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**DIRECTIONS AND MECHANISMS OF INCREASING  
THE EFFICIENCY OF INTERBUDGETARY REGULATION  
AND FINANCIAL INDEPENDENCE OF LOCAL  
BUDGETS IN KAZAKHSTAN**

*The article explores the issues of increasing the efficiency of interbudget regulation and financial autonomy of local authorities. The causes of own sources' insufficiency are defined on the basis of studying local budgets' functioning factors and conditions in the country and analyzing the local budget revenues. Based on the methods of economic and mathematical modelling a fiscal decentralization model has been developed.*

*Keywords:* financial independence; interbudgetary relations; budget regionalism; local budgets.

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**НАПРЯМКИ І МЕХАНІЗМИ ПІДВИЩЕННЯ ЕФЕКТИВНОСТІ  
МІЖБЮДЖЕТНОГО РЕГУЛЮВАННЯ ТА ФІНАНСОВОЇ  
САМОСТІЙНОСТІ МІСЦЕВИХ БЮДЖЕТІВ У КАЗАХСТАНІ**

*У статті розглянуто проблематику підвищення ефективності регулювання міжбюджетних відносин в Казахстані та фінансової самостійності місцевої влади. На основі дослідження факторів та умов функціонування місцевих бюджетів в республіці та аналізу рівня доходів місцевих бюджетів виявлено причини недостатності власних джерел. З використанням методів економіко-математичного моделювання розроблено модель фінансової децентралізації.*

*Ключові слова:* фінансова самостійність; міжбюджетні відносини; бюджетний регіоналізм; місцеві бюджети.

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**НАПРАВЛЕНИЯ И МЕХАНИЗМЫ ПОВЫШЕНИЯ  
ЭФФЕКТИВНОСТИ МЕЖБЮДЖЕТНОГО РЕГУЛИРОВАНИЯ  
И ФИНАНСОВОЙ САМОСТОЯТЕЛЬНОСТИ  
МЕСТНЫХ БЮДЖЕТОВ В КАЗАХСТАНЕ**

*В статье рассмотрена проблематика повышения эффективности регулирования межбюджетных отношений в Казахстане и финансовой самостоятельности местных властей. На основе исследования факторов и условий функционирования местных бюджетов в республике и анализа уровня доходов местных бюджетов выявлены причины недостаточности собственных источников. С использованием методов экономико-математического моделирования разработана модель финансовой децентрализации.*

*Ключевые слова:* финансовая самостоятельность; межбюджетные отношения; бюджетный регионализм; местные бюджеты.

**Introduction.** The study of interbudgetary equalization and fiscal regionalism often assumes building such a model which allows on the one hand, the integration of the common state policy, and on the other, demonstrate the acceptable level of local budget autonomy.

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The mechanism of interbudgetary transfers is intended to provide a dynamic equilibrium and balance all levels of government administration. As part of budgetary regulation in the economic and social spheres, this mechanism is designed to provide horizontal and vertical balancing of the budget system. The given mechanism, on the one hand, should be aimed at correcting the vertical imbalance eliminating the discrepancy between the expenditure functions of regional budgets and the revenues, fixed for a given level of the budget system, on the other hand, at the equalization of the consumption level of public services in different regions.

As the experience of the budget system restructuring in Kazakhstan shows, the brunt of the ongoing reforms in the country is born by the regions. However, a significant part of local budgets is facing now a shortage of financial resources for economic and social policies implementation. In recent years, the situation has changed for better due to economic growth in the country and increase in the revenue base of local budgets. However, under the conditions of ever greater concentration of income in the state budget, the volume of financial resources remaining at the disposal of local executive bodies has been reduced.

In this regard, we think it's necessary to determine the factors affecting the financial autonomy of local budgets, and for this purpose to construct an econometric model, which characterizes the relationship between them. Identifying the problems with own revenue sources' insufficiency of local budgets in Kazakhstan, the ineffectiveness of interbudgetary control will allow developing a set of recommendations to improve the financial decentralization in the country.

