OECD Public Governance Reviews

Towards a More Effective, Strategic and Accountable State in Kazakhstan

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BETTER POLICIES FOR BETTER LIVES

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Foreword

In the past decades, Kazakhstan has been undergoing the gradual transition from a planned to a market economy, including the commodity-driven economic surge of the first decade of this century and the recent impetus for a transformation of public governance. In May 2015, the President of the Republic unveiled a vast and ambitious programme of reforms entitled the 100 Concrete Steps, in order to bring about five institutional transformations: the creation of a modem and professional civil service; the establishment of the rule of law; industrialization and economic growth; a unified nation for the future; and transparency and accountability of the state. In January 2017, the President announced a further revision of the Constitution, aiming in particular to devolve some of the powers of the Presidency to the Cabinet and to the Parliament.

Building on the 2014 OECD Review of the Central Administration of Kazakhstan, the report examines the reforms undertaken by the government of Kazakhstan in the area of public governance since 2014 and evaluates their impact on the effectiveness, strategic capacity and accountability of the state. This review places particular emphasis on strategic planning, policy and programme evaluation, risk management, devolution and functional reviews, privatisation and the oversight of state-owned enterprises – all areas in which the government has taken or considered significant initiatives in the past months in application of the 100 Concrete Steps.

This review was carried out under the programme of work of the OECD Public Governance Committee, based on its longstanding expertise in public governance reforms and strengthening administrative capacities of member and non-member countries. This work was conducted within the 2015-16 OECD Kazakhstan Country Programme, which aims to support the country during a period of critical transitions. The Country Programme seeks to facilitate the implementation of public governance reforms, including the organisation and management of the public sector, decentralisation, openness and transparency and gender-sensitive decision-making processes, while promoting Kazakhstan's adherence to the OECD instruments and use of OECD standards and best practices. Four reviews were carried out as part of the Country Programme on public governance: *Towards an open* *government in Kazakhstan, Decentralisation and multi-level governance in Kazakhstan, Gender policy delivery in Kazakhstan*, and the review presented in this report. All of these reviews aim to deepen the analysis and support the implementation of the recommendations outlined in the 2014 OECD Review of the Central Administration in Kazakhstan.

The review comprises four chapters. Chapter 1 presents the context of the current reforms in Kazakhstan. Chapter 2 addresses the framework of strategy and policy making, which has been dominated by the planning tradition of the country, and questions the capacity of recent reforms to lead to more targeted and flexible strategies and to enhance attention to the quality of policies. Chapter 3 turns to the government's policies with respect to the public sector at large. It examines recent plans to devolve some governmental functions to the private sector and privatise some public assets, and it considers the evolving relations between the central government and state-owned enterprises from the standpoint of oversight, accountability and future regulatory needs. The review offers a number of recommendations for further progress in the direction of an effective, strategic and accountable state, including integrating performance planning, assessment and risk management, strengthening policy impact assessments, extending the functional analysis of all public institutions and their subsidiary bodies, increasing transparency in the relations between executive bodies and SOEs, and reflecting on the transformation of the role of the state in the context of the privatization process in Kazakhstan.

This work provides a foundation for future engagement between Kazakhstan and the OECD as Kazakhstan progresses in its efforts to build a modern and diversified economy based on the rule of law and inclusive institutions.

Acknowledgements

This review of governance reforms in the Republic of Kazakhstan was drafted by Reza Lahidji and Daniel Frederik Mandrella, both at the International Law and Policy Institute (Oslo, Norway). The review was supervised by Tatyana Teplova, Senior Policy Analyst and Deputy Head, Governance Reviews and Partnerships Division of the OECD Public Governance Directorate. Saltanat Janenova (Graduate School of Public Policy, Nazarbayev University), Anara Makatova (National Analytical Centre), Kateryna Dolzhenko (International Law and Policy Institute) and Evgenia Korotkova (OECD Public Governance Directorate) provided advice and research assistance. Edwin Lau, Head, Division on the Reform of the Public Sector of the OECD Public Governance Directorate, contributed valuable inputs. The review is part of the 2015-16 Kazakhstan Country Programme on public governance, conducted under the general guidance of Rolf Alter and Luiz de Mello, Director and Deputy Director, respectively, Public Governance Directorate; and Martin Forst, Head of the Governance Reviews and Partnerships Division.

