Economic Decentralization in Kazakhstan: Causes and Consequences

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Since the break-up of the Soviet Union in 1991, we have witnessed a pattern of economic
decentralization in Kazakhstan and several other Soviet successor states -- particularly Russia
and Ukraine -- that both contradicts existing models and understandings of why, when, and how
decentralization occurs and highlights some of the particular challenges of state formation in the
post-communist world.

Regarding decentralization, there are two key differences. First and foremost, the impetus
for decentralization in these states has come more often from below (i.e. the regional-level
government) than from above (i.e. the central government). This explicitly places the central
government in the role of responding or reacting to regional leaders’ independent actions, and in
some cases outright demands for more autonomy, rather than in the position of initiating
decentralization. A second and directly related difference is that, at least initially,
decentralization has taken on a form that is much more de facto (i.e. unofficial or “in practice”)
than de jure (i.e. official or “on paper”). In many cases, this has spurred the central leadership to
issue decrees or authorize legislation in order to recognize officially what is already occurring
unofficially; in others, the central government has chosen to feign ignorance in an attempt to
maintain regional leaders’ support and avoid the appearance of “weakness.” President Boris
Yeltsin of the Russian Federation, for example, signed a series of bilateral agreements with
regional governments in the early to mid-1990s, which legally granted them additional spheres of
autonomy and institutionalized a system of asymmetrical federalism (see, e.g., Slider, 1997;
Stoner-Weiss, 1999). Similarly, as I demonstrate in this chapter, central authorities in
Kazakhstan have moved to codify regional governments’ de facto control over certain spheres,
particularly fiscal and budgetary matters. These two characteristics of decentralization in the
former Soviet Union (FSU) amount to the informal usurpation of power from below that is often,
though not always, followed by the formal recognition of this newfound authority from above.\textsuperscript{1}

Yet, the existing literature seems willing to define away this possibility by equating “decentralization” with the “formal transfer of power from above to below” (See, e.g., Agrawal and Ribot, 2000, p.4).

These differences also reveal some distinguishing features of the state-building process in the former Soviet Union, particularly Central Asia. The fact that decentralization has both occurred from below and been largely de facto demonstrates that the central state apparatus is not as “strong” as it is often portrayed -- whether measured in terms of its coercive or infrastructural capacity to achieve its policy goals -- or at least that it is “weak” in comparison to the corresponding regional governments.\textsuperscript{2} Moreover, because central-peripheral relations are such a key component of the state’s structure and functions, the fact that the center has responded to de facto decentralization by officially recognizing it suggests that the state-building process in Kazakhstan is being driven as much from below as it is from above.

This chapter illuminates both the causes of economic decentralization and its implications for state-building in Kazakhstan. I argue that, although Kazakhstan is formally defined as a unitary state and its central leadership is often assumed to exert authoritarian control throughout the country, de facto decentralization has been occurring in Kazakhstan since independence. In other words, subnational leaders have exercised much greater influence over the economy in practice than they are granted on paper. The de jure decentralization that has been enacted since 1999, moreover, is in fact an official recognition of what had already been occurring in practice.

\textsuperscript{1} In contrast to Russia and Kazakhstan, for example, there has been little willingness in Ukraine to officially recognize the de facto dual subordination of the tax administration, commercial banks, and the treasury department to regional administrations. See Way, 2001.

\textsuperscript{2} State “strength” is usually meant to denote its ability to achieve its policy goals. According to Mann (1993), states can employ a combination of coercive and infrastructural means to achieve their ends. Some also consider legitimacy to be a crucial component of state effectiveness (see, e.g., Jackman, 1993; Weber, 1953).
The impetus for decentralization in Kazakhstan, then, has come largely from regional (or subnational) governments rather than from the central government, as is commonly argued (and often assumed) in the theoretical literature.3

Thus, the mode of decentralization in Kazakhstan indicates that the central state must engage in on-going negotiations with regional authorities in order to both make and implement economic policy. Moreover, it has several key theoretical implications for the study of the state. First, it contributes additional evidence to the growing contention, particularly among those who study the developing world, that the state cannot be treated as either a unitary, coherent actor or an integral whole, but instead, should be viewed as a set of competing actors and institutions (see, e.g., Anderson, 1986; Migdal, 1988; Migdal, Kohli, and Shue, 1994; and Waldner, 1999).4 Second, this competition can occur between governing elites within the state apparatus itself. The greatest obstacle to building effective states in Kazakhstan as well as Uzbekistan (Ilkhamov and Jones Luong, this volume) is not the struggle for domination between those actors that make up the state and those that constitute social forces, as is commonly depicted in the literature on state-building in the developing world (see, e.g., Migdal, 1988; Migdal, Shue and Kohli, 1994). Rather, it is a geographically-based struggle between state elites for control over access to both public and private resources that is likely to intensify when existing resources become scarce or new resources are generated. Third, owing to the lasting imprint of Soviet rule on central-peripheral relations in Kazakhstan (and Central Asia in general), “winning” this struggle depends much more on the art of negotiation and compromise than it does on the nature of the political regime and its ability to employ coercion. Alisher Ilkhamov and Pauline Jones Luong’s (chapter two) findings suggest that this is also the case in Uzbekistan, which has an arguably much more

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3 For an excellent overview of the literature on decentralization, see: Agrawal, 1999, esp. Chapters 2-3.
4 For an elaboration of this argument and its application to the post-communist world, see Grzymala-Busse and Jones Luong (2001).
repressive authoritarian regime that is prepared to use force to impose its political will. At the same time, as the chapters by Ilkhamov and Jones Luong and by Erika Weinthal in this volume demonstrate, although society has the most to lose (or gain) from the elite bargaining that determines the allocation of resources, it is essentially excluded from this process. Finally, in the context of a weak central state, further decentralization only serves to exacerbate the struggle among governing elites for control over spheres of influence. Policy-makers, therefore, have good reason to pause before endorsing such an outcome – at least in the short-term.

This chapter proceeds as follows. The first section provides a brief overview of the impetus behind growing international support for decentralization throughout the developing world. I then present compelling empirical evidence that economic decentralization has been occurring de facto in Kazakhstan since independence, and that the recent move toward de jure decentralization occurred in direct response to this. Finally, after considering several alternative explanations for decentralization in Kazakhstan, I elaborate the empirical and theoretical implications for state-building in Kazakhstan, the former Soviet Union, and beyond.

**International Support for Decentralization**

In recent years, economic decentralization has become an increasingly popular policy recommendation among international development organizations and lending agencies around the world. Its strongest advocates often point to the “successes” of several developing countries, such as China and India, which have experienced significant market reform and economic

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5 This includes the United States Agency for International Development (USAID), United Nations Development Program (UNDP), International Monetary Fund (IMF), and World Bank. One indication of the growing support for decentralization is the amount of seminars and working papers that have recently been devoted to decentralization. See, for example, [http://www.imf.org/external/pubs/ft/seminar/2000/fiscal/index.htm](http://www.imf.org/external/pubs/ft/seminar/2000/fiscal/index.htm).
growth in the aftermath of devolving economic decision-making authority to local governments (see, e.g., Montinola, Qian, and Weingast, 1996; Echeverri-Gent, 2000). 