**Latest research and publications analysis.** The scientific formulation of the problems of interbudgetary regulation and financial decentralization requires an integrated and systemic use of the theoretical legacy of foreign, Russian and Kazakhstani scientists. Problems of budget relations and government regulation have been studied before by: G. Brennan and J. Buchanan (1980), W. Oates (1999), Ch. Tiebout (1956).

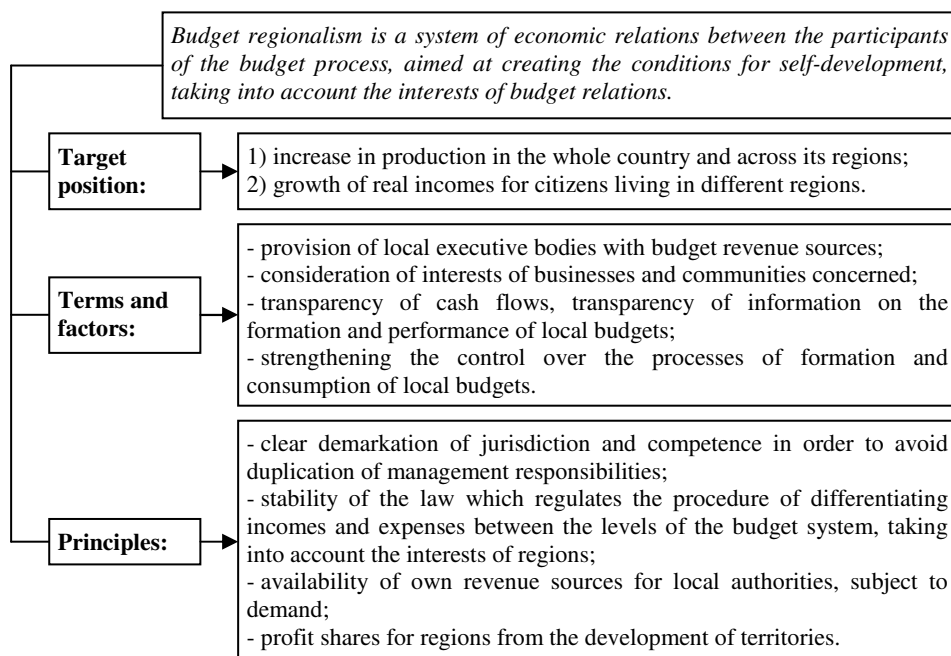
Contemporary economists, who study the issues of the state budget and of interbudgetary regulation are: T.V. Braycheva (2003), G.B. Polyak (2003), P. Swianiewicz (2003). In domestic literature, certain aspects of budget expenditures evaluation and interbudgetary relations are covered in the papers of leading Kazakhstani scientists and economists, whose scientific works have had a great influence in our research: U.B. Baimuratov (2007), A. Esentugelov (2011), N.K. Kuchukova (2011), V.D. Melnikov (2011), A.A. Nurumov (2006), S.M. Omirbayev (2007), A.B. Zeinelgabdin (2008).

**The object of the research** is interbudgetary regulation and financial independence of local budgets in Kazakhstan.

**The goal of the article** is the development of theoretical and methodological foundations along with scientific and practical recommendations on ensuring the effective regulation of interbudgetary relations on the basis of interbudgetary regionalism.

**The methods for the research** are abstract and comparative analyses.

**Key research findings.** The model of interbudgetary regionalism and financial decentralization has been developed as a result of the research and scientific systematization of theoretical and practical aspects of interbudgetary relations' functioning and regulation in the Republic of Kazakhstan. It reflects the content, goals, conditions, factors and principles of ensuring effective budget regionalism (Figure 1).



*Figure 1. Model of budget regionalism and financial decentralization, compiled by the authors*

The mechanism of budget regionalism and financial decentralization in the authors' interpretation is based on achieving a reasonable compromise between the interests of the state, the public and business. This compromise can be achieved only in the case of economic development support for regions. The economic potential of the country is not formed at the level of central government; it's created throughout the country.