The OECD thanks the peer reviewers who participated in fact-finding missions and policy seminars, and contributed to the report through the peer review process: Mark Bussow, Performance Team Lead, Office of Management and Budget, USA; Paweł Chorąży, Director General, Ministry of Infrastructure and Development, Poland; Maryantonett Flumian, President, Institute on Governance, Canada; Fernando Sánchez-Beato Lacasa, Deputy Director General, Devolutions and Bilateral Relations with Autonomous Regions, Spain; Anton Marcinčin, Advisor to the Minister of Finance, Slovak Republic; Holger Sperlich, Government Director, Federal Ministry of the Interior and German delegate to the OECD Public Governance Committee, Germany; and Marek Szczepanski, former Deputy Chief Executive Officer, Industrial Development Agency, Poland.

The report benefitted from close co-operation with the government of the Republic of Kazakhstan, particularly the Ministry of the National Economy (MNE) and the Ministry of Investment and Development (MID).

As a key element of the Centre of Government in the Republic of Kazakhstan, the MNE has been at the forefront of the governance agenda. It has acted as the main architect of the reform of the planning system and the devolution of functions to the private sector, and it has been the driving force behind prospective reflections in areas such as strategic risk management. It is therefore the main source of information regarding the rationale for and the content and objectives of recent and ongoing measures.

Among its interlocutors at the MNE, the review team wishes to thank particularly: Madina Abylkassymova, Vice-Minister; Marat Kussainov, First Vice-Minister; Akbota Kurmanbayeva, Director, Askar Biakhmetov and Dinara Zhubanova, former Directors, Bakhytgul Zakirova, Diana Sarsenova and Farukh Yakubov, Deputy Directors, Department for the Development of the Public Administration System; and Askarbek Ertaev, Head, Division of Public Governance Policy; Daniya Zhumabekova, Deputy Director, Department of Strategic Planning; Dinara Kulumbetova, Director, Department of Performance Assessment; Ilona Shvartskopf, Director, Department of the Management of State Assets; Nurlan Kulbatyrov, Deputy Director, and Assel Mukashova, Head of the sector of the state regulation, Center for Trade Policy Development.

The MID, on the other hand, is a line ministry that was created in 2014 through the merger of five different government entities. The scope of its activities, the importance of its oversight responsibilities as the supervisory body of a large number of state-owned enterprises and the organisational changes it has experienced make the MID an excellent laboratory of governance issues and practices in the central government. Furthermore, the MID has undertaken examination of the transformation of its functions and the necessary adaptation of its organisation and capacities. The results of this work have been shared with the OECD.

At the MID, the review team would like to express its gratitude to: Zamir Saginov, Executive Secretary; Berik Bekenov, Director, and Yerbol Kapishev, Department for Strategic Planning; Assel Abubakirova, Deputy Director, and Ainagul Khankereyeva, Human Resource Management Service; Zhandos Khassen, Head of Digital Transformation Management Service; Talgat Ergaliev, Erlan Jussupov, Daniel Orazbekov and Sapar Satayev, from the Transformation Team.

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Finally, the review integrated evidence and viewpoints provided by a wide range of academic, international and civil society stakeholders, notably: Shigeo Katsu, President, Nazarbayev University; Riccardo Pelizzo, Vice-Dean, and Colin Knox, Professor, Graduate School of Public Policy, Nazarbayev University; Weng Tat, Dean, and Fatima Zhakypova, Executive Director, Graduate School of Public Policy, Nazarbayev University; Tuya Altangerel, Deputy Resident Representative, and Konstantin Sokulskiy, UNDP; Francis Ato-Brown, Country Manager and Amitabha Mukherjee, Lead Public Sector Specialist, World Bank; Jean-Louis Lavroff, Head of Operations Section, EU Delegation to Kazakhstan; Rustam Zhursunov, Deputy Chairman, and Ayzhan Bizhanova, Director, Atameken; Anton Artemyev, Chairman, Soros Foundation.

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Executive summary

This report updates and expands the assessment and the recommendations of the 2014 OECD Review of the Central Administration in Kazakhstan in two specific areas: the mechanisms and structures for strategy and policy making; and the functions of the executive and its relations with its subsidiary bodies. In both these areas, Kazakhstan's government has adopted a gradual approach to reforming the organisation and practices that it inherited from the Soviet Union. But in recent years the global recession and the slump in commodity prices have put Kazakhstan's model of development under strain and increased the need for further progress in modernising the country's governance structures. The government is aware of this, and is currently engaged in numerous reform initiatives in accordance with the 100 Concrete Steps programme set by the president in 2015. The report reviews the measures recently taken or under consideration in the aforementioned areas, identifies their strengths and weaknesses and proposes avenues for further progress.