The main rationale behind the growing international impulse to promote decentralization in the developing world is that it will provide the necessary structural incentives to foster market-promoting behavior at the local level, and hence, stimulate economic growth. These incentives can be crudely summarized as: predictability, efficiency, and accountability. Proponents of fiscal decentralization, for example, argue that devolving control over the generation, collection, and distribution (or expenditure) of tax revenue will provide local leaders with a stable revenue base which they will then use to provide public goods (such as social services) more efficiently in order to both satisfy the demands of their constituents (i.e. the local population) and to create surplus revenue which can then be re-invested into the local economy (e.g. to build infrastructure) in order to attract more investment. Most accounts endorsing decentralization also stress the role that inter-regional competition over mobile sources of revenue (e.g. capital and labor) plays in reinforcing these incentives by motivating local governments to guarantee property rights, implement rational fiscal and regulatory regimes, and provide public goods (see, e.g., Weingast, 1995, p.5).

Advocates of decentralization have gained ground most recently in several post-communist states, including the Czech Republic, Poland, Hungary, Russia, Ukraine, and Kazakhstan (author’s personal communication with Gulnara Kurbanova, UNDP Project Manager for Decentralization in Kazakhstan, Almaty, November 1999; see also, e.g., Bryson and Cornia, 2000, Treisman, 1999, Way, 2000, and Zhuravskaya, 2000). Yet, these states do not appear to possess the fundamental structural conditions that either necessitate decentralization or guarantee

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6 In actuality, the desirability and effectiveness of decentralization in these countries have received mixed reviews. See, for example, Rodden and Rose-Ackerman, 1997.

7 For a comprehensive overview, see Tanzi, 1995. On fiscal federalism in particular, see Oates, 1972.
its effectiveness. Decentralization requires, first and foremost, a strong central state. Indeed, the driving force behind efforts to devolve political and economic authority to the local level is the assumption that the main obstacle to establishing and/or maintaining efficient markets, and hence to promoting economic growth, is the predatory central government. Returning for a moment to the example of fiscal federalism, this is often illustrated by central governments setting a revenue collection target for local governments and then “punishing” them for generating any amount above this target by repeatedly confiscating or “clawing back” the excess revenue. Local governments, therefore, have a compelling disincentive to either increase tax collection or expand their revenue base. The value of decentralization, then, it that it literally serves to “tie the hands” of the central government so that it can “credibly commit” NOT to confiscate revenue (see, e.g., Weingast, 1993). At the same time, however, a strong central government is crucial to the success of decentralization because it must have the administrative and legal capacity to assure economic actors that it can enforce contracts and property rights as well as to regulate inter-regional economic activity (see, e.g., Montinola, Qian, and Weingast, 1996).

The assumption of a strong central state is a particularly powerful one in the post-communist setting, since most attribute the failures of communism to an overgrown and intrusive socialist state. This is often accompanied by an under-emphasis on the state’s crucial role in enforcing contracts and regulating economic activity. Yet, in reality, central governments throughout Eastern Europe and particularly the former Soviet Union have exhibited signs of administrative weakness and severely limited fiscal capacity (see, e.g., Cirtautas, 1995; Jones Luong, 1999; Stoner-Weiss, 1999; Way, 2000. In both Russia and Ukraine, for example, there is substantial evidence that central authorities have failed to enforce revenue-sharing arrangements with subnational governments that they themselves designed precisely because regional
governments exert a great deal of informal control over this formally centralized process (see, e.g., OECD Economic Surveys, 1997 and 2000b; Stoner-Weiss, 2001; Way, 2000). Throughout the former Soviet Union, moreover, central governments frequently fail to honor formal commitments, including subsidies to subnational governments, because they have suffered from severe fiscal crises and sharp declines in growth since independence (see, e.g., Jones Luong and Way, 2001).8

De facto Economic Decentralization in Kazakhstan

There are three basic types of economic decentralization: 1) fiscal (e.g. revenue collection, generation, and distribution), 2) administrative (e.g. providing social services), and 3) regulatory (e.g. issuing licenses and permits, monitoring safety and environmental compliance). All three have been a feature of the Kazakhstan’s political landscape since shortly after independence, and began accelerating in 1995. Yet, they have emerged and persisted unofficially, or de facto, rather than officially, or de jure until 1999. According to both its 1993 and 1995 constitutions, Kazakhstan is a unitary state with a highly centralized budgetary system that operates in much the same manner as the Soviet one. The key difference between de facto and de jure decentralization is that in the latter subnational control is legally codified while in the former subnational control is illegal but nonetheless exists in practice. We must thus find ways to separate the official delimitation of authority for economic policy-making from the actual degree of autonomy that subnational leaders are exercising unofficially. This is no easy task. In this section, I attempt to demonstrate that de facto economic decentralization has indeed occurred in

8 From 1992 and 1998, GDP fell by over 40 percent in Russia and Ukraine and by over 20 percent in Kazakhstan (see Transition Report, 1999, and Way, 2001).
Kazakhstan and is widespread, based on a variety of indicators and using a combination of qualitative and quantitative data.

At the most general level, de facto decentralization can be said to exist where the central government’s economic directives diverge from actual local practices and outcomes. We need to ascertain, therefore, the degree to which agencies located at the subnational level actually respect and implement central policy, particularly when it contradicts regional or local policy preferences, or to what degree local agencies are “captured” by regional or local interests. More specifically, for each type of decentralization mentioned above there are several possible indicators of de facto subnational autonomy. I explore each of these in turn below.

**Fiscal Decentralization**

A key indicator of de facto fiscal decentralization is the degree of local discretion over revenue generation and collection. Here, several questions are relevant:

- Are tax administrators dually subordinated to central and subnational authorities?
- Do subnational governments issue tax exemptions at their discretion?
- Do they have access to extra-budgetary funds?
- Do tax collection efforts vary?