In the practice of budget analysis a number of indicators and ratios is used to assess the level of autonomy and financial sustainability of local budgets. Taking into account the current realities in Kazakhstan we consider that the following indicators are the most appropriate ones for calculation and assessment:

- the share of tax revenues in local budget;
- the share of own revenues (taxes, non-tax revenues, income from capital transactions) in revenues of local budget;
- tax revenue per capita;
- personal income per capita;
- the coefficient of elasticity of socially significant expenditures in relation to budget revenues.

Using the first two indicators to assess the local budget is considered to be traditional. Their calculation and assessment seems, in our opinion, to be the most informative, as it characterizes not only the territories' tax base, but also its (un)even distribution.

On the other hand, these figures objectively reflect the failure by ensuring their own revenue sources in accordance with the mechanism of differentiation between the income levels of the budget system.

Dynamics of tax revenues in local budgets revenues is represented by the following data (Table 1).

*Table 1. Share of taxes in regional budget revenues in Kazakhstan, calculated according to the Ministry of Finance of the Republic of Kazakhstan (www.minfin.kz)*

Regions	2007	2008	2009	2010	2011	2012
Akmola	0.33	0.28	0.25	0.21	0.24	0.25
Aktobe	0.62	0.59	0.51	0.47	0.47	0.47
Almaty	0.42	0.31	0.27	0.27	0.30	0.31
Atyrau	0.71	0.74	0.66	0.74	0.75	0.74
East Kazakhstan	0.41	0.36	0.29	0.26	0.27	0.26
Zhambyl	0.27	0.19	0.17	0.17	0.18	0.18
West Kazakhstan	0.49	0.50	0.55	0.44	0.40	0.41
Karaganda	0.62	0.49	0.44	0.42	0.46	0.45
Kostanai	0.42	0.33	0.29	0.27	0.32	0.32
Kyzylorda	0.31	0.25	0.30	0.19	0.19	0.20
Mangystau	0.70	0.75	0.67	0.61	0.62	0.64
Pavlodar	0.64	0.58	0.49	0.52	0.49	0.46
North Kazakhstan	0.29	0.23	0.21	0.17	0.21	0.21
South Kazakhstan	0.25	0.20	0.16	0.17	0.17	0.17
Almaty city	0.64	0.61	0.53	0.52	0.64	0.65
Astana city	0.30	0.23	0.21	0.25	0.25	0.31
Total	0.48	0.41	0.37	0.35	0.37	0.37

Table 1 demonstrates that the share of tax revenue is reduced in almost all the regions and the country as a whole, with the exception of Atyrau region, Almaty and Astana, where this figure remains relatively stable.

In most regions the above given figure is below the country's average. This situation suggests that the principle of budgets independence laid down in the Budget Code is not observed in the country because of the lack of tax receipts in local budgets revenues.

In addition to taxes, own sources of revenues of local budgets are non-tax revenues, revenues from managing the municipal (communal) property (according to Table 2). In some countries, local authorities are entitled to introduce additional charges, including environmental, infrastructure, housing and utility payments for the right to use municipal (communal) property (roads, water and forest resources etc.). In Kazakhstan, local executive authorities do not have such sources at their disposal.

As can be seen from the presented data, in the country as a whole and in all regions there is a steady downward trend in this indicator during the analyzed period. The given figure during the analyzed period in 7 regions is below the country's average. The lowest value of this parameter is observed in South Kazakhstan and Kyzylorda region. A sharp decline in this indicator during the analyzed period is seen in East Kazakhstan, Karaganda and Pavlodar regions, i.e. in the industrialized regions of Kazakhstan. Stable negative trend indicates the lack of incentives of local executive bodies for communal property management, insufficiency of reserves to increase local budgets incomes.

