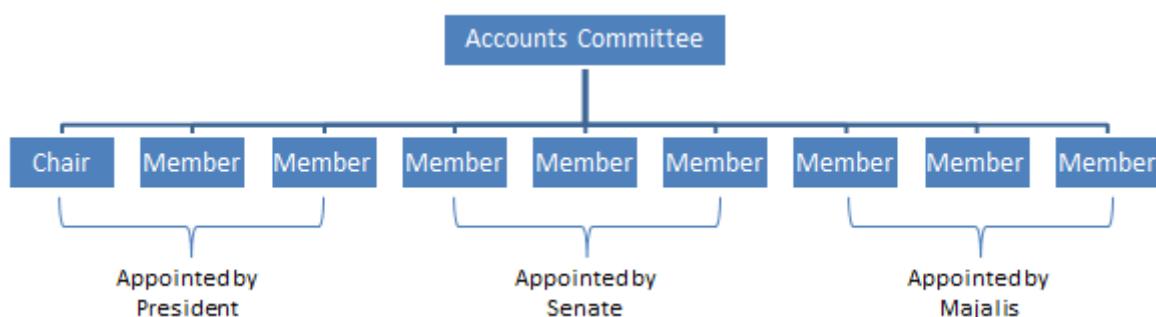
The Parliamentary Budget Office at the Austrian Parliament

The Austrian Parliamentary Budget Office has a mandate to support Parliament in the budgetary process, in consulting and enacting budget laws and exercising its oversight role. As part of this, it provides Parliament with information on the performance budgeting framework, maps all outcome objectives, advises how to read documents efficiently and provides analysis on each budget chapter, including performance goals/tasks/indicators. It also makes recommendations to the Government on how budget documents (including performance information) can be improved from a parliament user's perspective and pushes for better and earlier access to information.

4.2. Role of the Supreme Audit Institution (SAI)

The Accounts Committee for Control over the Execution of the Republican Budget (known as the Accounts Committee) is the supreme state audit institution in Kazakhstan. The Committee is composed of nine people (a Chairperson and eight Committee members) and is directly subordinate and accountable to the President. The Committee Chair is appointed by the President, who also appoints a further two members. In addition, three members are appointed by the Senate and three by the Majilis. The Accounts Committee has a staff of more than 130.

Figure 14. Composition of the Accounts Committee



The Law on State Audit and Financial Control, adopted on 12 November 2015, provides a legal basis for the activities of the Accounts Committee, and sets out the powers and status of its officials as well as the basis for interaction with other government bodies, taking into

account the provisions of the Lima Declaration and other international standards. The law sets out the three types of audit that the Accounts Committee can carry out:

1. **Financial statement audits:** these assess the reliability and reasonableness of financial statements, and the accounting and financial condition of the subject being audited. In particular, the Accounts Committee submits its conclusion in the report of the Government of the Republic of Kazakhstan on execution of the republican budget to the parliament no later than May 15 after the end of the fiscal year. After approval by parliament, the report and its recommendations become binding for the government bodies.
2. **Efficiency audits, including a review of effectiveness and results:** these evaluate activities of the subject being audited for effectiveness, efficiency, productivity and results. In 2016, the Accounts Commission conducted 19 performance audits.
3. **Compliance audits:** these assess the extent to which subjects being audited comply with legislation.

The Accounts Committee conducts its work by reference to international INTOSAI standards. It provides the President of the Republic of Kazakhstan and the Parliament of the Republic of Kazakhstan with information about its work at least once a quarter.

4.2.1. Audit coverage

The accounts of state bodies, state institutions, quasi-public sector bodies, and recipients of budgetary funds, are all subject to audit by the Accounts Committee. There are different procedures for the audit of special state bodies (those carrying out intelligence and counter-intelligence activities or operational-search measures aimed at ensuring the security of protected individuals and objects) in order to protect national security. These procedures are determined by the heads of these bodies in agreement with the Accounts Chamber committee and the authorised body on internal state audit.

In terms of coverage, preliminary assessment of state programmes is carried out once every three years and assessment of state agencies' efficiency is conducted annually. This work is undertaken as part of the Accounts Committee's performance audit role, as well as its budget analysis role (see Section 4.2.2), in accordance with the list of objects subject to state audit and financial control in each relevant year. Subsequent to each audit, each audited entity should make a plan of action to address recommendations. According to Article 25 of the Law on State Audit, each audited entity must provide a response to recommendations (instructions) and their implementation to the appropriate state audit and financial control authority within the time frames specified in the documents adopted as a result of state audit (order/decrees).

Despite this, state bodies do not always report on steps taken to address audit recommendations or findings. Nevertheless, the Accounts Committee tracks actions taken by the executive in response to its audit recommendations and publishes a report tracking some of these. More comprehensive publication of information on actions state bodies are taking in response to recommendations contained in each audit would help bring Kazakhstan in line with international standards on audit transparency.

If recommendations are not being implemented, there can be penalties and sanctions, or the Accounts Committee can issue a further recommendation. In practice around 97% of Accounts Committee audit recommendations are implemented.

4.2.2. Links between the Accounts Commission and the parliament

The 2015 Law on State Audit and Financial Control strengthened the links between the work of the Accounts Committee and the Parliament. It mandates the Accounts Committee to report to the parliament annually on the execution of the state budget, and quarterly on its own work programme. It also enables Accounts Committee members to participate in parliamentary sessions and members of both the Accounts Committee and the parliament can participate in government hearings on the implementation of state programmes.

The 2015 Law also introduced the new analytical roles for the Accounts Committee in relation to the draft budget. The Accounts Commission is now responsible for undertaking a preliminary evaluation of the draft budget in response to concerns expressed by parliament that by the time violations were identified it was too late to do anything about them. This Preliminary Evaluation aims to prevent financial violations before they occur. The Accounts Commission now also has a role in generating operational information on the implementation of the budget for stakeholders including; the President, the Parliament, the Government, *maslikhats* and *akims*.

Accounts Committee Preliminary Evaluation of the Draft Budget

The Accounts Committee published its first Preliminary Evaluation of the Draft Budget in 2017. The Evaluation assesses the budget against two criteria - reliability of expenditures and justification of expenditures – and presents related recommendations. The assessment is based on provisional figures for the Draft Budget and is presented to parliament at the same time as the Draft Budget to assist it in its scrutiny.

The focus of each Evaluation is expected to change on an annual basis. The main focus of the first Evaluation was on the regulation of the budget process. The Accounts Committee considered the socio-economic forecast to the extent to which it determines budget parameters and looked at compliance with fiscal rules. In undertaking its assessment, the Committee consulted with civil society stakeholders to take into account their views. A key recommendation of this Evaluation was to introduce the concept of long-term fiscal sustainability in Kazakhstan. This recommendation, and others accompanying it, was discussed by parliament and the Budget Code has subsequently been amended so that the government must now publish a Long-Term Fiscal Sustainability Report.