While, on paper, the central government in Kazakhstan has the sole authority to collect taxes at all levels of government and set tax rates for the country (with the exception of a few local taxes), there is sufficient evidence based on these indicators to suggest that this is not the case in practice. The central tax agencies operating at the subnational levels are not under the exclusive control of the central government and tax rates are not uniform, but rather, subject to the needs and interests of subnational government officials.
Concerning the dual subordination of tax administrator, interviews that I conducted with members of the regional administrators and representatives of the central tax agencies in several regions (Almaty, Atyrau, Kyzyl-Orda, Mangistau, Pavlodar) in the fall of 1999 and summer of 2000 confirm that tax administrators receive directives from both the central and regional levels of government. When the two conflict, moreover, they are also more likely to fulfill those of the regional governments. Thus, for example, they frequently “avoid putting pressure on state enterprises that cannot afford to pay [their] taxes” and willingly accept non-cash payments (author’s personal communication with tax administration representative in Almaty, name withheld, November 1999). Regional leaders explained the common practice of issuing directives to these agencies, despite their official subordination to the central government, as a matter of both “convenience” and entitlement. They explained that the tax agency representatives are actually local employees because they receive similar privileges, such as housing subsidies, and that “they should [therefore]… be given local instructions… be managed by local authorities” (author’s personal communication with regional administration in Pavlodar, name withheld, June 2000). When asked to reflect on their own tendency to follow regional officials’ directives, some tax agency representatives explained that the regional leaders were often better equipped to “understand the needs of the local population” than central authorities (author’s personal communication with tax administration representative in Almaty, name withheld, November 1999). Several others also pointed out the fact that they had close personal relations with the regional administration and/or had once served in the regional administration and planned to return at some point. An additional reason for the de facto dual subordination of tax agency representatives is that regional and local administrations control their access to key

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9 It is worth noting here that, as in several other Soviet successor states, when these agencies were created they recruited staff from the regional and local administrations (see, e.g. Norris, Jorge Martinez-Vasquez, and Norregaard, 2000).
resources such as office space, telephones, and might even finance their activities (author’s personal communication with Gulnara Kurbanova, op. cit.). Thus, similar to the situation for local NGOs that Kelly McMann (this volume) describes in Kyrgyzstan, they must rely on local governments in order to carry out their basic functions.

Recent surveys of foreign investors operating in the aforementioned regions as well as several others (including Aktyubinsk, Karaganda, and Semipalatinsk) that I conducted with Erika Weinthal between 1997 and 2000 provide additional evidence that regional leaders consistently prioritize regional tax policy over national tax laws and regulations. In fact, this occurs to such an extent that foreign investors often described the entire process as “extremely arbitrary.” They complain, for example, that it is not sufficient to keep up with the central tax codes in order to avoid fines because they are “subject to the whim of the local tax authorities, who are often unfamiliar with the tax code” (author’s personal communication with representative of foreign oil company, Almaty, Kazakhstan, November 1999).¹⁰

These interviews and surveys also confirmed that subnational tax authorities routinely offer tax exemptions in exchange for “donations” to the regional administration’s discretionary funds and prefer to concentrate more on fining for non-tax compliance (usually caused by minor accounting or procedural errors) than on collecting taxes owed. Both of these activities contribute directly to the creation of a source of extra-budgetary income for regional leaders. The latter in particular literally converts the regions’ power to tax into the power to fine, such that, ironically, tax administrators are often encouraged to vigorously enforce central tax codes in order to extract larger fines. Due to the complex bureaucratic process, which requires that taxes be calculated and accounting records be reviewed on a transaction by transaction basis, that an excessive amount of paperwork be filed for each transaction, and that specific rules be followed

¹⁰ See Weinthal and Jones Luong, 2000, for more detail on the evolution of Kazakhstan’s tax code.
for book-keeping, the relevant regional authorities can and do employ frequent tax audits to penalize the (mostly foreign) companies under their jurisdiction. As one financial officer of a major oil company commented,

the line-by-line accounting method and excess bureaucracy actually increases the amount of money owed because there is so much room for error. Every single individual transaction is subject to regulation. Every single regulation is treated as an opportunity for the company to be fined (author’s personal communication, name withheld, November 1999, Almaty, Kazakhstan).

Whether or not there is variation in tax collection efforts is more difficult to determine. One way to do this without relying on more anecdotal evidence is to think of the amount of revenue collected as simply the sum of the tax base, tax rate, and collection effort: \( R = TB + TR + CE \). Since the central government officially sets tax rates, which are uniform across regions, it is reasonable to expect, *ceteris parabus*, higher tax collection in regions with a larger tax base, or in wealthier regions. As Table 1 clearly illustrates, however, tax revenue -- whether broken down into personal income tax (PIT), property tax, or measured in aggregate -- is only very weakly correlated with either the level of industrial production in a given region or its GDP. The only exception is GDP and PIT, which has a correlation of .73 (significant at the 0.01 level), yet here we might expect an even stronger correlation if wealth alone is driving tax collection receipts. Thus, we can conclude (albeit rather tenuously) that tax collection efforts vary across the regions.

Table 1 here

Some additional evidence that tax collection efforts vary across regions, or at least that they are not as high as the central government demands, comes from examining the differential between the targeted rates of tax collection and the actual rates. While I was only able to obtain this data for 1998 -- a year in which Kazakhstan suffered a sharp decline in both GDP and
revenue\textsuperscript{11} -- it nonetheless suggests that not all regions are as vigorous as others when it comes to fulfilling revenue targets. [See Table 2.] The “ability” to fulfill revenue collection targets, moreover, is clearly not a function of a region’s wealth. The five wealthiest (or “donor”) regions highlighted in Table 2 -- Almaty city, Atyrau, Mangistau, Karaganda, and Pavlodar -- were among that year’s biggest slackers.\textsuperscript{12}

Table 2 here

There is also some evidence to suggest that collection effort varies by the type of tax -- that is, whether it provides revenue exclusively to the region or is shared with the central government.\textsuperscript{13} While tax revenue has increased across the regions over the past few years, revenue from the land tax, property tax, and vehicle tax, all of which remain at the local level, has increased at a higher rate. Property tax, for example, doubled as a percentage of GDP from 0.4\% in 1996 to 0.8\% in 1997 (Republic of Kazakhstan, 1999, p.42). Moreover, due to the de facto dual subordination of tax agencies illustrated above, representatives of tax agencies often comply with instructions to focus on the collection of these local taxes over central ones. While the Almaty city and Atyrau Oblast budgets for 1999, for example, exceeded collection targets for all taxes the greatest “excesses” were in local taxes (author’s personal communication with Marcia Occomy, Resident Advisor, USAID Fiscal Reform Project, August 2000).

Another key, and commonly utilized, indicator of fiscal decentralization is the degree and mode of revenue sharing. Here, again, several questions are relevant:

- What is the share of subnational budgets in consolidated revenue and expenditures?

\textsuperscript{11} Kazakhstan’s GDP fell by 2\% in 1998 in conjunction with the drop in world oil prices and the August financial crisis in Russia.

\textsuperscript{12} This is particularly the case in Mangistau and Pavlodar (see Table 2). Note also that although one could argue that these regions failed to meet revenue targets because the bulk of their revenue depends on oil. Yet, this is also true for Kyzl-Orda, which is the only region that exceeded its revenue target. Astana City (formerly Akmola), the country’s capital as of December 1997, exceeded its revenue targets.

\textsuperscript{13} This does not mean, however, that overall tax collection has declined for either local or central taxes. In fact, it appears to have increased. I address this issue in a subsequent section on the effects of decentralization.
To what degree do subnational budgets consist of revenue raised on their territories as opposed to transfers?

Is revenue-sharing based on negotiations between regional and central governments or does it follow a predetermined target set by central authorities?