*Table 2. Share of own income in the volume of budget revenues by regions of Kazakhstan, calculated according to the Ministry of Finance of the Republic of Kazakhstan (www.minfin.kz)*

Regions	2007	2008	2009	2010	2011	2012
Akmola	0.38	0.31	0.27	0.23	0.26	0.26
Aktobe	0.73	0.41	0.55	0.53	0.51	0.51
Almaty	0.49	0.34	0.29	0.29	0.32	0.33
Atyrau	0.75	0.77	0.79	0.77	0.78	0.79
East Kazakhstan	0.45	0.38	0.31	0.29	0.28	0.28
Zhambyl	0.31	0.21	0.18	0.19	0.20	0.19
West Kazakhstan	0.55	0.56	0.68	0.46	0.42	0.43
Karaganda	0.65	0.52	0.47	0.44	0.48	0.47
Kostanai	0.44	0.36	0.30	0.29	0.33	0.33
Kyzylorda	0.34	0.26	0.32	0.21	0.20	0.22
Mangystau	0.81	0.82	0.73	0.64	0.70	0.66
Pavlodar	0.68	0.62	0.52	0.53	0.50	0.48
North Kazakhstan	0.33	0.27	0.23	0.22	0.23	0.23
South Kazakhstan	0.33	0.22	0.18	0.19	0.18	0.18
Almaty city	0.73	0.66	0.57	0.59	0.67	0.68
Astana city	0.39	0.26	0.23	0.29	0.28	0.36
Total	0.54	0.44	0.39	0.38	0.39	0.40

For local budgets tax revenues are fixed thus having stable character, local authorities are unable to influence significantly the formation of their own revenues. The volume of taxes paid to local budgets is only indirectly dependent on the degree of production development, entrepreneurship, investment activity, structural adjustment of regional economies. This explains the weakness and inertia of local budgets own revenues. Taking into account the uneven distribution of not only productive forces, but also demographic factors (size of population, age structure etc.) we consider that it's appropriate to use the indicators of receipts from taxes and their own revenue per capita. This will assess the contribution of taxpayers to the processes of local budget revenues formation.

As can be seen from Table 3, in the Republic there is a considerable variation in this indicator. The lowest values of the index of receipts from taxes per capita are recorded in Zhambyl, South Kazakhstan, East Kazakhstan and Akmola regions. This is primarily due to demographic factors, as these regions have large numbers of people, including families with many children. It is characteristic that in all regions there is a steady growth dynamics of this indicator. However, this growth is mostly due to stable population factor, rather than the increase in tax revenues of local budgets. The greatest value of this indicator is observed for Atyrau, Mangystau regions and in Astana city, which is associated with a relatively small population level in these regions.

The presented data clearly shows, that in spite of the regulatory actions on the part of the state, government services are not available in equal volumes for people living in different regions. This characterizes the situation in the regulatory system of interbudgetary relations as not effective enough and confirms the need to enhance the effectiveness of measures to encourage local initiatives, the expansion of tax authority for local executive bodies.

**Table 3. Calculation of receipts from taxes per capita by Kazakhstan regions, the KZT, calculated according to the Ministry of Finance of the Republic of Kazakhstan (www.minfin.kz)**

Regions	2007	2008	2009	2010	2011	2012
Akmola	26.4	26.9	28.6	31.4	39.0	45.8
Aktobe	51.4	69.8	69.6	69.7	75.1	81.6
Almaty	22.4	20.4	22.0	34.5	33.9	39.3
Atyrau	228.3	163.0	171.2	187.8	202.5	212.8
East Kazakhstan	27.9	29.0	27.9	29.7	35.8	41.8
Zhambyl	14.1	13.4	14.3	18.3	23.0	27.3
West Kazakhstan	48.1	65.1	80.2	71.5	61.2	69.9
Karaganda	40.1	41.9	44.3	47.5	56.3	65.3
Kostanai	28.0	30.1	30.9	34.6	42.3	47.8
Kyzylorda	28.8	30.1	46.1	27.9	30.4	38.8
Mangystau	114.6	100.1	101.1	108.4	119.6	128.8
Pavlodar	51.8	55.2	56.3	60.9	68.4	78.0
North Kazakhstan	22.7	23.3	25.7	27.6	33.5	37.7
South Kazakhstan	15.5	14.0	14.3	17.0	20.1	22.8
Almaty city	115.9	121.4	109.3	120.9	137.6	82.7
Astana city	102.0	100.8	99.3	100.2	112.3	129.2
Total	47.4	48.0	48.7	51.7	58.8	66.2