It is anticipated that the second Evaluation will look in detail at seven or eight priority areas of spend, identified through a risk assessment.

Parliamentary stakeholders gave a mixed response to the new Evaluation role of the Accounts Committee. While members from the Senate found it to be a good initiative that supports budget oversight, members from the Majilis found that the misalignment between the figures in the Draft Budget and those in the Preliminary Evaluation (based on provisional figures for the Draft Budget) hindered its usefulness.

4.2.3. Transparency and independence in the work of the Accounts Committee

To facilitate transparency and openness, the Accounts Committee publishes quarterly bulletins on its website which detail the audits it is working on. Upon completion of each audit, the results are published in the Accounts Committee bulletin and in its Report on the Execution of the Republican Budget. A summary report for each audit is also published online by the subject being audited. However, full audit reports are not always published in order to prevent any confidential and/or commercial information that they might contain from being unlawfully disclosed³.

Some concerns have been raised about the completeness of the analysis produced by the Accounts Committee^{4,5}. In particular, in line with the Law “On State Audit”, the annual audit report does not contain information on the percentage of extra-budgetary funds covered by the audit⁶. From 2020, it is planned that the Accounts Commission will audit the consolidated financial statements of the republican budget, financial statements of administrators of budget programmes and government agencies, with the exception of the National Bank of the Republic of Kazakhstan. Continued improvement in audit coverage would be a welcome development.

In a 2014 OECD report on Anti-corruption Reforms in Kazakhstan, the heavy dependence of the Accounts Committee on the Presidency was noted. In particular, the head of the supreme audit institution can be removed without legislative or judicial approval, and the budget of the Accounts Committee is reviewed by the Ministry of Finance, both of which undermine its independence. Now that the Accounts Committee’s institutional role is well-established, there would be merit in strengthening its operational independence through passage of a specific law bringing Kazakhstan in line with the principles of the Lima Declaration on independence of supreme audit institutions.

Box 10. Protections on the removal of Supreme Audit Institution leaders across the OECD

Australia

The Auditor General is appointed by the Governor General on the recommendation of the Prime Minister. However, the Prime Minister must not make a recommendation to the Governor General unless the Prime Minister has referred the proposed recommendation to the Joint Committee of Public Accounts and Audit at parliament, and it has approved the recommendation.

The Executive cannot revoke the appointment of an Auditor General. The Auditor General can be removed from office in the following circumstances:

- The Governor General may remove the Auditor General from office if each house of the Parliament, in the same session of the Parliament, presents an address to the Governor General praying for the removal of the Auditor General on the ground of misbehaviour or physical or mental incapacity, and
- The Governor-General must remove the Auditor-General from office if the Auditor-General becomes bankrupt.

Sweden

The National Audit Office is under the direction of three Auditors General, who are elected by the Parliament.

The Parliament may remove an Auditor General from office only provided the Auditor General no longer fulfils the requirements for the office or has been guilty of gross negligence.

United Kingdom

The Comptroller and Auditor General (C&AG) is the head of the National Audit Office and is appointed by HM The Queen, the Head of State, on an address from the House of

Commons moved by the Prime Minister after agreement with the Chairman of the Public Accounts Committee.

The C&AG can only be removed from office by HM The Queen on an address from both Houses of Parliament.

4.2.4. Assessment and future areas for reform

The Accounts Committee supervises and quality-assures the work of independent public audit, and is composed of members appointed by the President and both houses of parliament. It conducts its work by reference to international INTOSAI standards. The findings of the Accounts Committee are afforded a high degree of respect: its recommendations on the annual Budget Execution Report, once adopted by the parliament, have a binding status.

The Accounts Committee has a modern mandate covering both financial and performance audits, in line with OECD best practice. Since 2017, the Accounts Committee also supplies an independent Evaluation report on the draft budget submitted to parliament, to assist and inform the parliament's scrutiny work. It is unusual for a supreme audit institution to produce this type of *ex ante* report assessing the budget. Across the OECD, this role is normally performed by an independent fiscal institution, such as a specialised budget research office at parliament or a fiscal council. In the medium or longer term, it would be advisable for Kazakhstan to move towards this type of approach which is an international standard. Pending such reforms, the special role of the Accounts Committee should continue to focus on a narrow theme each year to ensure an impactful and proportionate contribution within the budgetary development cycle. To facilitate use of the analysis during the budgetary oversight by parliament, steps should be taken to ensure that any differences between the budget figures presented in the Accounts Commission analysis, and those presented in the draft budget, are minimised or fully explained.

The Accounts Committee effectively tracks government actions in response to its recommendations, but could improve the transparency of its operations by making a full account of this available to the public. It could also improve the completeness of its audit reports, for example, by publishing information in its annual audit report on the percentage of extra-budgetary funds that have been covered.

Finally, as indicated in the previous section, it would be timely for the Accounts Committee's independence to be underpinned through passage of a specific law bringing Kazakhstan in line with the principles of the Lima Declaration on independence of supreme audit institutions, in particular, requiring legislative or judicial approval for the removal from office of the head of the main control body.

4.3. Budget transparency

OECD countries place a high value of the transparency and openness of budget information. Standards regarding open, transparent and inclusive budgetary practices are laid down in the *OECD Best Practices for Budget Transparency* (2001) and the *OECD Budget Transparency Toolkit* (2017), as well as in the *OECD Recommendation on Budgetary Governance* (2015).

The Government of Kazakhstan has taken several measures in recent years to increase the openness and transparency of the budget process in line with international standards.

Further information on the current situation on open and transparent budgeting is provided in the following section.

4.3.1. Access to information

The Law on Access to Information was passed in November 2015 and sets out individual's rights to access government information. This legal change represents progress in terms of the increased potential for openness and transparency in relation to budget information.

In practice, however, citizen stakeholders report difficulties in accessing information on government spending, particularly in politically sensitive areas. In a small number of instances citizens report that they have had to take the government to court in order to access the information they have requested. This suggests that the government may still be adjusting to the level of openness required by law.

There are a number of actions the government could take to reinforce its commitment to opening budget information to the public and foster greater trust with citizens:

- Improve the effectiveness of training to public servants so that their obligations to disclose information in relation to the Law on Access to Information are more clearly understood.
- Consult with citizens to identify key areas of interest in terms of information disclosure, and improve proactive disclosure in these areas. The forthcoming government research project on “Providing citizens and the professional media with access to information in Kazakhstan: regions and centres”, which will survey citizens, the media and NGOs on this topic, provides a useful starting point.
- Ensure that all budget data shared by the government is provided in machine-readable format (such as Excel), to facilitate citizen analysis.⁷
- Roll out budget literacy education programmes within schools to spark interest in public finance and so that, in the longer-term, citizens have the capacity to engage in discussions. Budget Literacy programmes such as this have had considerable success in countries such as Canada (see Box 11). This type of programme has already been proposed for development by the Ministry for Information and Communication and the Ministry of Education and Science.