Answering the first two questions enables us to compare the level of decentralization in Kazakhstan to several other post-communist states and developing countries, many of which are federal systems. Subnational budgets in Kazakhstan contributed approximately 18 percent to consolidated revenue in 1999 (Ministry of Finance, Republic of Kazakhstan). If we compare this to Russia, where this figure was over 40% in 2000, it appears that Kazakhstan is not very decentralized (OECD Economic Surveys, 2000b). Yet, in comparison to other federal states, such as Mexico, where this figure was approximately 22 percent in 2000, Kazakhstan appears to be more decentralized (OECD Economic Surveys, 2000a). Concerning the degree to which subnational budgets rely on revenue generated within their territories versus transfers, the situation in Kazakhstan is much closer to Russia’s. For Russia, transfers made up approximately 15 percent of regional budgets in 1999 while in Kazakhstan they accounted for 23 percent of regional budgets in 1995 and then dropped to approximately 17 percent in 1999 (OECD Economic Surveys, 2000b; Ministry of Finance, Republic of Kazakhstan). Both of these figures are much lower than federal states at similar levels of economic development, such as Mexico, China, and India (OECD Economic Surveys, 2000a; Arora and Norregaard, 1997).

I combine qualitative and quantitative data in order to ascertain the extent to which revenue-sharing is based on negotiations or a “tug-of-war” between the regional and central leaders. This is an especially important indicator of de facto versus de jure decentralization
because it demonstrates the extent to which regional governments can unofficially “re-negotiate” what has already been officially determined.

The aforementioned interviews with regional leaders in Almaty, Atyrau, Kyzl-Orda, Mangistau, Pavlodar provided compelling evidence that they not only negotiate with central leaders over annual revenue-sharing rates, but that it is their expectation that this should be the case. The akims in question clearly consider officially determined rates as the beginning, not the end, of a long bargaining process. As one such akim boldly proclaimed, “if it were up to me, of course, I would keep all the revenue here…. But we are forced to share [it]. So, I say, let Astana come and get it” (Author’s personal communication with oblast akim, name withheld, October 1999). The expectation that informal negotiation and agreements would trump official sharing rates is also evident in the rationale for exceeding revenue targets. When asked why their region or city regularly exceeded revenue targets, for example, akims uniformly responded that this increased their ability to “convince” the center to let them keep more of the excess revenue. In other words, the more revenue they collected the stronger their bargaining position vis-à-vis the central government.

Questions remain, however, as to whether this practice extends beyond these five regions and, if so, then how widespread it actually is. Two types of quantitative measures help me address these questions. First, if the rate of revenue-sharing is officially determined then we should expect to find that wealthier regions contribute more to the national budget. As Table 3 illustrates, however, there is only a weak correlation between a region’s overall level of wealth (measured in terms of VAT) and its contribution. Second, we can calculate the effective rate of revenue sharing between the central and regional government in Kazakhstan and compare it to the official rates. [See Table 4.] These figures clearly show that the effective rate of revenue
sharing fluctuated considerably between 1997 and 1999 and, moreover, that they differed considerably from official rates, particularly for the corporate income tax (CIT), personal income tax (PIT), and social tax.

Table 3 here

Table 4 here

**Administrative Decentralization**

Administrative decentralization exists when the main locus of state expenditures is at the subnational rather than the national or central level, or when they have comparable levels of expenditure. Table 5 (below) demonstrates not only that this is indeed the case in Kazakhstan, but also that the distribution in expenditures between levels of government in Kazakhstan is very similar to that of Russia. The similarity is striking, since Russia is a federation and thus should automatically have a much higher portion of expenditures at the subnational level.

Table 5 here

At the same time, Kazakhstan differs dramatically from Russia in that there are no formal expenditure responsibilities. For each budgetary year, then, the central government can decide which responsibilities it will assume and literally “dump” the remainder onto subnational budgets. The central government has done this not only to a greater degree since independence, but also without transferring the necessary funds to regional budgets.¹⁴ Thus, regional governments in Kazakhstan have assumed increasing responsibility over providing social services without the financial resources to provide these social services (author’s personal communication with Kurbanova, op. cit). The result is that they must make difficult choices

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¹⁴ In some cases, this is deliberate while in others it is circumstantial -- e.g. the collapse of state enterprises that previously provided social services.
about whether and how to allocate scarce resources, and that they often fail to meet national expenditure targets (see, e.g., Table 2 above).

Yet, the lack of formal requirements also provides regional leaders with a great deal of discretion over social spending. Thus, as Table 2 (above) illustrates, they fail to meet their expenditure targets to varying degrees. Their ability to fulfill these targets, moreover, is once again not determined by wealth. The discretion of regional leaders over expenditures is also apparent in the wide variation across regions in per capita expenditures on specific areas. Figure 6.1 and Figure 6.2 (below) demonstrate that the level of spending on education and public health varies not only across regions but also from year to year within the same region. Such discrepancies become more visible when they are directly compared to the targets set by the central government. In 1997 and 1999, for example, Atyrau Oblast failed to meet its expenditure targets for public order and security and environmental protection, but exceeded these targets in education and healthcare (Department of Finance, Atyrau Oblast). As Figure 6.3 illustrates, regional governments also meet their salary obligations to state employees to varying degrees, though none do so completely.

Another area in which there is significant variation in regional expenditure concerns investment in local infrastructure. Although this is an obligation formally assigned to the central government, regional governments complain that they are routinely responsible for financing and determining the need for such investment (author’s personal communication with regional administrations in Atyrau and Mangistau, October 1999, Almaty city, November 1999, and
Pavlodar, June 2000). Not surprisingly, infrastructural improvements are most common in regions where akims have access to extrabudgetary funds, who claim to use these funds to pave roads and construct new buildings, including bowling alleys and sports complexes. As mentioned above, an akim’s degree of access to extrabudgetary funds is most often a function of the level of foreign investment in a given regions. The administrations in those regions that lack foreign investment, and thus have limited (if any) access to such funds, then, and are less likely to prioritize such investments, particularly over “items of current expenditures, such as wages and salaries” (Norris, Martinez-Vasquez, and Norregaard, 2000, p.7).

Figure 6.3 here

Regional leaders’ record on implementing economic policies formulated at the central level provides another key indicator of the degree to which regional leaders are exercising greater control over the local economy in practice than they are granted on paper. Since independence, Kazakhstan has launched the most extensive privatization program in Central Asia. Its “success” in the regions, however, has been mixed from the start. In many cases, regional leaders simply refused to implement privatization programs, created bureaucratic obstacles to hinder private sector development, or chose to “look the other way” when local akims refused to recognize the transfer of state property to private hands (see Jones Luong, 2002, chapter four, for details). Only a few regions (e.g. Chimkent and South Kazakhstan) did precisely the opposite by establishing a single-step procedure in order to increase the number of registrations more quickly (see, e.g., World Bank, 1993, p.70). The results of privatization, therefore, have also been mixed. Figure 6.4 and Figure 6.5 provide some indication that, the regions vary considerably according to the degree of private economic activity and the amount of budgetary receipts from privatization.