The indicator of own income per capita reflects the level of sources for local budgets, which is the basis of its level of economic development (including tax capacity based on the number and structure of population, socio-economic, geographical, climatic and other objective factors and conditions affecting the cost of rendering of services of the same amount in communal services per capita (Galimtaeva, 2011). Calculation of own revenues of local budgets per capita has shown the following (Table 4).

**Table 4. Calculation of own revenues of local executive bodies per capita by Kazakhstan regions, the KZT, calculated according to the Ministry of Finance of the Republic of Kazakhstan (www.minfin.kz)**

Regions	2007	2008	2009	2010	2011	2012
Akmola	30.4	29.7	30.9	34.5	42.2	48.6
Aktobe	60.3	48.9	75.1	77.7	81.7	88.6
Almaty	26.1	22.3	23.5	29.6	36.1	41.6
Atyrau	238.8	169.2	178.3	194.6	209.6	226.6
East Kazakhstan	30.6	30.4	30.2	32.5	37.9	44.2
Zhambyl	16.2	14.7	15.6	19.6	24.6	29.5
West Kazakhstan	53.0	73.1	99.0	74.9	64.2	73.2
Karaganda	42.4	44.5	47.4	49.9	58.8	67.9
Kostanai	29.5	32.2	32.5	37.0	44.4	49.8
Kyzylorda	31.1	31.8	48.8	30.3	33.1	42.3
Mangystau	133.2	110.0	110.3	114.2	133.6	132.0
Pavlodar	55.1	58.8	110.3	62.6	70.1	80.5
North Kazakhstan	25.8	27.6	27.4	30.1	35.6	39.9
South Kazakhstan	20.3	15.8	15.9	18.7	21.1	23.9
Almaty city	131.6	131.1	116.9	136.3	144.3	156.8
Astana city	130.4	110.3	107.9	115.2	128.8	152.0
Total	53.6	52.0	52.0	56.0	62.7	70.4

The growth of this indicator in the whole country and in regions is a positive trend. At the same time, in Atyrau, Mangystau regions and Astana city we can note the decrease of this indicator in the middle of the analyzed period, with a later increase by 2011–2012. The gap between the lowest and the highest values of the above given indicator at the beginning of the period is 11.8 times, and by the end of the period is 9.5 times. This confirms the need for radical changes in the regulatory system of interbudgetary relations with the emphasis on the development of local initiatives.

At the local level it is very important to obtain objective information about the state of financial security of the social sphere. In this case, it is extremely important to determine whether there is a relationship between social expenditures and local budget income (for example, own income or the amount of financial assistance from a higher budget) and their dynamics. Socially significant expenses include spending on education, health and social security. For this purpose, the coefficient of elasticity of socially significant costs in relation to budget revenues is calculated by the formula:

$$E_o = \frac{R_{ss}}{R_r}, \quad (1)$$

where  $E_o$  – the elasticity of socially significant costs;  $R_{ss}$  – the growth rate of social spending;  $R_r$  – the growth rate of budget revenues.

There are three states of this model:

1.  $E_o < 1$  – low-elastic increase in spending on the given trend depending on revenue growth. This suggests that this type of spending is not a budget priority and due to the revenue growth there is an increase in spending, more priorities. If this trend continues in the future, then restrictions will be introduced on the execution of the corresponding program in this area.

2.  $E_o = 1$  – steady growth in spending. This condition can be described as a rather favorable one for the implementation of development programs.