Box 11. Budget Literacy Programme in Canada's Classrooms

Of Canada's 13 provinces and territories, seven (British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Prince Edward Island, and Saskatchewan) have introduced aspects of budget literacy into their school curricula, usually as part of the social studies courses.

For example, Newfoundland and Labrador's 2004 social studies curriculum for eleventh-grade students (ages 17–18), included a Canadian economy module highly relevant to budget-literacy education. Expected learning outcomes regarding knowledge of government budgets include the ability to describe major revenue categories of municipal, provincial, and federal budgets; to define progressive, proportional, and regressive taxes; to determine whether different types of taxes—including income and sales—are progressive, proportional, or regressive; to assess government budgetary decisions and their impact on government debt; and to describe major expenditure categories in local, provincial, and federal budgets.

Source: (World Bank, 2017[10])

4.3.2. “Open Budgets” portal

The Open Budgets portal was created by the Government of Kazakhstan as a vehicle to improve budget transparency and promote civil society engagement in the budget process. The Law “On the Access to Information” stipulates that budget reporting, consolidated financial reporting, and the results of state audits should be published on the Open Budget portal. Public discussions on budget programmes and reports on the implementation budget programmes for the last financial year should also appear on the portal. Changes brought in through internal order (April 20, 2017 No. 261) developed by the MoF also state that monthly reports on the implementation of consolidated, state, national and local budgets (in the aggregated form), as well as on income and use of the STOs of the National Fund of the Republic of Kazakhstan should also be placed online on the Open Budgets portal. All the reports that should be published on the portal are set out in the Order of the Minister for Investment and Development.

The aim of the initiative is to develop a single portal with access to budget information from across government, in line with OECD best practice. However, citizen use of the portal is limited and there are several ways in which the organisation of the portal could be improved in order to fulfil its purpose more effectively. Specifically:

- As part of the ongoing activities envisaged to improve the portal⁸, budget information should be named and categorised more clearly, and search tools should be improved, so that citizens can sort through the large amount of files on the portal and find the information they need more easily.
- All budget data should be uploaded to the portal in machine readable format (i.e. Excel tables instead of PDF) so that citizens can readily analyse the information⁹.

4.3.3 Budget documentation

The information that must be placed on the MoF website across the budget cycle (formation, approval, execution and audit) is set out in internal order (April 20, 2017 No.

261) developed by the MoF. Documentation includes a pre-budget report, draft budget, enacted budget, in-year reports, mid-year report, year-end report and audit report.

The presentation of the draft budget proposal in September is the focal point of the budget cycle in Kazakhstan. For this event, the government presents the following information to parliament¹⁰ alongside the draft budget proposal:

- Forecast of Social and Economic Development
- Draft strategic plans of central government bodies
- Draft budget programmes
- Data on state and publicly guaranteed debt
- An Explanatory Note disclosing the decisions incorporated in the Draft Republican budget, and information on budget programmes, comprising:
 - Performance information for the previous year;
 - A brief description of the current situation and existing problems;
 - A description of the ways to improve the situation and achieve planned target indicators defined in draft strategic plans; and
 - A description of the objectives of budget programmes and planned outcomes of budget programmes.

The government could build on the wide range of budget documentation currently provided through further refinements to improve its completeness. This would ensure that Kazakhstan aligns more closely with international standards in budget transparency¹¹. In particular:

- The draft budget proposal is just six pages in Kazakhstan and found to be lacking detail that would make it comparable to those produced in OECD countries. It would be expected to contain information on planned spend by Ministry and budget programme for the forthcoming three years and information on expenditures for the previous year. In addition, it should contain information on key financial indicators such as the composition of total debt and long-term liabilities.
- The mid-year report should provide key information such as an updated estimate of government debt and borrowing.
- The government should publish information on assets of state bodies and national companies.
- The Forecast for Social and Economic Development and the Republican Draft budget Explanatory Note should be made available to the public.

Improvements in the comprehensiveness of budget documentation which address these omissions, among others, would enable the Government of Kazakhstan to improve its international standing in relation to budget transparency.

4.2.4. Citizens budget

Citizens Budgets were introduced at both the central and local government levels in Kazakhstan through Legislation on the Methodology of Development and Dissemination of the Citizens Budget, signed into law in June 2011. It provided for Citizens Budgets to be published not only when the government publishes the Republican Draft budget, but also after the formulation, approval, implementation, and evaluation stages of the budget process.

In May 2011, the MoF formally established a working group to develop procedures and a methodology for the production and publication of Citizens Budget information. The

working group included CSO representatives and members of National Budget Network of Kazakhstan (NBSK). According to the Law "On Access to Information", Citizens Budgets must be placed on the MoF website

The publication of citizens budgets marks an important step forward in terms of budget transparency in Kazakhstan. Publication is now obligatory, based on article 67-1 of the Budget Code and the Law on Access to Information. Nevertheless, public response to these publications in the initial years has been muted. A number of stakeholders would like to see a more consistent format and would like to see information presented in a way that is easier to understand. In response to these concerns, the MoF introduced guidelines in 2017 on the content of citizens budgets, how information should be presented, and when they should be published. Article 67-1 of the Budget Code of the Republic of Kazakhstan, the Order of the Minister of Finance of the Republic of Kazakhstan of January 22, 2018 No. 15 went on to set out rules for drawing up and presenting citizens budgets at budget planning and budget execution stages.

In particular, the guidelines and rules encourage government bodies to publish citizens budgets in an accessible and understandable format (using infographics, charts, drawings, and providing data in tables). These guidelines and rules were developed in consultation with civil society stakeholders and apply to citizens' budgets produced at all levels of government.

The broad application of these guidelines and rules should ensure that the citizens' budgets published by the Kazakh Government get closer to meeting the needs of the public. In pursuing these improvements, government bodies should continue to engage with citizens to improve the content and information contained in citizens' budgets so that they are informative and useful and help engage more citizens in the future. A best practice example is provided by the Citizens version of the Mid-Year Report published by the MoF (see Box 12).

Box 12. Ministry of Finance Citizens Version of the Mid-Year Report

The MoF produces a citizens' version of the Mid-Year Budget Implementation Report. In order to understand the information citizens would like to see in such a document, the Ministry consulted with its Public Council. The recommendations were taken on board by the Ministry. Among other things, the document contains:

- An update on the main macroeconomic indicators
- A report on the implementation of the republic budget for half of 2017
- An update on state debt
- A report on the implementation of the fiscal policy objectives
- A report on the implementation of labor market and social policy objectives

Citizen stakeholders have commended this publication as helpful and a very good initiative.