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15 See, for example, the *Law on Destatization and Privatization of the Republic of Kazakhstan*, June 1991.
Regulatory Decentralization

De facto regulatory decentralization overlaps somewhat with fiscal and administrative decentralization because it describes a situation in which subnational officials exercise greater authority over setting and enforcing regulations in practice than they are empowered to do on paper. Three main questions help us to determine the degree of regulatory decentralization:

- Are national regulations and standards inconsistently enforced at the subnational level?
- Are licenses and permits to contractors (foreign and domestic) issued arbitrarily -- i.e. at the subnational leadership’s discretion?
- Are regulatory authorities dually subordinated to central and subnational authorities?

According to surveys conducted with foreign investors throughout Kazakhstan from 1997-2000, all three of these features are pervasive. (Their experiences are summarized in Figure 6.6 below.) Central agencies responsible for regulating foreign investment at the regional level according to national laws, for example, nonetheless consistently prioritize local over national regulations. They will also routinely agree to overlook national regulations in exchange for personal favors or monetary contributions to the regional akim’s discretionary funds. The regional administration also promotes its own agenda by making it impossible for companies to operate if they either refuse to follow local regulations or defer to national regulations over local ones. One former managing director’s experience was that “the fastest way to be fined or have your license revoked [by the local government] is to ignore the local [not national] regulations (author’s personal communication, name withheld, October 1999, Atyrau, Kazakhstan). As a result, “many investors have found that it is worthwhile to resolve oblast concerns first before
approaching the republican authorities for contracts,” and in some cases to “always give the oblast level the first opportunity to comment before sending applications to the central government” (Biddison, 1999, p.6; author’s personal communication with former managing director, name withheld, op. cit.). Investors’ nearly uniform experiences provide a clear indication that regional authorities actually have a much more direct influence on regulatory policy than the central government originally intended.

Figure 6.6 here

The testimony of regional officials I interviewed corroborates that of foreign investors, and sheds some additional light on the dual “pressures” that regulatory authorities face at the subnational level. Where national and regional regulations conflict, they are legally obliged to enforce the former over the latter. Yet, similar to tax administrators, they are considered “local employees” and often receive subsidized housing as well as their salary and bonuses from the regional government. They are thus more likely to enforce regional over national regulations. Regional akims also use their de facto authority over local regulatory agencies to extract additional funds from foreign investors by putting pressure on the employees of these agencies to revoke a company’s operating license, deny them a permit, or cause an “endless delay” in these procedures (author’s personal communication with members of the regional administration in Atyrau, names withheld, October 1999).

**De jure Economic Decentralization in Kazakhstan**

Measuring de jure decentralization is much more straightforward. In this case, the key is to ascertain whether the official locus of authority over the economy, as codified in a country’s laws and institutions, is at the national or subnational level. Some relevant indicators for fiscal
decentralization in particular include first, whether shared revenue sources between different levels of government are clearly delineated and consistent, and second, whether subnational governments have the legal authority to generate their own revenue and to independently determine budgetary expenditures.

According to these indicators, since 1999 the central leadership in Kazakhstan has enacted several measures that would officially devolve greater fiscal and administrative authority to regional governments. The most recent budgetary law, approved in April 1999 and amended in February and then August 1999, establishes a revenue-sharing system between the central and regional governments in which several taxes are reserved for either the central or regional budget exclusively, and several others are shared equally (50/50). [See Table 5 for details.] A few of these taxes, such as the land tax and environmental protection tax, are local taxes for which regional governments also have the power to determine rates. This same law also includes an explicit assignment of central and subnational expenditure responsibilities and grants regional governments the right to generate their own revenue through borrowing directly from foreign sources, albeit on a limited basis. It was amended again in 2000 to give regional governments even greater budgetary authority by assigning “regional representative bodies as opposed to centrally appointed executives,… [the] sole authority to approve tax sharing rates and transfers to local governments” (Norris, Martinez-Vasquez, and Norregaard, 2000, p.18). Finally, the 1999 draft law “On Subventions and Withdrawals,” which has not yet been adopted, would make the revenue-sharing system more reliable, at least on paper, by fixing the rate of subventions to and withdrawals from the regions.

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16 For an overview of Kazakhstan’s tax regime, see Weinthal and Jones Luong, 2000.
17 I am grateful to Marcia Occomy, for bringing this feature of the new budgetary law to my attention. Previously, this right was limited to the central government.
This limited form of de jure decentralization is nonetheless significant in that it essentially legitimizes what was already occurring de facto in fiscal and budgetary matters. The new official revenue-sharing rates, for example, codify the effective rates of revenue-sharing that resulted from annual negotiations between central and regional leaders prior to 1999. For example, the CIT, the revenue from which previously went exclusively to the central government on paper but were shared almost evenly with regional government in practice, were changed to a shared (50/50) tax. Similarly, the PIT, the revenues from which previously went exclusively to the central government on paper but in practice went almost exclusively to the regional government instead, was changed from a central tax to a regional tax.

In fact, I would argue that this is the underlying (and yet, unexpressed) purpose of de jure decentralization. The central government seems to be responding directly to demands from administrative heads (akims) in the five aforementioned “donor” regions (Almaty city, Atyrau, Mangistau, Karaganda, and Pavlodar) for an increase in official levers of control over the economies within their jurisdiction. The reforms themselves provide the first clue, since they are clearly designed to benefit the wealthier regions and, in particular, those regions that have a significant amount of foreign investment.\(^\text{18}\) The CIT, for example, is generated disproportionately in the donor regions because they are host to a sizeable number of foreign enterprises. The provision on borrowing is also directed at wealthier regions. It is highly unlikely that any regions other than the five donor regions will in fact attract creditors, since the regional government must provide the collateral on all loans. In fact, only Almaty city, Atyrau Oblast and

\(^\text{18}\) Not surprisingly, the amount of foreign investment is also highly correlated with resource-wealth. Almaty was previously Kazakhstan’s capital city and continues to be its financial center. Atyrau and Mangistau border the Caspian Sea and possess the largest existing and potential oil and gas reserves in the country. Karaganda has significant mineral wealth, and Pavlodar hosts the country’s largest oil refinery.
Mangistau Oblast have issued government bonds since the budgetary law was amended in August 1999 (author’s personal communication with Marcia Occomy, op. cit.). Perhaps the most obvious way in which the new laws are weighted in favor of wealthier regions and against poorer regions, however, is that setting fixed rates for subventions and withdrawals hurts those regions that can not meet their budgetary needs through their own revenue sources (and, conversely, benefits those that can).