3.  $E_o > 1$  – high-elastic growth of incomes over expenditures (the rate of change in costs is more than the change in budget revenues). In this case, we can talk about the priority given to budget spending (Ismagulov, 2007).

This approach to budget analysis makes it possible to assess the relationship of different types of expenses with income, and the results can be used in budget planning for future periods.

The calculation of this indicator of the financial condition of local budgets in the Republic as a whole and in its regions is given in Table 5.

Calculations have shown that the elasticity coefficient of socially significant expenditures of local budgets in Kazakhstan is low. The average value of the index for the period is less than 1 have been stated for 10 regions out of 16, in 2 regions it is exactly 1, and only 4 exceeded this value. In all the regions the dynamics indicator has a "hopping", uneven trend with a slight increase at the end of the analyzed period. The low value of the coefficient indicates that the growth of socially significant costs for most regions is not accompanied by an adequate increase in local budgets incomes.

In the whole, the value of the coefficient in the country has remained relatively stable during the analyzed period. Exceeding this indicator over 1 indicates the elas-

ticity growth of the social orientation of local budgets. This means that on average in the country the priority of social spending is maintained, the Government contributes to an increase in financial support of the social sphere. However, sources of financing for local executive bodies are not provided in the proper volume, leading to the growth of national transfers for the needs of the regions.

**Table 5. Dynamics of the elasticity coefficient of socially significant local budget expenditures in the Republic of Kazakhstan, calculated according to the Ministry of Finance of the Republic of Kazakhstan (www.minfin.kz)**

Region	2008	2009	2010	2011	2012	Average for the period
Akmola	0.94	1.03	0.78	1.08	1.06	0.98
Aktobe	0.86	1.06	1.00	1.07	1.02	1.00
Almaty	1.00	0.87	0.89	1.02	1.05	0.96
Atyrau	1.90	0.91	0.98	0.91	1.13	1.17
East Kazakhstan	1.05	0.98	0.84	1.07	1.04	0.99
Zhambyl	0.95	1.01	0.84	1.04	1.01	0.97
West Kazakhstan	0.94	1.08	0.98	1.01	1.00	1.00
Karaganda	0.90	1.08	0.85	1.04	0.94	0.96
Kostanai	0.92	1.03	0.85	1.06	0.98	0.97
Kyzylorda	0.96	0.99	1.00	0.95	0.99	0.98
Mangystau	1.49	0.96	0.92	0.97	1.11	1.09
Pavlodar	0.94	1.07	0.82	1.09	0.94	0.97
North Kazakhstan	0.91	1.03	0.85	1.06	1.02	0.97
South Kazakhstan	1.06	0.98	0.93	0.99	0.99	0.99
Almaty city	1.20	1.01	0.92	1.22	1.17	1.10
Astana city	0.93	1.17	1.00	1.12	1.09	1.06
Total	1.05	1.03	0.91	1.05	1.05	1.02

**Conclusions.** Budget regionalism should be assured by the stable state of local budgets. Our calculations have shown that during the analyzed period the values of indicators are extremely low, which could be explained by:

- low share of taxes and own sources in the amount of local revenues in all the regions of Kazakhstan;
- a considerable spread between the taxes rates and own sources per capita of the population by regions of the Republic;
- low-elastic growth of socially significant costs.

Currently there is a number of problems in the field of interbudgetary relations:

- centralization of tax revenues in the national budget;
- local budgets do not have full autonomy;
- transfers have become the key tool for solving social and economic problems at the local level;
- in addition to subsidies and targeted transfers, budgetary credits are allocated to some areas with a low probability of their ever return;
- inequality of regions is growing to ensure revenue sources;
- there is evidence of violations of the law on public procurement and misuse of budget funds.

The most important way to improve financial and tax relations in the budgetary system is a gradual increase in the level of budgetary self management in the regions.