Strategy and policy making: from instructing to enabling

Kazakhstan's centre of government – consisting of the Presidential Administration, the Prime Minister's Chancellery and the Ministry of National Economy – has two main tools at its disposal for orienting and co-ordinating the activities of line ministries: planning and performance evaluation. In 2014, the OECD review considered that both procedures helped provide direction and consistency to the government's actions, but that their mostly formal and all-encompassing nature generated unnecessary monitoring costs and often limited the autonomy of ministries in their respective policy fields.

In the past two years, the government has taken several measures to streamline the planning system, including reducing the number of planning documents, eliminating some redundancies between governmental programmes, simplifying the structure of ministerial strategic plans and strengthening the link between the budget process and strategic planning. While these are important steps, there remains room to further focus planning in a few priority areas. Ministerial strategic plans could further support better prioritisation, in particular by establishing a differentiated reporting regime for priority actions and reducing reporting requirements in other areas of activity. Priority areas could also be used as an instrument for encouraging ministries to develop their capacities in policy analysis, design and evaluation. More generally, the strategic plans could further provide ministries with a stronger framework for evaluating the effects of their policies, identifying sources of uncertainty and developing risk management strategies. For this, the government would benefit from establishing guidelines for integrating strategic planning, performance evaluation and risk management on the basis of the linkages among policy outputs, outcomes and impact.

Kazakhstan's ministries and executive agencies still need to focus more on evaluating the effectiveness of their interventions and develop the practical tools for doing so. An approach to evaluating effectiveness should include a systematic evaluation of the impact of public policies. These assessments should also become the ultimate criterion on which to base decisions of keeping, expanding or reducing programmes and functions.

The government has also introduced important amendments to the system of state audit and financial control, in particular expanding the scope of external audits, and prohibiting interference in the work of the Accounts Committee, Kazakhstan's highest public audit body. However, the Committee remains directly dependent on the authority of the President of the Republic, who has strong appointment and dismissal powers. The new law on State Audit has also enhanced relations between the Accounts Committee and the Parliament. Yet, it is important to strengthen the Parliament's inquiry and oversight authority in practice, as it seems that no in-depth investigations of public finance issues or evaluations of public policies have been undertaken in recent years. To extend and strengthen the impact of recent reforms, it would be important to consolidate the statutory independence of the Accounts Committee and to ensure that the Parliament has the authority and capacity to effectively engage in the audit process.

Devolution, privatisation and oversight: redesigning the functions of the state

The government of Kazakhstan has taken initiatives to reshape the public sector through functional reviews, the devolution of state functions to the private sector, and privatisation. These reforms happen in the larger context of a transformation of the role of the state in social and economic affairs – a similar development to what many OECD member countries went through in their transitions towards a regulatory rather than interventionist state.

Government functional reviews are being used to take stock of all public bodies' functions, and subsequently decide which of those should be transferred to the private sector. In addition, Kazakhstan has launched a number of privatisation programmes over recent years, through which some of the assets of various state-owned enterprises have been sold.

The review team found the country's plans ambitious and commendable, particularly with regard to the use of functional reviews to improve and rationalise further the architecture of public governance. The report recommends not only to continue in this direction but also to complement functional reviews with capability reviews, thus taking stock of ministries' and other governmental bodies' actual capabilities and resources to carry out their respective functions.

Moreover, with regard to the oversight of state-owned enterprises, the report recommends to further reflect on the different roles of the government *vis-à-vis* its subsidiary bodies as well as the changes in policy making and policy tools that will be brought about by the transformation of the state and its governance tools.

Assessment and recommendations

Strategy and policy making: Assessment

- The government has introduced several meaningful changes in its strategic planning, performance assessment and audit procedures in the past two years. The authority of the Accounts Committee has been notably strengthened, and a number of purely formal and/or redundant procedures have been simplified.
- In essence, however, the reforms have sought to rationalise the existing systems of planning, monitoring and control, rather than to change their logic. Although some measures have slightly increased ministerial autonomy, all in all the hierarchical structures of the government have been reinforced.
- There is room to further strengthen the prioritisation of ministerial activities, as reflected in the strategic plans. Kazakhstan may consider establishing a differentiated reporting regime by establishing more frequent reporting in the priority areas, while reducing the reporting requirements in other areas of ministerial activities, as practised in a wide range of OECD countries.
- The strategic plans could also go further in providing ministries a framework for evaluating the effects of their policies. Outcome- or impact-based target indicators could be made more specific to a particular intervention, instead of covering fairly disparate areas of action.
- There is further scope to strengthen the risk management provisions of strategic plans, so as to provide ministries with a clear picture of the main uncertainties that they are facing and the alternative courses of action at their disposal.
- While the adoption of the law on State Audit in Kazakhstan constitutes an important progress, it has not fully addressed the concerns expressed in the 2014 report on Anti-Corruption Reforms

in Kazakhstan on the heavy dependence of the Accounts Committee on the President.