All state bodies must publish citizens' budgets on their webpages. Citizens' budgets at the district level (the level of the city or regional importance) are also published in the print media within each territory. The Ministry of Information and Communications is working to amend the rules for posting information on the Open Budgets portal so that they are also available on this platform.

4.3.4. Assessment and future areas for reform

Kazakhstan has made significant improvements in budget transparency, in line with recommendations of the *2016 OECD Integrity Scan*. In particular, there have been important developments in recent years in relation to access to information, the development of an online “Open Budgets” portal, and the introduction of Citizens Budgets and central guidelines for their compilation. These represent steps forward for budget transparency in Kazakhstan. In common with the experience of other countries, these new initiatives need to evolve so that they are designed to anticipate and support the needs of users and function effectively as tools which improve budget transparency, inclusiveness and accountability. These developments should be complemented by further developments to budget documentation in Kazakhstan which improves its comprehensiveness, in line with international standards.

4.4. Civil society engagement

Strengthening the involvement and participation of citizens and civil society can increase responsiveness, efficiency, impact and trust. The Kazakhstan Law on Access to Information sets out that the government must ensure citizen access to the budget process. In addition, “The 100 concrete steps” set out by the President foresees the introduction of independent budgets for local government and mechanisms allowing for citizens to participate in the discussions about prioritising budgetary spending. To support the implementation of these commitments, the government passed the Law on Public Councils in December 2015.

4.4.1. Public Councils

Public councils are consultative and advisory bodies formed by the government. They are made up of representatives from civil society and have been largely used by governments of transition or developing countries, including amongst the Former Soviet Union, sub-Saharan Africa, South Asia and Latin America, as a mechanism for citizen engagement. Generally, public councils gather different sectors of civil society, such as academia, civil or community-based organisations and the private sector and local political authorities into a single body. They contribute to the development and implementation of public policies or programmes at the local level. Stakeholders share the common goal of strengthening democracy and the quality and responsiveness of public policies. A Public Council will usually communicate the results of its work to the broader public.

In Kazakhstan, the creation of public councils is fundamental for developing and strengthening government and citizen co-operation. The role and importance of public councils is spelled out in the fifth institutional reform of the Head of State “Transparent accountable state” and are identified in the 99th step of the Plan of the Nation “100 concrete steps”.¹²

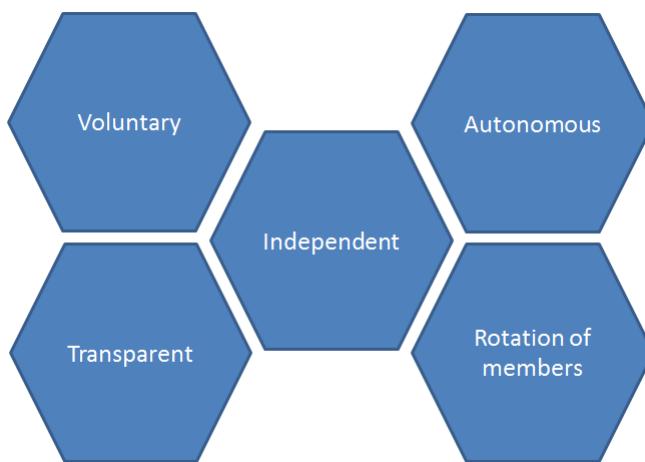
The Law on Public Councils, adopted in 2015, determines their legal status, the procedure for electing members and requirements for the organisation of their activities. Public councils must be established and maintained by all ministries, public bodies accountable to the President¹³, and local authorities, with at least 2/3 of its membership coming from civil society. The remaining 1/3 of the representatives on the public councils are government officials.¹⁴ Public councils are intended to be autonomous and independence. They have three tasks:

1. To represent the interests of civil society during public council discussions

2. To improve the level of interaction between civil society and the relevant public body
3. To improve transparency in relation to the activities of the relevant public body

The principles to which public councils adhere are set out in Figure 15. During their meetings, public councils have powers to discuss issues such as the implementation of strategic plans and regional development programmes, budgets, reports, achieving stated objectives, draft legal acts concerning rights and freedoms of citizens or draft programme documents. Public council recommendations must be considered by state bodies.

Figure 15. Principles of public council activities



The composition and size of each public council is decided by a working group, set up and led by the head of the relevant public body. The working group publishes a call for members (either online or in local media) and candidates can put themselves forward for membership, or can be nominated by non-profit organisations or citizens. Once the working group has appointed the members of the council, the decision must be approved by a decision of the public body, and the membership of the council is made public. Members are appointed for three years. The first meeting of the public council is opened by the head of the working group and a Chairperson is elected – from among its members - by open vote.

The MoF set up its public council in 2016 with members drawn from NGOs, civil society and academia. It holds quarterly meetings to discuss issues such as guidelines for citizens budgets, draft amendments to the budget code and how changes to the budget code will be enforced in practice. Within the framework of the MoF public council there are also five individually themed committees, each with different members. For example, one committee focuses on the draft budget and strategic plans while another focuses on the execution of the budget and reporting. The minutes of the meetings are published online.

While the public councils are a step forward for citizen engagement in Kazakhstan, civil society stakeholders report concerns about their independence, the extent to which members provide representation for society as a whole and the extent to which the views expressed by members at public council meetings are actually taken into account in government decision-making. The Public Council in Almaty city was cited as an example of a best practice Public Council in Kazakhstan, demonstrating that when they are run well they can be viable and effective bodies (see Box 13).

Box 13. Almaty City Public Council

Almaty City Public Council was set up in 2016. A working group to select council members was set up in March 2016 and 31 people from civil society were elected to the council through an open vote in April 2016. The public council meets every month and has 8 separate committees that focus on specialist topics, including a Committee on Economy and Budget.

The views of the public council are regularly taken into account in decision making by the government of Almaty. The public council is not funded by the Akimat, but instead by membership fees. These are used to pay for the rent of an office. This serves to bolster the independence of the council.

The work of the council is published through its website. It contains information on its structure, members, its work plan, the composition of committees, field visits and public hearings. The council also publishes a report on its work every six months.

Source: [Almaty City Public Council](#) 2018

Government bodies, including the MNE, may wish consider developing guidelines for Public Councils, which draw on lessons from successful examples, to help improve their independence and functioning more broadly. It is likely to be beneficial if these guidelines include criteria for selecting public council members that prevents the selection of members that are in favour of government policy (leading to “rubber-stamping” of government decisions) and ensures that a broad range of interests are represented.

In addition to Public Councils, the Government of Kazakhstan also proactively engages with citizens through annual Ministerial meetings and online blogs.