Even more compelling evidence for the contention that de jure decentralization is a deliberate attempt to officially recognize the demands of the wealthier regions for more autonomy is the fact that it is the leaders of these regions who have been actively demanding greater autonomy in both the economic and political spheres. For several years the central government has ignored de facto decentralization (and even sanctioned it) as a way of coveting these regions’ support for privatization (Jones Luong and Weinthal, 2001). However, this has led to increasing conflicts with oil and gas investors, who are not only confused about their legal obligations to the central versus regional governments but also frustrated by the frequent and blatant violations of the original terms of their contracts. The akims in these regions want to exercise greater de jure control over the activities and monetary resources of the foreign investors operating in their oblasts to “clear up” this confusion and “address” these contractual inconsistencies (author’s personal communication with regional administrations in Atyrau and Mangistau, October 1999, Almaty city, November 1999, and Pavlodar, June 2000).

**Alternative Explanations**

Existing explanations for decentralization in the developing world are based on two sets of arguments. The first concerns the origin of decentralization; that is, whether it was initiated
from above or below. In the former case, central authorities themselves either realize the need to
devolve more authority and/or allocate more administrative functions to local government, or are
“encouraged” to do so by international lending organizations, such as the World Bank and the
United Nations Development Program (UNDP) (see, e.g., Crook and Manor, 1998, p. 1;
Agrawal, 1999, p.12). In the latter, local governments or non-governmental organizations
(NGOs) put pressure on central governments to increase their formal decision-making authority.
The second concerns the incentives for decentralization, which are viewed as either primarily
economic or political, and is usually focused on the central government rather than local ones. In
other words, if the central government initiates decentralization, is it because centralized control
has become infeasible for either economic or political reasons. Both sets of arguments suggest
several possible explanations for the particular pattern of decentralization in Kazakhstan, none of
which is fully satisfactory. I briefly consider each in turn below.

*Greater Economic Efficiency and/or Administrative Effectiveness*

A common argument across the decentralization literature is that central governments
choose to decentralize as a way of achieving greater economic efficiency and/or administrative
effectiveness. In Kazakhstan, then, this would mean that President Nazarbaev and the central
ministries delegated more formal responsibilities to regional leaders since 1998 and either
ignored or sanctioned their usurpation of informal authority because they wanted both to reduce
central expenditures and to make regional governments more effective. There are two serious
problems with such an argument. First, it rests on the assumption that there is an element of
consciousness to decentralization on the part of the Kazakhstan’s central government, which is
clearly not the case here. The central government in Kazakhstan has been placed thus far in the
role of choosing whether and how to respond to regional activities, rather than in the role of
initiating them. Second, it implies that the government -- at least tacitly -- supports decentralization as a viable strategy for achieving greater efficiency. Yet, to date, the Kazakhstani government has shown nothing but resistance to decentralization -- both privately and publicly -- and in fact has attempted to (re-)centralize instead as a way of streamlining and reinvigorating basic governmental functions. There is also evidence to suggest that it briefly considered implementing some aspects of formal economic decentralization in 1995-1996, but rejected this option for fear of inciting regional rivalries and fueling regional separatism (see, e.g., Spanov, 1999, p.7; and “Economic Separatism,” 1998).

**Response to “Pressure” from International Organizations**

This argument stems from the fact that decentralization, which began to arouse great interest among international development agencies during the 1980s, has recently become a key component of many international organizations’ manifestos. In Kazakhstan, to be sure, the UNDP is deeply interested in promoting decentralization. The UNDP office in Kazakhstan, however, has only very recently instituted a program on decentralization, and has encountered a great deal of resistance from all but one governmental agency at the central level -- the Agency for Strategic Planning (ASP). Similarly, the World Bank has made some steps toward decentralization as a precondition for its next loan to Kazakhstan. Yet these are only minor, such as clearly defining the central government’s structure and authority to avoid administrative overlap and duplication at the local level, and came after the ASP’s request that the UNDP assist it in designing a program for decentralization (author’s personal communication with Gulnara Kurbanova, op. cit.).

**Desire to Capture [Expected] Political Gains**
Another key motivation for central leaders to decentralize is the indirect political gains they expect to achieve from this policy. These political gains can take several forms in the literature, including an enhancement of central politicians’ ability to: (a) “gain a greater share in available resources” (Agrawal, 1999, p.36); (b) distribute benefits disproportionately to their supporters -- i.e. on a partisan basis (Echeverri-Gent, 2000 p.3); and (c) advance their long-term “career goals,” essentially by promoting their short-term electoral success (Eaton, 2000). None, however, accurately depicts the calculations of central leaders in Kazakhstan. First of all, fiscal and budgetary centralization is widely viewed as the most effective strategy for capturing more resources at the center. Secondly, central parties and party identification are generally weak, and certainly none penetrate the local level to a sufficient degree to build any real partisan support. The only party that might come close to achieving this is OTAN (Fatherland), which was organized in conjunction with the January 1999 presidential elections and supports strong presidential and central power. Finally, legislators have not yet weighed in on the decentralization debate, and so it is difficult to assess their support. This is not to say that there is no link between decentralization and national elections. The “electoral connection” here, however, is with presidential elections, which are widely viewed as an opportunity for the local population to approve or disapprove of their regional leaders, who in their estimation represent the president (author’s personal communication with candidates to the national legislature, Majilis, names withheld, September 1999). This undoubtedly gives the center an incentive to allow and even encourage informal influence at the regional level to the extent that it is good for the oblast (i.e. contributes to its socio-economic well-being).

Response to Local Governments’ and/or NGOs Demands
Those explanations that do treat seriously the possibility of decentralization “from below” (rather than “from above”) nonetheless focus their analysis on the center’s need to give into local demands (either from local governments of local NGOs) for greater autonomy. In Kazakhstan, this would mean that the central government has allowed greater autonomy in response to regional leaders’ demands. Yet, this also fails to capture the dynamics of economic decentralization in Kazakhstan, since first, regional leaders have not demanded informal powers, but rather, simply usurped them, and second, the overt demands for greater formal autonomy at the regional level have not been met despite their increasing frequency since 1996. These demands have centered around transferring granting financial authority to the regional level, such that mayors and governors could determine taxation privileges for investors in their respective regions and generate their own revenue from local taxation (see, e.g., Focus Central Asia, 1998; Jamestown Monitor, 1998). They have also included demands for local elections.

