

**Functional Review of Government and
Decentralization in the Republic of Kazakstan
Background, Technical Process,
and Analytical Model**

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I Background

- 1 The Government of Kazakstan (GOK) has been required by the World Bank to undertake a "functional review" of its ministries as one of the primary conditions for release of the second tranche of an \$80,000,000 World Bank loan
- 2 Although the Bank's working definition of "functional review" has changed over the past few months, in general the Bank's staff wants the GOK (a) to identify and eliminate redundant, overlapping, or vestigial government agencies and programs and (b) to upgrade staffing and management capacity where needed in remaining units
- 3 The scope of the functional review has been narrowed by the Bank in two principal ways since it was first outlined in the Bank's Aide Memoire of March, 1998. First, questions of governmental decentralization have been deferred, the functional review is now merely to examine agencies and functions at the Republic level. Second, only a small sample—perhaps only one or two ministries—of Republic level bodies are to be scrutinized in the first round of review.
- 4 To that extent that pressure on the GOK to address and clarify basic legal, administrative, and political questions bearing on territorial relations has been eased by the Bank's actions, efforts by ICMA and USAID to encourage greater administrative decentralization will be impeded. At the same time, as will be discussed below, opportunities for selective intervention and assistance at the oblast and raion level remain.
- 5 The scope of the functional review was narrowed following a visit by a Bank team to Astana for a "donors meeting" in late June and early July of 1998. It was determined at this time that the original scope was so unmanageably broad that GOK compliance was unlikely. Indeed, despite the requirements outlined in the Aide Memoire of March, 1998, no real progress on the functional review had been made the time of the Bank's visit in June/July.
- 6 The Bank has now set early September 1998 as a target for establishing a mechanism to undertake the functional review, including, presumably, an application to at least one test-case ministry. The full Republic-level review is to be completed by the end of 1998.
- 7 The lead agency within the GOK for the functional review is the Agency for Strategic Planning and Reform (ASPR). ASPR is to be assisted in this task by a team from the UNDP, directed by an American technical assistant, Dr. Chester Newland, a distinguished professor of public administration at the University of Southern California.

- 8 Because Dr Newland arrived in Kazakhstan only at the beginning of July, the ASPR-UNDP effort is still in very preliminary stages. No formal working group has been assembled, no systematic data gathered, and no analytical plan approved and put into place.
- 9 Given the size of their task, the pressure to complete it expeditiously and the Bank's explicit narrowing of the scope of the functional review, it is unlikely that the ASPR-UNDP team will give any systematic attention to decentralization-related issues. Certainly it is unlikely that the team will have the time or resources to look exhaustively at all GOK expenditures—republic, oblast, raion—and apply an analytical model that would permit a rational territorial realignment of functions.
- 10 At the same time, it is hard to imagine any functional review, even one with the narrow focus described above, not engaging some questions that bear centrally on intergovernmental revenue and expenditure assignments, the heart of administrative decentralization.
- 11 It is therefore important that ICMA-USAID maintain a close working relationship with the ASPR-UNDP effort, and aim to support an expansion of the scope of the functional review in the months ahead.
- 12 It is also important, however, that ICMA-USAID proceed independently to support administrative decentralization and management reform at regional and local levels. Two oblasts in particular—Pavlodar and Karaganda—are apparently led by reform-minded akims. Functional reviews undertaken in these oblasts with ICMA-USAID assistance may provide a template that can be replicated in other parts of the country.
- 13 The chief constraint that ICMA-USAID will face in providing this assistance is the reigning confusion noted in (4) above. Because the functional review now underway will sidestep fundamental questions about the territorial distribution of responsibilities and resources, the legal, political, and administrative status of functions discharged at oblast and raion levels will be in limbo for the foreseeable future.
- 14 Five basic observations about this distribution of responsibilities and resources may provide some guidance. First, the formal system now in place continues to reflect the highly centralized “stove-pipe” style of administration common in the Soviet era, functional agencies typically discharge responsibilities at oblast and raion levels, but do so at the behest of central ministries, there is concomitantly little cooperation or coordination across the “stove pipes” at regional or local levels of government. As a second point, however, several key documents—the Republic Constitution, the Draft Law on Local State Administration, and the President's Kazakhstan 2030 Plan—all refer, at least obliquely, to the need for decentralized government, suggesting that the

formal structure is meant to change. Third, severe budget constraints are forcing the GOK to cut expenditures drastically at the Republic level (30% it is estimated for FY 1999) and to pass responsibility on to the oblasts, though it is unlikely that anyone seriously believes that the oblasts have the resources to pick up this slack, the gesture itself may strengthen the case for de facto decentralization. Fourth, other TA missions—the Barents Group, in particular—have assignments that support decentralization initiatives, Barents, in fact, is about to deploy a full-time budget and financial management advisor to Pavlodar. Fifth, virtually all governmental activities in Kazakhstan are now conditioned by the politics surrounding the upcoming presidential election, levels of support for reform from various akims or key ministerial actors in Astana will reflect assessments of the implications for presidential politics. Taken as a whole, these observations suggest that there is some “political space”—albeit a limited amount—for functional review/decentralization efforts focused at the oblast level.