Ministerial meetings and online blogs

Citizens are invited to attend the annual meeting when each Minister reports on the results and main directions of the Ministry. These meetings are announced on the website of the Ministry and anyone who wants can participate and ask questions of the government. All Ministers are encouraged to have these meetings with the public and they are broadcast live online¹⁵.

Government Ministers also have certain days allocated for appointments with the population (“reception days”) where any citizen can make an appointment and meet with the Minister. Furthermore, the Law on Access to Information states that all government bodies must have an online blog, and respond to public comments within three days. Accordingly, the MoF uses a blog to solicit discussion on budget planning and execution issues, including priority areas for budget expenditures

4.4.2. Public Councils and participative budgeting

Participative budgeting involves providing citizens with opportunities to input their views into the budget process so that the budget adequately reflects citizen priorities (see section J of the [OECD Toolkit for Budget Transparency](#) on “*Making the budget more inclusive and participative*”). It is important that participative budgeting processes are compatible with national legal frameworks and should complement, and not undermine, well-functioning processes of citizen engagement already in place.

Starting from 2012, within the framework of the “Development of the Regions” programme, a mechanism of the financial support for the regions is being allocated towards issues of local importance. An important element of the mechanism is the participation of the population in the selection of activities and the allocation of funding. The introduction of participative budgeting at local (village) levels of government is a good initiative, but has proven challenging to implement. Formal procedures for the participation of citizens in the discussion of how public money should be spent have not yet been established.

Effective and independent public councils could be a useful vehicle for participative budgeting at the local level. More so, the introduction of participatory budgeting at local (village) levels of government provides opportunities to test the efficacy of this approach at higher levels, including potentially the national (Republican) level in the future. More focused and structured Ministerial meetings could also be used as a platform for participative budgeting at the Republican level.

4.4.3. Assessment and future orientations for reform

In terms of citizen engagement, the introduction of multi-stakeholder “public councils” within each ministry is an innovative development with significant positive potential. At this early stage of implementation, the successes of public councils have been uneven: government bodies, including the MNE, should actively disseminate the lessons of the success stories (such as Almaty city) to other areas through developing guidelines for public councils that ensure their political independence.

Effective public councils, together with Ministerial meetings and blogs, provide ideal tools for soliciting civil society views on budget priorities as part of an elaborated *ex ante* budget phase (see recommendations in Section 3). A more clearly-defined, semesterised approach to the annual budget cycle (as proposed in Section 3) would have the advantage of allowing additional windows of opportunity for structured engagement by civil society and by parliament in the *ex ante* phase of budget formation.

4.5. Special focus: Gender budgeting

4.5.1. Gender equality in Kazakhstan

Men and women enjoy equal rights by law in Kazakhstan. In the past decade, Kazakhstan made important gains in gender equality with the enactment of the Law on State Guarantees of Equal Rights and Equal Opportunities for Men and Women and the Law on the Prevention of Domestic Violence. As noted in the OECD study on Gender Policy Delivery in Kazakhstan, “There have been also important advances in women’s participation in public life in Kazakhstan, with the current share of women in the House of Representatives at 27.1%. Other areas of achievement include women’s integration in the labour market and entrepreneurial activity and significant drop of maternal death rates. Kazakhstan is close to gender parity in access to primary and secondary education with 98.7% net enrolment of girls in primary education in 2015 and ranks among the top countries in this area. Notwithstanding these gains, significant gaps still remain in terms of delivering gender-responsive policies and services at all levels of government. Women still make up for only 8.4% of political-level civil servants; wide gender gaps persist in earnings; and violence against women is still a major problem across the country” (OECD, 2017^[11]). At the international level, the Kazakh Government recently made the pledge to uphold the Beijing Platform of Action at the UN Global Leaders’ Meeting on Gender Equality and Women’s Empowerment and the Convention on the Elimination of All Forms of Discrimination

Against Women (CEDAW). At the national level, the government developed and implemented a national Gender Equality Strategy 2006- 16 that has laid the foundations for the improvements of women's participation in public life in Kazakhstan.

4.5.2. Public governance in relation to gender in Kazakhstan

All central and local state executive bodies are responsible for ensuring equal rights and opportunities for men and women. In addition, Kazakhstan has a central gender institution called the National Commission on Women's Affairs, Family and Demographic Policy. It is an advisory body to the President and its secretariat is located under the administration of the presidency. It was tasked with the implementation and monitoring of the Gender Equality Strategy 2006-16.

The Strategy for Gender Equality 2006-2016 identified seven priority areas in view of realising the state gender policy including:

1. Gender equality in the public and political spheres
2. Gender equality in the economic sphere
3. Gender education
4. Improving reproductive health of men and women
5. Prevention of gender-based violence
6. Strengthening of the family
7. Raising public awareness on gender equality

In addition, one of the strategic objectives set out in the Gender Strategy was to “introduce gender approaches into the development, realisation and control over implementation of the national legislation, national and local budgets, and state, social and economic programmes”, thus providing the basis for gender mainstreaming and gender budgeting.

Furthermore, the 2016 Concept for Family and Gender Policy of Kazakhstan until 2030 (known hereafter as “the Concept”) highlights the key issues that the efforts of the state, businesses and civil society should focus on helping to achieve gender equality. The Concept provides for a set of measures to improve legislation and implement international standards and recommendations in relation to gender equality. It also states that gender budgeting needs to be introduced through implementation of gender impact assessment in the system of state and budget planning, and that training and capacity building need to be implemented in order to support this reform.

4.5.3. Gender budgeting

Gender budgeting is a tool used to promote equality through the budget process. As the budget process is an annual (or indeed multiannual) event, there are several opportunities across the cycle in which the gender perspective can be brought to bear (see Figure 16).

Figure 16. Gender budgeting across the budget cycle

Source: (Downes, 2017^[12])

Almost half of OECD countries have some form of gender budgeting in place, although practices are diverse. In Austria for example, gender budgeting is implemented through the performance framework. Federal ministries set targets and determine gender equality outcomes for their activities. In turn, concrete measures and indicators are assigned to these outcomes in order to monitor the progress in achieving gender equality. By contrast, in Spain gender budgeting is implemented through a gender statement which accompanies the budget setting out how the budget contributes to the implementation of the Strategic Plan of Equal Opportunities. It presents the gender impact analysis of each expenditure programme in the budget proposal.