**Corruption**

Among experts on Central Asia and the local population, perhaps the most popular explanation for both de facto and de jure decentralization in Kazakhstan is that regional officials deliberately abused their authority to enrich themselves at the expense of the population under their jurisdiction. In other words, what we have witnessed from 1995 to the present is not “decentralization” at all, but rather, widespread elite corruption and the codification of decentralization since 1999 is no more than the legalization of corruption. This explanation has some resonance since regional akims are, after all, appointed officials. If President Nazarbaev objected to their usurpation of power, then, he could simply remove them from office. The fact that he does not do so suggests his complicity.
This is a pervasive explanation because there is a strong popular belief that regional akims, for example, literally buy their positions or are given these positions as side-payments for lending their political support to Nazarbaev. Yet, it is not a satisfying one for several reasons. First, the patterns of expenditure and investment suggest that regional leaders are not merely pocketing money in the budget that is allocated for social spending. At least two regions -- Atyrau Oblast and Pavlodar Oblast -- consistently exceed expenditure targets for education (Department of Finance, Atyrau Oblast; Department of Finance, Pavlodar Oblast). Some akims, as mentioned above, are using their extrabudgetary funds to make infrastructural investments in their respective regions. All the akims interviewed expressed a strong sense of obligation to provide the local population with basic social services, including jobs and housing. In fact, this is one of the main reasons they cited for their tendency to discourage tax administrators from forcing state enterprises to pay their taxes. Second, even if the president disapproved of a regional akim’s behavior, removing him is not necessarily the solution. Technically, regional akims can be replaced by the president at will. But this is not always a viable strategy because there are a limited number of candidates for the position who will be accepted by the local population and have access to the proper social and economic networks in order to be effective at all. In particular, the president relies on akims to “get the vote out” at election time and this often requires both gaining the “trust” and “respect” of the local population as well as maintaining a positive relationship with large industry. As during the Soviet period, enterprise managers have a significant influence on how their workers cast their vote. In the post-Soviet period, they can also determine whether local governments continue to receive needed goods and services at reduced rates (see e.g. Woodruff, 1999). Finally, the very act of codifying de facto decentralization defies
the notion that Nazarbaev somehow consciously benefited from informal power-sharing between the central and regional governments.

**Implications for State-Building**

The pattern of economic decentralization in Kazakhstan described above has much broader implications for understanding the state-building process in the former Soviet Union and beyond. First, it supports the growing contention that we gain greater analytical leverage by treating the state as a set of competing actors and institutions rather than as either a unitary, coherent actor or an integral whole. Second, it reveals the conditions under which this competition can occur between governing elites within the state apparatus itself rather than merely between state actors and social forces. Soviet policies and institutions created multiple institutional actors and empowered them over time while at the same time emasculating social forces. In particular, regional leaders were empowered through their unique access to scarce political and economic resources through which they created powerful patronage networks and strong regional identities (Jones Luong, 2002, chapter three). The result is the virtual absence of any independent power centers outside the state apparatus. Instead, as in Uzbekistan (Ilkhamov and Jones Luong, this volume), the regional governments have posed the most serious challenge to the central state’s authority both under Soviet rule and after independence. The Soviet system itself, then, is responsible for creating the very “local strongmen” that the central government must now either co-opt or defeat in order to establish its control over the periphery.\(^{19}\)

This paints a picture of the state fighting against itself that lies in stark contrast to our existing knowledge of other state-building experiences in several fundamental ways. In most

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\(^{19}\) Joel S. Migdal discusses the perennial state-building problem of co-opting or defeating “local strongmen” in the periphery. See Migdal, 1988.
developing countries “local strongmen” are depicted as representing social forces and traditional authority that resist the advancement of the modern state (see, e.g., Migdal, 1988; Hagopian, 1996). The basis for their strength vis-à-vis the state is their hierarchical position within a well-organized society. Yet, as in other Central Asian states, regional leaders in Kazakhstan derive their relative strength from their position within the state, which has both historical and ideological significance, as well as from their position within society (Jones Luong, 2002, chapter three). This gives them a dual source of power vis-à-vis the central government, and thus limits the effectiveness of available strategies to curb their power. Central authorities cannot develop, for example, a “Triangle of Accommodation” whereby representatives of the state (“implementers”) and local “strongmen agree to exchange political, economic, and social resources” such that “no single group monopolizes power” (Migdal, 1988, pp.247-48, 252). In addition, because these strongmen are actually part of the state apparatus in Kazakhstan (and other former Soviet republics) central leaders cannot publicly renounce their legitimacy in the same way that they can (and have) in other developing countries such as Egypt, India, and Mexico (Migdal, 1988, p.249). As a result, they are denied one of the main weapons against these strongmen. The proliferation of foreign investment in Kazakhstan in particular denies them yet another lever to control renegade regional leaders. Whereas during the Soviet period, the central government in Moscow could use its monopoly on scarce resources and resource distribution to rein in regional leaders, they have become much more financially independent since independence. Thus, they are not limited in the same way that Migdal’s “local strongmen” are by their dependence on the state for resources (Migdal, 1988, p. 253). Nor is their power being expanded by the growth of the state, as Francis Hagopian (1996) finds in Brazil.
Finally, de jure decentralization during this formative period reinforces the position of these “local strongmen.” The state is mired in competition among governing elites for spheres of influence rather than engaged in a struggle for control against social forces to establish a monopoly on the legitimate use of force. Intra-state competition is likely to intensify, moreover, when existing resources become scarce, as in Uzbekistan (Ilkhamov and Jones Luong, this volume), and when new resources are generated -- whether through foreign investment, as is the case in Kazakhstan, or foreign aid more generally (Weinthal, this volume). Thus, the expansion of formal subnational control over the economy with limited vertical (upward and downward) accountability is likely to exacerbate this situation by legitimizing these local strongmen and further weakening the prospects for the development of a central state strong enough to regulate their activities and enforce the rule of law. As is the case in Uzbekistan (see Ilkhamov and Jones Luong, this volume), authoritarian rule has not produced upward accountability while at the same time greatly limiting downward accountability. The potentially negative consequences for society, which has heretofore been essentially left out of the “turf-war” between central and regional elites, are immense. It will become increasingly dependent on regional authorities, as they grow increasingly independent from the central government. In this regard, the proposed move toward local elections for regional akims would be a step in the right direction.

Decentralization in the context of a weak state thus turns the problem of taming the predatory state on its head. The primary constraint to economic growth in Kazakhstan and most other post-communist states is not the arbitrary power of a strong central state, but rather, the central state’s inability to function as a stable source of public goods provision. Once economic authority has been fully devolved to subnational actors, how does the central government develop such a capacity? More to the point, under what conditions will an increasingly powerful
periphery willingly cede back some of its authority to a central governing body? Here, over the long-term, only further comparative research can provide sufficient answers. In the short-term, President Vladimir Putin’s attempts to re-centralize control over Russia’s regions may provide some important clues (see, e.g., Stoner-Weiss, 2001).
Works Cited


Table 1: Variation in Tax Collection Effort

<table>
<thead>
<tr>
<th></th>
<th>I.</th>
<th>Property Tax</th>
<th>Total Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Production</td>
<td>.254</td>
<td>.478</td>
<td>.407</td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.342</td>
<td>0.61</td>
<td>.117</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.342</td>
<td>0.61</td>
<td>.117</td>
</tr>
<tr>
<td>N</td>
<td>16</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td><strong>GDP</strong></td>
<td>.727**</td>
<td>.444</td>
<td>.286</td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.001</td>
<td>.085</td>
<td>.283</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.001</td>
<td>.085</td>
<td>.283</td>
</tr>
<tr>
<td>N</td>
<td>16</td>
<td>16</td>
<td>16</td>
</tr>
</tbody>
</table>

**Significant at the 0.01 level**

Source: Calculations based on data provided from the Ministry of Finance, Republic of Kazakhstan.
Table 2: Actual Revenue and Expenditures Compared to Planned (1998)