II Functional Review at the Oblast Level: Ten-Step Technical Process

This section of the report outlines a simple ten-step technical process for undertaking a functional review of government. It is termed a “technical” process to distinguish it from the analytical model that follows. In effect, this section outlines a step-by-step administrative procedure to manage a functional review. The following section discusses the principles of the analytical model itself.

The definition of “functional review” for these purposes is limited to a systematic assessment of the responsibilities undertaken by a government to ascertain (a) if these responsibilities in fact should be performed by government, and (b) if so, which level of government should perform them.

1. Create steering group. The first order of business is for the TA/consultant to help assemble a group of local officials that can formally oversee the functional review process. This is critical for access and “buy-in.” The group should be small, just large enough to include key players. The main functions of the steering group are to examine and endorse the functional review procedures, assist in gathering information and to legitimize the results of the analysis.
2. Determine unit of analysis. At an early stage, it is important to determine how fine a seine will be used in the functional review. At one extreme, whole ministries and their activities at very high levels of aggregation could be used as units of analysis. At the other extreme, it is possible to undertake a review that examines a government at the level of its smallest operating units. Ideally, the finer the review, the better—although there is always a price to be paid in time and other resources.

- 3 Compile inventory of units Once the unit of analysis has been determined, a full inventory of all such units (ministries, departments, agencies, offices, etc) to be examined should be assembled. As with the republic-level review now underway, preliminary decisions have to be made about the scope of the analysis. Will all units at a particular level of government be reviewed at once or just a sample?
- 4 Design check-sheet A check-sheet is a data-entry form that will contain key pieces of information about each unit. It needs to be short, simple and accessible. A good check-sheet should elicit the name of the unit, a brief mission-statement and information about staffing, expenditures and services rendered—much as one would find in a program budget. However, expectations need to be reasonable. In the administrative environment of Kazakhstan, mission and service oriented information will be scarce (although activity data, given the norm-based budgeting system, may be more readily available).
- 5 Recruit local consultants Assemble a functional review staff from amongst the younger, better trained, and more highly motivated local public servants. The chief task for these local consultants will be to gather the data required for the check-sheets. The steering group should be instrumental in identifying (and arranging for the seconding) of these local consultants. The number of local consultants required and the amount of time they will need will be functions of the scope of the review. In any event, it is important that these consultants be assigned full-time to the review for some set period of time so as to encourage the formation of a mission-oriented team.
- 6 Train consultants The lead expatriate TA consultant should plan to conduct a series of workshops for the local consultants before the functional review, *per se*, can commence. These workshops should explain the purpose of the functional review, elaborate the logic of the analytical model to be applied, and train the consultants to use the check-sheets.
- 7 Collect data Local consultants should complete check-sheets for each inventoried unit. This will likely be the most time-consuming stage in the review. Certainly it is one of the most critical, as the quality of the data collected here will determine the utility of the overall review. The lead expatriate TA consultant should plan to work closely with the local consultants to ensure that appropriate data is being generated, and to help make decisions about the inevitable compromises in data collection.
- 8 Apply analytical model The functional review team should now scrutinize each unit according to the requisites of the analytical model (see next section). Is this a function that should be performed by government? At what level of government should it be performed?

- 9 Reliability check Especially if initial review decisions (Step 8) are made by individuals, it is important to subject these decisions to reliability checks by other members of the team. The structure of the analytical model should reduce the scope for judgment and bias in assigning functions. Nonetheless, it is critical—especially given the politically charged nature of many of these decisions—to ensure that there is, in fact, a high degree of “inter-coder reliability.”
- 10 Aggregate and disseminate The final step in the process is for the team to pull together its findings and disseminate the results of the review. The steering group will constitute not only an important preliminary sounding board, but a conduit for ensuring that the recommendations receive due attention.

III Analytical Model

The analytical model outlined here is designed to answer two questions that are fundamental to a functional review of government:

- Does this function belong in government?
- If so, where in government—at which territorial level—does this function belong?

