

**Comparative research on challenges
for Functional Analysis and Audits (FR)
in economic downturn**

The case of Kazakhstan

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Kazakhstan growth slowing significantly

Table 1. Main indicators, 2003-2009

	2003	2004	2005	2006	2007	2008	2009	2010 f
GDP, bln. USD	30.8	43.2	57.1	81.0	104.9	133.4	107.7	116.1
GDP growth, %	9.3	9.6	9.7	10.7	8.9	3.3	1.2	2.4
Budget Revenue, % GDP	21.8	23.2	28.2	22.9	22.5	25.1	22.1	20.9
Budget t Expenditures, % GDP	21.1	22.4	26.2	21.1	20.8	21.1	23.6	25.0
Government balance, % GDP	-1.0	-0.3	0.6	0.8	-1,7	-2,1	-3.1	-4.1

Sources: Agency of Statistics, National Bank, Ministry of Finance

In March 2009 National Budget Revenue and Expenditure were reconsidered on \$ 4.5 bln. Revenue was cut on \$2.5 bln, Expenditures were risen on \$2 bln.(Road map Program, establishment of Anti-Crisis Fund of EurasianEconComm (Evrasec), etc)

Size of employment in public sector on 1 January 2010

- There are 102 747 government employees, including 3061 political government employees

GDP structure

	2006	2007	2008	2009
GDP	100	100	100	100
Production of goods	44.8	43,4	45.6	43.8
Agriculture, hunting and forestry, fishing	5.5	5,7	5.3	6.3
Industry	29.5	28,3	32.2	29.4
Construcion	9.8	9,4	8.1	8.1
Production of services	51.7	54,2	52.1	54.8
Trade, repair of motor vehicles and personal and household goods	11.4	12,4	12.3	13.0
Hotels and restaurants	0.8	0,9	0.9	0.9
Transport	9.3	9,0	8.5	8.1
Communication	2.2	2,5	2.5	2.2
Financial activities	4.7	5,9	5.3	4.9
Real estate activities, lease and services rendered to enterprises	14.9	14,9	14.9	16.0
Government administration	1.9	1,9	1.7	2.2
Education	3.1	3,3	2.8	3.5
Healthcare	1.6	1,7	1.5	1.9
Other services	1.8	1,8	1.7	2.1
Total	96.5	97.7	97.7	98.6
FISIM	-3.0	-4,8	-4.7	-3.4
Gross value added	93.5	92,9	93.0	95.2
Taxes on products and imports	6.5	7,1	7.0	4.8

PB Revenue

	2006	2007	2008	2009
Budget Revenue, % GDP	22.9	22.5	25.1	22.1
Tax receipts	21.6	18.3	17.6	14.0
of which				
<i>Corporate income tax</i>	<i>7.6</i>	<i>5.9</i>	<i>5.7</i>	<i>4.1</i>
<i>Personal income tax</i>	<i>1.6</i>	<i>1.7</i>	<i>1.7</i>	<i>1.7</i>
<i>Social tax</i>	<i>2.3</i>	<i>2.3</i>	<i>1.6</i>	<i>1.5</i>
<i>Value added tax</i>	<i>4.8</i>	<i>4.9</i>	<i>4.0</i>	<i>3.2</i>
<i>Excise tax</i>	<i>0.5</i>	<i>0.5</i>	<i>0.4</i>	<i>0.4</i>
Non-tax receipts	0.5	1.4	0.5	0.9
Income from sales of fixed capital	0.7	0.7	0.4	0.2
Official transfers received	0.0	2.0	6.7	7.0

PB Expenditures

	2006	2007	2008	2009
Budget Expenditure, % GDP	21.1	20.8	21.1	23.6
of which				
Government services of general purpose	1.2	1.3	1.4	1.0
Defence	1.0	1.3	1.2	1.2
Public order, security, legal, judicial, criminal and executive activity	1.8	1.9	1.7	2.0
Education	3.2	3.5	3.6	4.2
Health care	2.2	2.3	2.3	2.8
Social and social security	4.1	3.9	3.9	4.8
Housing and communal services	1.3	1.6	1.5	1.9
Culture, sport, tourism and information field	0.8	1.0	1.0	1.1
Fuel and energy complex and subsoil assets use	0.4	0.4	0.4	0.4
Agriculture, water, forestry and fish industries, especially protected natural areas, environment and fauna protection, land relations	0.8	0.8	1.1	1.1
Industry, architectural, town-planning and construction activity	0.1	0.1	0.2	0.2
Transport and communication	1.6	2.3	2.1	2.1
Other	0.5	0.3	0.6	0.4
Debt services	0.3	0.3	0.4	0.4
Official transfers	1.9	0.0	0.0	0.0
Operational balance	1.8	1.6	4.0	1.4
Net budget crediting	0.1	0.1	0.3	0.2
Financial transactions balance	1.0	3.2	5.8	1.4
Deficit (-), profit (+)	0.8	-1.7	-2.1	-3.1