Gender budgeting in Kazakhstan

In Kazakhstan, gender budgeting is still in the very early stages of development. Paragraph 43 of the Action Plan for the Concept sets out the draft plan for introducing gender budgeting into the current system of state and budget planning until June 2019. While it is too early to observe systematic use of gender budgeting tools, some elements of gender budgeting are visible. For example:

- The government conducts *ex ante* gender impact assessments (GIAs) on primary legislation in some cases.
- The Ministry of Justice is trialling the gender assessment of draft laws and regulations as a pilot to see if it is feasible for broader application.
- Some public bodies incorporate elements of gender budgeting in their budgetary planning. The State Programme of Health of the Republic of Kazakhstan "Salamatty Kazakhstan" contains output and outcome indicators to address specific health issues faced by women and there are budget appropriations assigned to achieve these goals.
- Spending earmarked for gender-related budget programmes is tracked. For example, the amount allocated to women's health and women and children in social programmes is measured.

- Specific programmes are being developed to help women go back into employment.

The National Commission of Women’s Affairs, Family and Demographic Policy has a leadership role in facilitating transition to gender budgeting throughout the government. Given the recent introduction of results-based budgeting, Kazakhstan favours the implementation of gender budgeting through the planning and performance framework, similar to Austria. In doing this, it recommends that government bodies include/develop gender focused indicators within their strategic plans.

In 2016 the National Commission began working with UN Women to implement a two-year project on integrating a gender dimension into the planning and performance system. The project, called “Promoting the achievement of the goals of sustainable development and implementation of commitments in the field of equality promotion in Kazakhstan”, will run in 2017 and 2018.

In the first year of the project, gender impact analysis was carried out in relation to documents of the state planning system and corresponding budget programmes in a pilot ministry: the Ministry of Agriculture. This involved the use of national and international experts, the development of training modules, and the delivery of training to staff in the Ministry on how to undertake gender impact analysis of government planning documents and budget programmes.

In 2018, government officials undertook a study visit to Austria to learn about best practices in the field of gender budgeting. In forthcoming months, UN Women are expected to provide specific guidelines and recommendations for Kazakhstan, based on examples of how it is being implemented in other countries.

The project plans to pilot the integration of a gender dimension into the planning and performance framework for one central ministry (the Ministry of Agriculture) and two regional governments. These pilots will provide for the development of wider recommendations in relation to the integration of gender goals and indicators in the strategic plans of all government agencies.

4.5.4. Assessment and future areas for reform

The introduction of gender budgeting is at early, explorative stages in Kazakhstan. Some elements of the public governance framework for gender equality – including the existence of an overarching gender strategy (the Concept) and a government agency devoted to progressing gender equality – provide strong foundations for the introduction of gender budgeting. In addition, the application of results-based budgeting lends itself well to the gender budgeting approach which is implemented through incorporating a gender dimension into the planning and performance framework, as is the case in Austria (see Box 14).

Box 14. The integration of gender into the performance framework in Austria

Austria's distinctive system of gender budgeting is well integrated within the performance budgeting framework. According to the Federal Budget Law 2013, the outcome objectives specified for each Budget Chapter must include at least one objective related to gender equality; and in turn, each of the “global budgets” and “detailed budgets” must include at least one gender-related output target. In this way, each line ministry is obliged to consider how its activities relate to gender equality, and to design objectives and indicators to promote gender equality in the context of the budget. Moreover, gender equality is one of the dimensions of analysis that must routinely be included in Impact Assessments of new policies. Reporting on the gender-related objectives is covered in the Performance Reports prepared by the Federal Chancellery.

Taken as a whole, therefore, the Austrian system of policy-making is designed to (a) require all ministries to consider gender equality both in their high-level goal-setting and in more detailed specification of outputs and objectives, (b) assess impacts on gender equality in the design of policies, using a standardised assessment template, and apply this assessment both *ex ante* and *ex post*, and (c) account for their achievements in gender equality goals and objectives via the annual performance reports.

For a single overview of how ministries are achieving their gender-related objectives, it is necessary to look to the performance reports prepared by the Federal Chancellery. The October “Annual Report on Budget Orientation” not only collates the individual reports from line ministries, but also reconfigures them in order to present a single Gender Statement.

Source: (Downes, von Trapp and Jansen, 2018^[13])

Kazakhstan has taken positive steps in since 2016 to progress this agenda, although there is still considerable work to be done before a gender dimension is fully integrated into the planning and performance framework. Suggested areas of focus would include clearer, more systematic mainstreaming of the national gender equality strategy (the Concept) within ministry strategic plans, going beyond obvious “gender-related” programmes to include all major programmes. It is also suggested that the MNE – as guardians of strategic planning - should be closely involved in taking this work forward.

Building on this, Kazakhstan could further strengthen its application of gender budgeting and through implementing gender budgeting practices across the budget cycle. In particular, the government should consider:

- Introducing a requirement for *ex ante* gender impact assessments to be undertaken during the development of all policies, programmes, regulations and legislation. This helps raise awareness of gender bias in policies and, if they are undertaken early enough in the policy development process, can ensure that policies are better-designed to help achieve gender goals. Canada provides a useful example in this respect (see Box 15).
- Publishing a Gender Statement to accompany the budget illustrating how the annual budget supports national gender equality goals. The initiative would also facilitate external audit and enhanced parliamentary scrutiny in this area.

- Applying a gender perspective to programme evaluations. This would allow consideration of the extent to which programmes achieved any gender goals, and an assessment of how programmes and policies can be improved in order to deliver greater results in this area.

Together, these developments would ensure a gender budgeting approach that is consistent with OECD good practices. They should be supported by further strengthening of the public governance framework for gender budgeting. Firstly, efforts to implement gender budgeting should involve the MoF - responsible for preparing the budget proposal. The MoF is not currently involved in the implementation of gender budgeting in any way. However, for there to be any chance of budget decisions being responsive to gender needs, the MoF needs to be involved. Secondly, good gender budgeting relies on the availability of gender disaggregated data. While there is good data collection in Kazakhstan and some gender-disaggregated data is available, line ministries are not using gender disaggregate data and the administration faces various challenges, including limited capacity in line ministries to determine the need for gender-disaggregated data; limited co-ordination mechanisms to determine the kind of data that need to be collected; and poor quality and accuracy of existing data. Furthermore, data is collected for social concerns, but not in gender sectors viewed as gender neutral.

Box 15. Requirement for *ex ante* gender based assessment in Canada

Gender-based analysis (GBA) is an analytical tool used by the Canadian Government whose objective is to examine the differential impacts on both women and men of government policies, programmes, and legislation. GBA can help in integrating social, economic, and other gender differences into policy analysis. It can also contribute to efforts toward the overarching goal of gender equality. For example, a GBA might show that a programme is not implemented properly to meet some of women's unique socio-economic circumstances or it might show that a programme has a negative impact on men because of a poorly designed policy initiative.

The Canadian Government committed to applying GBA to its policy decisions in 1995 so as to inform decisions on policies, legislation, and programmes throughout its departments and agencies. All policy proposals being submitted for consideration to the Treasury Board, Cabinet and the Minister of Finance are required to be accompanied by a GBA.