<table>
<thead>
<tr>
<th>Location</th>
<th>Difference between Actual and Planned Revenue</th>
<th>Difference between Actual and Planned Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Akmolinsk</td>
<td>-24.7%</td>
<td>-20.5%</td>
</tr>
<tr>
<td>Aktyubinsk Oblast</td>
<td>-30.8%</td>
<td>-23.5%</td>
</tr>
<tr>
<td><strong>Almaty City</strong></td>
<td><strong>-8.1%</strong></td>
<td><strong>-9.3%</strong></td>
</tr>
<tr>
<td>Almatinsk Oblast</td>
<td>-9.4%</td>
<td>-11.9%</td>
</tr>
<tr>
<td>Astana City</td>
<td>2.6%</td>
<td>-1.9</td>
</tr>
<tr>
<td><strong>Atyrau Oblast</strong></td>
<td><strong>-11.1%</strong></td>
<td><strong>-13.3%</strong></td>
</tr>
<tr>
<td>East Kazakhstan Oblast</td>
<td>-19.7%</td>
<td>-19.5%</td>
</tr>
<tr>
<td><strong>Karaganda Oblast</strong></td>
<td><strong>-23.4%</strong></td>
<td><strong>-22.4%</strong></td>
</tr>
<tr>
<td>Kostenai Oblast</td>
<td>-29.6%</td>
<td>-13.9</td>
</tr>
<tr>
<td>Kzyl-Orda Oblast</td>
<td>0.0%</td>
<td>-0.2%</td>
</tr>
<tr>
<td><strong>Mangistau Oblast</strong></td>
<td><strong>-29.5%</strong></td>
<td><strong>-30.7%</strong></td>
</tr>
<tr>
<td>North Kazakhstan Oblast</td>
<td>-19.8%</td>
<td>-20.9%</td>
</tr>
<tr>
<td><strong>Pavlodar Oblast</strong></td>
<td><strong>-38.2%</strong></td>
<td><strong>-24.6%</strong></td>
</tr>
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<td>Zhambul Oblast</td>
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</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>-16.9</strong></td>
<td><strong>-15.3</strong></td>
</tr>
</tbody>
</table>

Source: Calculations based on data provided from the Ministry of Finance, Republic of Kazakhstan.
Table 3: VAT Collection & Contribution to Central Budget

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
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<tbody>
<tr>
<td>Pearson Correlation</td>
<td>0.26</td>
<td>0.158</td>
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<td>Sig. (2-tailed)</td>
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<td>0.559</td>
<td>0.409</td>
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<tr>
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<td>16</td>
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Source: Calculations based on data provided from the Ministry of Finance, Republic of Kazakhstan.
Table 4: Effective versus Official Rates of Revenue Sharing*

<table>
<thead>
<tr>
<th>Tax Revenue, of which</th>
<th>Official Share</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIT</td>
<td>0.0</td>
<td>52.3</td>
<td>54.2</td>
<td>50.0</td>
</tr>
<tr>
<td>PIT</td>
<td>0.0</td>
<td>81.9</td>
<td>84.1</td>
<td>97.5</td>
</tr>
<tr>
<td>Social Tax</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>97.8</td>
</tr>
<tr>
<td>Property Tax</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>98.2</td>
</tr>
<tr>
<td>Land Tax</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>97.2</td>
</tr>
<tr>
<td>Vehicle Tax</td>
<td>100.0</td>
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<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>VAT</td>
<td>0.0</td>
<td>15.6</td>
<td>14.3</td>
<td>0.0</td>
</tr>
</tbody>
</table>

*NB: Based on the percentage that is officially assigned to the regional government versus what it actually receives.
Source: Republic of Kazakhstan, 1999, p.44.
Table 5: Distribution of Expenditures between Levels of Government

<table>
<thead>
<tr>
<th></th>
<th>As a % of Total Revenue</th>
<th></th>
<th>As a % of GDP</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>KAZAKHSTAN</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Government</td>
<td>48.6</td>
<td>55.1</td>
<td>55.4</td>
<td>9.2</td>
</tr>
<tr>
<td>Regional Governments</td>
<td>51.4</td>
<td>44.9</td>
<td>44.6</td>
<td>9.7</td>
</tr>
<tr>
<td>(Consolidated)</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>18.9</td>
</tr>
<tr>
<td><strong>RUSSIA</strong></td>
<td></td>
<td></td>
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<td></td>
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<td>Central Government</td>
<td>54.9</td>
<td>53.0</td>
<td>58.8</td>
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<td>Regional Governments</td>
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<td>47.2</td>
<td>15.3</td>
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<tr>
<td>(Consolidated)</td>
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<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>33.9</td>
</tr>
</tbody>
</table>

Source: Norris, Martinez-Vasquez, and Norregaard, 2000, pp.25-6.
Figure 1: Expenditures on Education per Capita

Source: Ministry of Finance, Republic of Kazakhstan.
Figure 2: Public Health Expenditures per Capita

Source: Ministry of Finance, Republic of Kazakhstan.
Figure 3: Variation in Wage Arrears by Region, 1998

Source: Ministry of Finance, Republic of Kazakhstan.
Figure 4: Size of the Private versus Public Sector, 1996
Figure 5: Revenue from Privatization, 1998-2000
Figure 6: Regulation and Monitoring of Foreign Investors

<table>
<thead>
<tr>
<th>FORMAL Regional Authority</th>
<th>INFORMAL Regional Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. enforce safety &amp; environmental regulations</td>
<td>develop personal relationships &amp; exchange of personal “favors”</td>
</tr>
<tr>
<td></td>
<td>prioritize local over national regulations</td>
</tr>
<tr>
<td></td>
<td>influence investor petitions to the center</td>
</tr>
<tr>
<td></td>
<td>deny permits to perform “extra-contractual” functions, extract “donations”</td>
</tr>
</tbody>
</table>

Source: Jones Luong-Weinthal Survey of Foreign Investors operating in Kazakhstan, 1997-2000
Table 6: Revenue Sharing according to Kazakhstan’s 1999 Budgetary Law

<table>
<thead>
<tr>
<th>Central</th>
<th>Regional</th>
<th>Shared (50/50)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT (as of 1997)</td>
<td>1. PIT</td>
<td>1. CIT</td>
</tr>
<tr>
<td>2. Excess profit tax</td>
<td>2. Social tax</td>
<td>2. Excise tax on alcoholic beverages</td>
</tr>
<tr>
<td>3. Excise taxes (except alcoholic beverages)</td>
<td>3. Property tax</td>
<td></td>
</tr>
<tr>
<td>4. Customs duties</td>
<td>4. Land tax</td>
<td></td>
</tr>
<tr>
<td>5. Royalties and Bonuses</td>
<td>5. Vehicle tax</td>
<td></td>
</tr>
<tr>
<td>6. Administrative Fees</td>
<td></td>
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</tbody>
</table>