This section of the report outlines a method for answering these questions. In effect, this method entails posing and answering a series of subordinate questions that are arrayed in flowchart-like (if this, then that) fashion. Each series of subordinate questions corresponds to a set of factors—economic, philosophical, administrative, etc.—that are central elements of a functional review.

The bias in this analytical model is implicit in the above paragraph. It is based broadly, rather than narrowly. Rather than unwaveringly follow the logic of public finance economics (which is a very common and perfectly fine basis for a functional review model), for instance, this model explicitly incorporates legal, political, and administrative variables. This is done in acknowledgment of the constraints on the ground in Kazakhstan. That is to say, however much we might like to see a strict application of economic principles rule the functional review process, we know that this is unreasonable. At the same time, this model is strongly grounded in these economic principles and starts from the assumption that they should, wherever possible, provide the foundation for a functional review of government, including decisions about territorial allocation of expenditure and revenue assignments.

A *Does this function belong in government?*

1 Economic question Does this good/service exhibit exclusivity in consumption and costs? In simple terms, can everyone who benefits be made to pay? Are all costs borne by those who generate them?

- If **yes** (i.e., if they are *private goods*), they should probably be privatized, but first go to (2)
- If **no** (i.e., if they are *public goods*), they probably should be performed by government

Examples A shoe factory should not be in the public sector because those who benefit from its products—shoes—can be limited to those who are willing to pay for them. They will, as a consequence, be readily provided by the private market. Police services should probably be performed (or sponsored) by government because everyone in a particular geographical area benefits from a reduction in crime, absent a coercive mechanism—taxation—no one will have an incentive to pay for such services (the free rider problem), and hence they would not otherwise be available.

2 Philosophical question Even if this good/service exhibits exclusivity in consumption and cost, is it of such a character as to be considered a “merit” good, one that for moral or philosophical reasons ought to be available equally to every citizen?

- If **no**, (i.e., if they are not *merit goods*), they should probably be privatized, but first go to (3)
- If **yes**, (i.e., they arguably are *merit goods*), they should probably be provided by government

Examples For most purposes, health services, education, and parks exhibit exclusivity. That is, the benefits of health care can in principle be limited to those who are willing to pay for them (some dimensions of public health notwithstanding), much as the benefits of education primarily (though not without some exceptions) accrue to those who can be made to pay for them. Similarly, parks and other recreation facilities could easily be structured so as to limit access (and thus benefits) to those who were willing to assume the burdens of the costs. Yet most modern societies have decided that all human beings, even those who are not willing or able to pay, are entitled to certain basic health and education services. Most societies have also decided that acceptable community life demands some general provision of park land (and libraries and other such facilities). These goods, which otherwise in strictly economic terms might be considered private, come to be construed as merit goods, deserving of public provision.

3 Administrative question Are there compelling reasons from the perspective of public administration to keep a good/service in public production?

- If **no**, they should probably be privatized, but first go to (4)
- If **yes**, they should probably be provided by government

Example Some services *could* be provided by the private sector and moreover have no strong philosophical claim as *merit goods* but are nonetheless provided by government, largely as a matter of convenience. A leading example is a statistics bureau. This dimension should be approached with extreme caution, however, as virtually every function performed by government can be construed as administratively convenient for one bureau or another.

4 Political question Are there overwhelming political reasons to keep these goods or services in the public sector?

- If **no**, they should probably be privatized
- If **yes**, they should probably be provided by government

Example There are sometimes extenuating circumstances, essentially political in nature, that lead governments to fund activities that are unjustifiable in economic, philosophical or administrative terms. These may represent compensation for political support (a new bridge for a district that voted the right way) or an attempt to pacify disgruntled communities (special programs for linguistic or religious minorities). Then, too, such funded activities may simply represent the whim or predilection of a powerful person or faction. A functional review should be aware of—though not necessarily driven by—such realities.

In general, these questions are arrayed along a scale of declining theoretical importance. That is to say, economic issues are far more important—theoretically—in determining whether a function ought to be performed by government than political issues. This means that when this model is applied, greater scrutiny should be given to answers to the later questions. “Yes” answers to questions 2, 3 & 4 should not be accepted readily, in other words.

B At what level of government does this function belong?

The primary assumption of this component of the analytical model is that, other things being equal, public goods and services should be provided at the lowest possible level of government. There are two major reasons for this bias in favor of decentralization, one economic, the other political. First, goods and services delivered by lower levels of government tend to exhibit greater economic efficiency and thus, in the aggregate, to encourage a more rational use of resources. Local governments are better able to register and react to consumer preferences. Indeed, the choices inherent in multiple local governments, whereby citizens can opt through locational choices for different mixes of public services, allow in principle a near-optimal distribution of resources. The second, political reason for providing goods and services through local government is that such decentralization permits stronger lines of accountability of public officials to citizens. Local government, by definition, is closer to the people. Democratic participation is easier to develop and sustain at the grassroots level. This is especially important in societies with a weak democratic tradition.