Source: (Office of the Auditor General Of Canada, 2009^[14])

5. Towards a Roadmap of Continuing Budgetary Governance reform in Kazakhstan

5.1. Summary of progress and remaining reform priorities

5.1.1. Key strengths of the Kazakhstan budgetary system

Kazakhstan has undergone a major series of inter-connected and well-considered reforms over recent years. As a result, the PFM and related systems in Kazakhstan have moved in the direction of compliance with good international practice, as set out in the OECD Principles of Budgetary Governance, in particular in the following areas:

- There is strong alignment between the government’s strategic plans and budget expenditure programmes.
- There is a clear set of fiscal rules in place that should ensure long-term budget sustainability and provide a buffer in case of future economic shocks.
- The parliament has a high level of engagement in the annual budget. There is a strong role for the budget committee with a structure for sector-specific committees to feed into the overall scrutiny task, in line with OECD best practice.
- Kazakhstan has made improvements in budget transparency and citizen engagement in recent years, for example, through the introduction of the “Open Budgets” online portal and the introduction of public councils.
- Kazakhstan has adopted accruals accounting, following international standards, which improves the quality and transparency of public finances.

5.1.2. Key reform priorities and objectives

As with any country that is undergoing major, multi-dimensional budget reform, it is necessary to take stock of overall progress, to fine-tune certain elements and to change course where appropriate, to ensure that the various elements of budgetary governance are operating in a mutually supportive and effective manner. On the basis of the analysis set out in this report, the OECD identifies the following key areas of focus for future reform:

- Improve the quality of performance budgeting by managing the number of programmes, the volume of data and improving the quality and relevance of performance indicators used in different sectors.
- Strengthen the role of evidence-based analysis and performance evaluation in the budget process. Make use of a broader range of tools to inform budget decision making; from spending reviews and *ex-ante* justification of spending proposals, through in-year monitoring, to in-depth programme evaluation.
- Improve the analysis and disclosure of fiscal risks, including both quantifiable risks such as state guarantees and contingent liabilities, and more general risks such as government exposure to the financial sector and commodity price fluctuations
- Development of *ex ante* budget oversight at the parliament. In view of this heightened engagement, an independent research service could serve to further strengthen budget oversight by parliament.
- Improved transparency and independence of the Accounts Committee, in line with the principles of the Lima Declaration on independence of supreme audit institutions.
- Improvements to the design and implementation of recent initiatives such as the “Open Budgets” online portal and public councils will help them function more effectively as tools of budget transparency and citizen engagement.
- Further strengthen the application of a gender lens to the planning and performance framework so that gender objectives help guide policy developments and resource allocation.
- In parallel with the introduction of accrual based budgeting, retain the cash basis, which remains highly relevant for the funding of government operations.
- Present a more complete picture of government liabilities, including disclosure of guarantees, contingent liabilities, PPPs and concessions.
- Move towards presentation of a full national overview of the public finances, including government’s net worth, in the form of consolidated financial statements.

5.2. A Roadmap of Budgetary Governance Reforms relevant to Kazakhstan

In order to make progress in moving Kazakhstan’s budgetary governance system into line with best international practices, it is advisable for Kazakhstan to develop a multi-year implementation road-map so that key reforms can be adequately sequenced and put into effect. To implement many of these suggested reforms, Kazakhstan will be able to draw upon its own national resources of skilled and committed public servants and dedicated research agencies. For certain of these recommendations, Kazakhstan may wish to consider making use of international expertise and advice, including from bodies such as the International Monetary Fund, the World Bank Group, the PEFA Secretariat as well as the OECD.

Set out below is an indicative road-map timeframe, for consideration and refinement by the authorities of Kazakhstan.

5.2.1 Priorities suggested for 2018-19

(a) Further strengthening the links between budgeting and planning systems

There is scope to strengthen the alignment between planning priorities and budget programmes, and also to better align the annual calendar so that budgeting decisions are made in line with the corresponding results-based information. The good practice of restricting major adjustments of the annual budget to once per year, should also apply in principle to adjustments to strategic plans. With a clear will and mandate, the authorities should seek to progress these improvements in the near term.

(b) Gender budgeting – implementation of international good practices

The initial steps towards gender budgeting in Kazakhstan should be built upon in light of developing international practice. This should include integrating gender dimensions systematically within Kazakhstan’s well-developed planning and performance framework, while also assessing how the “gender lens” can be applied throughout the budget policy cycle.

(c) Improved implementation of the “Open Budgets” online portal and public councils

Based on the analysis set out in this report, there are a series of measures that can be undertaken to improve the implementation and impact of the Open Budgets portal, and to bring the operation of the public councils closer into line with the principles outlined in the OECD Budget Transparency Toolkit.

(d) Modernisation of the role and mandate of the Accounts Committee

In light of progress achieved over recent years and the level of institutional maturity that has already been attained by the Accounts Committee, it would now be timely to undertake a review of this body to modernise and regularise its role and mandate, by reference to international SAI standards and principles. Such a review would also provide an opportunity to assess how the Accounts Committee’s relatively advanced functions, including with regard to performance auditing, conform with those of other SAIs around the world. The OECD report *Supreme Audit Institutions and Good Governance: Oversight, Insight and Foresight* (2016) is a useful point of reference in this regard.

(e) Monitoring and review of multi-level fiscal governance

With an ambitious agenda for decentralising budgetary decision-making to regional and local levels, it is important that Kazakhstan considers carefully how the potential advantages of this approach can be balanced with assurance as to matters of integrity and financial control, and alignment of results. One option in this regard would be to participate in the work of the OECD Network on Fiscal Relations across Levels of Government (the OECD Fiscal Network), which specialises in helping countries to manage such issues.

5.2.2. Priorities suggested for 2020-21

(f) Accrual accounting and budgeting

To solidify the progress made in recent years, it may be advisable to undertake an international review to assess compliance with international standards and global good practice, and to ensure that the rich data that emerges from accrual accounting techniques can be understood and used by policy-makers at various levels, by parliamentarians and by the public.

(g) Fiscal risk analysis

Additional steps could be taken by the government to incorporate analysis of fiscal risks into its overall fiscal strategy. This could include an assessment of fiscal risks, including government's exposure to macro-economic risk and financial sector risk, information about long-term fiscal sustainability. Transparency could be further improved through disclosure of state guarantees and contingent liabilities in the annual financial statements of the government.

(h) National Code for Programme Evaluation and Review

To increase the use of evidence in budgetary decision making, and increase focus on programme effectiveness government should develop a more diverse toolkit for monitoring and evaluation, and strengthen the feedback loop into the annual and multi-annual budgetary cycles. The main elements of such an approach, which could be codified in a National Code for programme Evaluation and Review, would include ex-ante evaluation of spending programmes, improvements in annual monitoring and reporting, in-depth evaluations of a limited number of programmes each year, and an enhanced role for the Accounts Committee focusing on the relevance of performance indicators and targets, and the reliability of the reported data. Amendments to the Budget Code could also support such a reform. In addition, the expertise that is already applied in Regulatory Impact Assessment should be integrated within this overall codified framework.