To this end, local budgets should have fixed constant and sufficient sources of income. We consider it's appropriate to fix in each level of the budget system own sources of revenues sufficient to finance the functions assigned to them. Regions need to be interested in the development of their tax potential, reducing their dependence on subsidies from the national budget. The centerpiece in the budget regionalism development is strengthening the financial autonomy of local authorities with simultaneous strengthening of responsibilities of budget relations participants. Let's consider a few opinions on the matter.

To reduce the amounts of subsidies and exemptions for villages and small towns the following measures are suggested:

a) in the areas where subventions from the state budget are provided, it's necessary to increase the percentage of contributions from regulated revenues up 100%;

b) in those areas where exemption is in favor of the national budget, it's necessary to reduce the percentage of contributions from regulated revenues in favor of the national budget.

There is another opinion. The most important component of this process is the transfer of taxes from the Republican budget level to the local level. This will increase the autonomy of local authorities, thus they become interested in economic recovery. For this the Budget Code must provide the delivery of income tax from small and medium-sized businesses to local budgets. In the Republic of Kazakhstan quotas can be set for corporate income tax that will significantly strengthen the revenue base of local budgets and contribute to the uniform distribution of income between budgets. In this case, economic entities operating in a region at 20% of taxable, income will transfer to the national budget the corporate income tax, and by the rate of 10% – to the local budget.

In this case, economic entities fill two payment orders, indicating the Republican and local budgets separately. Local executive bodies will have daily information on the transfer of the corporate income tax to local budgets from each business entity and would be interested in improving the financial situation of the company, located on its territory. A substantial increase in tax revenues to the local budget will significantly reduce the amount of targeted transfers allocated from the Republican budget. In this case, it is advisable to abolish completely the current target transfers to local budgets (Osmanov, 2012).

To eliminate the shortcomings of interbudgetary relations the unified approach to territories should not be to the same in terms of deductions, but still following a uniform methodology for their calculation. In this case, the factors included in the formula (size of population, budget revenues and expenditures etc.) must be the same for all areas, but will have different quantitative expression allowing to take into account the specificities of each region.

The most reasonable and economically feasible measure is to transfer the full payment of VAT on domestic goods to local budgets. This type of tax is a small part of the national budget revenue (11.6%) and has the most uniform distribution of the tax base. In addition, VAT revenues are directly dependent on the development level of entrepreneurship thus creating stimulus for local executive bodies in the creation of a favorable business climate. From the economic point of view, VAT is a tax on the amount of domestic demand in the area and, therefore, must be paid to regional

budget directly. Ensuring the development of the tax base of VAT, local budgets can get additional income in the process of budget implementation. During the period of stable economic development additional revenues are collected from the tax base, this is associated with the level of entrepreneurship development. In addition to changing norms of tax allocation between budget levels it's necessary to ensure the most efficient use of the available tax base of local budgets.

Thus, the need to improve the budget regionalism situation at the present stage of Kazakhstan development is objective. It is caused by the presence of many unresolved issues of organizational, administrative and legal nature. In our opinion, in order to improve further the budget system of the Republic of Kazakhstan the following activities should be implemented:

1. To fix taxes between the levels of government, thereby to ensure all levels of government have sufficient financial resources to provide fully the assigned public services.

2. It is necessary to motivate the regions in the development of their tax potential, reducing their dependence on subsidies from the national budget (adjustable revenue, quotas etc.).

3. To provide a legislation compensatory mechanism of proportional reduction of budget withdrawals in a budget in case of tax revenues decline caused by changes in the socioeconomic development rates of regions.

4. To develop the normatives on tax distribution and revenues, with a clear fixation between the levels of the budget system, thus creating the preconditions for the implementation of the local government level self-financing mechanisms, in which the formation of the cost of each unit is put in direct dependence with earned income.

5. To develop a standard of minimum budget provision of the regions, taking into account economic, social and climatic factors.

6. To take into account not only economic, but social and other specific conditions of the regions while determining the transfer targets.

7. Particular attention should be paid to increasing the mutual responsibilities of the interbudgetary relations' participants to each other, individuals, institutions and organizations.

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