This section of the model reflects this bias directly. It assumes that all public functions will be assigned to local government unless some specific contravening condition is met. The heart of the model thus consists of a list of three such possible contravening conditions. To use it, the analyst simply reads seriatim through the list of conditions and asks whether each applies. If a condition does seem to apply, it then constitutes an argument that the good or service *may* better be performed at a higher level of government. Always this argument has to be weighed against the primary assumptions, outlined above, that mitigate in favor of decentralization.

1 Does this good or service exhibit significant “spillover” effects (externalities)? If yes, consider assigning it to a higher level of government

An externality is a cost or benefit that extends beyond—that spills over—the community that is providing the good or service. For instance, if Community A pays for a park that is used primarily by residents of Community B, some of the benefits have been externalized, though the costs have been internalized. One solution would be to have a higher level of government—one that encompassed both Community A and Community B—take responsibility for parks. A more sensible solution—one consistent with decentralized government—in this case would be to require park users to show identification at the park entrance, with user charges imposed for non-residents. A more difficult example of externalities concerns secondary roads. Who should be responsible, for instance, for the highway linking Community A and Community B? In this sort of case, the most expedient solution is to assign the function of secondary road construction and maintenance to a higher level of government.

2 Does production of this good or service exhibit significant economies of scale? If so, consider assigning it to a higher level of government

Sometimes local governments are not the most efficient producers of public goods and services. It may be that a particular good requires such a substantial capital investment that unit costs will be unmanageably high unless the run of production is very large. No one could afford an automobile, for instance, if every city and town had to have its own car factory. By the same token, no one could afford to have a CAT scan done if every local health clinic had to invest in its own CAT scan equipment. In health, education, and other social services especially it makes sense to distinguish among types of services, and to assign to lower levels of government those that are considered primary and to assign to progressively higher levels of government those that are considered secondary or tertiary based on the unit costs involved.

3 Does this service by its nature require a high level of standardization? If so, consider assigning it to a higher level of government

This condition is somewhat more subjective than the first two. It refers to the fact some societies place a very high value on equal treatment for all citizens for certain categories of public goods and services. Most Western European countries, for instance, assume that all citizens, regardless of their residence, are entitled to the same level of welfare benefit. The United States, by contrast, has in the past few years allowed tremendous differential across the fifty states. The basic logic of this model suggests that standardization is to be embraced with the greatest of caution, decentralized government assumes that there will be differences in the quality and quantity of services across a territory. Nevertheless, assignment of a function to a higher level of government should be considered when, after due analysis, it has been determined that no variation in service delivery can be countenanced for that particular public good.

IV Conclusion

Because of the nature of the conditions of the World Bank loan and of the ICMA-USAID mission, this report has dealt only with questions of governmental *functions*. While it is theoretically possible to undertake an analysis that focuses exclusively on functions, in practical terms one very soon has to face the other half of the equation, namely governmental *revenues*. Without going into detail on questions of revenue assignment here, it should at least be noted that the two questions—functions and revenues—do not always align neatly. While it is always true that no level of government should be given a functional responsibility without a corresponding ability to pay for that responsibility—despite what seems now to be happening in Kazakhstan—it does not follow that just because a function is assigned to one level of government that revenues need necessarily be generated by that level of government. All sorts of creative—and economically rational—alternatives present themselves on the revenue side, all of which by the way are consistent with administrative decentralization.

Revenue sharing and grants-in-aid are just two examples. When the functional review is undertaken at the oblast level, it will be important to consider some of these revenue alternatives.

One final related point. Integral to meaningful functional reviews of government at the oblast level is the broader question of budget reform. Even if the elements of this model, or some variant thereof, were to be applied faithfully throughout Kazakhstan, the results would fall short of the necessary mark. The reason is that what we would have would be a series of functions that in principle should be performed at various levels of government *without a corresponding ability to make informed choices amongst competing alternatives in the face of extreme scarcity*. Put in simpler terms, Kazakhstan needs more than a method to determine what should be in the public sector or what should be undertaken at the local level. Kazakhstan, like all former Soviet states, needs to assimilate the logic of budgeting. Not everything that in principle should be in the public sector can be in the public sector. There just isn't enough money. But the GOK, given its tradition of norm-driven fund allocation, lacks the mechanism to set priorities. Thus, any ICMA-USAID functional review should be undergirded by a program of focused assistance on budgeting and financial management.