(i) Review of budget transparency and participation

After the existing series of reforms have been allowed to operate (subject to refinements outlined at (c) above, it would be advisable for Kazakhstan to undertake a review of how effectively these initiatives are (i) supporting trust in the quality and integrity of public financial management and (ii) promoting quality and responsiveness in public policy making. One option would be to undertake a review by reference to various dimensions of the OECD Budget Transparency Toolkit, which would allow for interactive dialogue with policy makers and societal stakeholders.

(j) Spending reviews

Spending reviews are widely used in OECD countries to examine the existing stock of spending commitments, rather than just new spending proposals. The introduction of such a process in Kazakhstan would help government to increase the scope for savings and/or reallocation of resources to match new spending priorities. Depending on the objectives of government, i.e. a major realignment of spending across government, or greater budget efficiency and re-alignment within a particular sector, the introduction of the spending review tool could be designed either as a broad based exercise or more sector-specific in focus.

5.2.3. Priorities for consideration beyond 2021

(l) Environmental aspects of budgeting

Increasingly across OECD countries, it is acknowledged that the challenges of meeting international climate and other environmental goals cannot be met, unless the budgetary and fiscal implications are analysed and understood. With its ambitious national and international goals in these areas, Kazakhstan should consider factoring this analysis more directly into its medium and longer term budgetary planning. One option would be to consider active participation in the “Paris Collaborative on Green Budgeting”, led by the OECD, and which involves informal cooperation among countries to develop and “workshop” new budgeting techniques relevant to environmental goals.

(m) Infrastructure governance review

Building on the results of the OECD PPP Review (which was conducted in parallel with this review), it may be useful for Kazakhstan to consider a more broad-based approach which looks at the management of public, as well as private, funding of infrastructure. Recent OECD research highlights the various dimensions of successful infrastructure governance, including strategic planning; knowing when to select PPP versus other options; ensuring evaluation and value-for-money throughout the infrastructure development cycle (*ex ante*, mid-project and *ex post*) on a uniform basis for all funding modalities; and ensuring resilience and sustainability of infrastructure.

(n) Fiscal rules

After the recent innovations in fiscal management have been allowed to operate, it would be useful to undertake a re-assessment of how the credibility of the fiscal rules could be enhanced through independent assessment of adherence (see point (o) below), as well as the appropriate fiscal rules that should apply in Kazakhstan. In particular, there would appear to be a strong case for introducing fiscal rules that target the underlying, non-oil budget; whereas an expenditure growth rule, along the model introduced in many European countries, could have the advantage of providing positive incentives for necessary revenue-side reform.

(o) Development of independent fiscal institutions

With the increased focus on fiscal discipline, and the importance of credible fiscal rules, as well as accurate and reliable economic forecasting as a basis for policy planning, there is an increasing premium to be attached to the independence and professionalism of the economic advice and analysis available to the government. The Kazakhstan authorities

should consider which models of independent fiscal institution may be appropriate for national circumstances, noting also that the Economic Research Institute provides a valued and respected starting point for such a review.

(p) Review of parliamentary engagement in budgeting

Both houses of the Parliament of Kazakhstan are actively engaged in the budget process, to a level that is advanced by OECD standards, albeit with some scope for strengthening of the level of engagement at the *ex ante* phase. There is scope for a future review of the overall processes of parliamentary engagement in budgeting in Kazakhstan, to take account of modern practices for engagement throughout the budget cycle; and to consider the most appropriate form of enhanced institutional support for parliamentary scrutiny and accountability.

Notes

1. Dutch disease is the apparent causal relationship between the increase in the economic development of a specific sector (for example natural resources) and a decline in other sectors (like the manufacturing sector or agriculture). Exports in the growth sector bring about currency inflows, which increase the value of a country's currency and make exports in other sectors less competitive.
2. *Auls* are communities recognised as local self-governments.
3. There are exceptions, for example, in 2018 the conclusion of the Accounts Committee in relation to the Government's report on the execution of the republican budget for 2017 was published on the Accounts Committee's webpage in full.
4. OECD Multi-dimensional Review of Kazakhstan 2017
5. The International Budget Partnership gave the Report of the Accounts Committee just 52 out of a possible 100 when scoring it in terms of timeliness and completeness in 2017.
6. The term extra-budgetary funds generally refers to public resources and government transactions that are not included in the annual budget or are not subject to the same general level of reporting, regulation, or audit as other public finance items.
7. Note, this is already done in a number of cases.
8. As part of the modifications to the "Open Government" portals in 2018, the following activities are envisaged for the "Open Budgets" portal to provide users with improved convenience and functionality:
 1. Development of a version for the visually impaired
 2. Finalisation of the dispatch system
 3. Development of functionality to accommodate the civil budget in a tabular form, as well as the provision of infographics
 4. Development of additional options for using the portal through social networks: Facebook, Google Plus, VKontakte, Twitter, Mail.ru, Instagram.
9. Note, this is already done in a number of cases.
10. Note, although this information is presented to parliament, it is not all made available to the public.
11. Kazakhstan scored 53 out of 100 in the 2017 Open Budget Index, which assesses reporting across 8 key budget documents.
12. It states: "Strengthening the role of Public Councils under state bodies and akims in discussing the implementation of strategic plans and development programmes; budgets, reports, achievement of target indicators, draft normative legal acts affecting the rights and freedoms of citizens; projects of programme documents. The consolidation of the status and powers of the Public Councils by law will increase the transparency of the adoption of state decisions."
13. With the exception of the Supreme Court of the Republic of Kazakhstan, the Constitutional Council of the Republic of Kazakhstan, the prosecutor's office, the Administration of the President of the Republic of Kazakhstan, the National Bank of the Republic of Kazakhstan, the Ministry of Defence of the Republic of Kazakhstan, the Office of the President of the Republic of Kazakhstan, the Office of the Prime Minister of the Republic of Kazakhstan, the National Centre for Human Rights of the Republic of Kazakhstan, the Accounts Committee for Control over the Execution the Central Election Commission of the Republic of Kazakhstan, the Higher Judicial Council of the Republic of Kazakhstan, and special state bodies of the Republic of Kazakhstan.
14. The OECD Integrity Scan of Kazakhstan (2016) notes that the inclusion of public officials significantly weakens the independence and capacity of the public council to play an oversight role.
15. The Ministry of Finance held its meeting on 27 June 2017 in "Kazmedia Center". There were 2 105 participants in the meeting, including 760 people in the city of Astana.

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