In November 2008 Government announced
Stabilization Action Plan for 2009-2010:

- Financial sector stabilization (\$4 bln)
- Support the residential construction sector (\$3 bln)
- Support for small and medium enterprises (\$1 bln)
- Assists agriculture (\$1 bln)
- Develop industrial and infrastructure projects (\$1 bln)

Policy response: massive and broadly appropriate, loosening monetary stance and providing fiscal support to ease liquidity crisis

Table 2. Aggregate fiscal, quasi-fiscal and monetary cost and sources of financing of anty-crisis policy measures

	Fiscal	Quasi-fiscal	Monetary	Total, \$
National Budget		Tax cuts on \$4.2 bln.		4.2
National Oil Fund	\$ 4 bln in 2007 \$10 bln in 2008-2009			14.0
National Bank			\$2.9	2.9
Total, \$	14.0	4.2	2.9	21.1

1. Primary considerations for FR

- a) Efficiency
- b) Perceived sector inefficiencies, overlapping
- c) Perceived institutional opaqueness

2. Level of political support for FR

- a) Interagency Commission on Public Administration reform headed by Prime-Minister was established in January 2007.
- b) Members of the Commission are all ministers and Heads of Central government agencies.

3. FR scale, terms (1)

- What sectors have been involved?
- Construction. New Agency on Construction, housing and communal services was established in June 2009 according President's Decree. Several functions were moved from:
 - Former Construction Committee of Ministry of Industry and Trade – architecture, town planning, construction, housing and communal services
 - Ministry of Agriculture – government regulations in water supply and drainage system in settlements
 - Ministry of Energy and Mineral Resources – government regulations in power supply and heat supply (excluding combined heat power plant)

FR scale, terms (2)

- MIT received from MA function on development of machinery construction for agriculture
- MIT received new function on policy development for high tech services
- Agency on Construction, housing and communal services received new function on development of government policy for regulation of gas supply and waste.

4. FA coverage and comprehensiveness

- a) Institutional mandate and role in the sector.
- b) Review of staff allocation.

In June 2009 staff limits were reduced on 2577, at central level on 782, at local level on 1795. As a result according MEBP budget expenses were reduced on 633.3 mln. tenge (national budget on 110.2 mln.tenge, local budget on 522.9 mln. tenge.

- a) Decision-making and if relevant policy-making functions.

5. FR methodology

- a) Review of annual and financial reports.
- b) Review of legislation
- c) Meetings and discussions with government officials

6. FR findings and results

- a) Doubling of Government agencies and National wealth Fund Samruk Kazyna, Kaz Agrofuctions
 - b) Doubling at local level functions of local authorities and representatives of central government (territorialnye organy) , Social Entrepreneur Corporations
 - c) Highly centralized decision making with direct participation of central government in deciding on a variety of issues at local level (set of limits for staff at local level by Prime Minister decrees)
 - d) Highly centralized system of public finance
 - e) Lack of relevant skills.
 - f) Wrong role in the sector (functions found in the public sector institutions that are better placed to be done by other actors in the sector).
- Absence of underlying infrastructure (relevant statistics, procedures, technologies, accountability procedures, etc),
 - Inadequate content and procedure for the decision-making (policy related process, regulatory related functions, etc).

7. Impact and sustainability of FR

- a) There are not visible results in improved functioning or provision of public services.
- b) New functions have been created (at new institutions). Unfortunately there is no methodology how it has been measured?
- c) Government and private sector burden blurring.
- d) Government doesn't initiated FR for assessment of administrative reform results.

Bibliography, Sources, Web-links

- www.government.kz
- www.minplan.kz