- The law on State Audit has also enhanced relations between the Accounts Committee and the Parliament.
- However, despite its formal inquiry and oversight authority, the Parliament has not published any report regarding an in-depth investigation of public finances issues or evaluation of public policies in recent years, at least according to publicly available information.
- Moving forward, as Kazakhstan embarks on the journey of building a more accountable state, it would be important to consider strengthening the role and capacity of the Parliament to effectively engage in the audit process.
- The overall relationship between the audit procedure and the system of annual assessment of the performance of ministries can be further clarified.

Strategy and policy making: Recommendations

- Integrate performance planning, performance assessment and risk management on the basis of a detailed account of the direct and indirect outcomes and eventual impact of policy interventions. Elaborate detailed guidelines to this effect, building on international practice.
- Advance the implementation of the recommendations on the state planning system included in the 2014 OECD Review and further enhance prioritisation in the activity of ministries and agencies, notably by establishing more frequent reporting requirements for a limited number of targeted priority areas in their strategic plan (potentially linked to the high-level commitments included in the memorandums of understanding between ministers and the Prime Minister).
- In the evaluation of the effectiveness of ministries, in time, take steps to support the shift in focus from procedures to the achievement of goals. Place stronger emphasis on performance with regard to priority areas of action, in particular by organising more frequent and detailed reporting on priority goals rather than other goals.

- Create a mandatory requirement to conduct full-scale policy impact assessments (including regulatory impact assessments [RIAs]), possibly starting with a number of priority policy interventions.
- Strengthen safeguards guaranteeing the functional independence of the Accounts Committee, in line with the recommendations of the 2014 OECD Report on Anti-Corruption Reforms in Kazakhstan.
- Consolidate the role of the Parliament in the auditing of executive bodies.

Devolution, privatisation and oversight: Assessment

- The government has developed and tested a number of procedures aimed at reviewing and possibly transferring the functions of its bodies, including functional reviews and devolution criteria.
- The government would find it useful to support this process with a greater attention to organisational and individual capacities, as the 2014 OECD review already pinpointed.
- Furthermore, as already pointed out, it would be advantageous to inform functional analyses with a systematic assessment of the actual impact of different policies and programmes.
- Given the size and functions of its quasi-state sector, Kazakhstan's devolution and privatisation plans are likely to face two types of challenges in the coming years: one is the considerable impact that they could have on the role of the state and the economic and social instruments at its disposal, and the resulting need for policy instruments, in particular in the regulatory area; the other is the necessity of clearer relations between state-owned enterprises and government oversight bodies.
- SOEs such as Samruk-Kazyna, KazAgro and Baiterek are major vehicles for policy implementation in Kazakhstan, tasked with broad portfolios of economic, social and technological objectives and responsibilities.
- Further progress in establishing transparency and strictly regulating the economic, financial and governance relations between national holdings and executive bodies appears to be a key area for future governance reforms, not least in the perspective of large-scale privatisation and devolution.

- On the side of government bodies, privatisation and devolution of state functions to the private sector should go hand in hand with the development of alternative policy instruments and implementation channels in areas including mining, energy, food and agriculture.

Devolution, privatisation and oversight: Recommendations

- Continue the functional analysis of ministries and executive agencies, and extend it to their subsidiary bodies.
- In time, complement the functional reviews with capability reviews by assessing the actual capacity of ministries, local authorities and related stakeholders – whether legal, institutional, financial or in terms of human resources – to fulfil their functions.
- Improve the governance of SOEs by executive bodies and increase transparency in the relations between them, including by adopting and effectively implementing codes of conduct and regulations based on the OECD Guidelines on Corporate Governance of SOEs.
- Launch a cross-governmental reflection and dialogue with stakeholders on the separation of the executive's roles as contractor, regulator and shareholder of its subsidiary bodies, and on the necessary transformation of its structural organisation and policy tools. Review experiences of other countries in this regard.

Summary action plan

Summary of gaps	OECD recommendations	Good practices to consider
1. Strategy- and policy making: from instructing to enabling		
In the current evaluations of ministry performance, there is scope to focus more on outcome-based performance indicators, going beyond process- and output-based performance indicators. This would help overcome the often lingering culture of executing instructions at the expense of ministerial autonomy. Furthermore, the reporting requirements across all ministerial objectives often result in significant resources being bound to this activity with little difference in the frequency and detail being made between priority goals and non-priority goals.	In the evaluation of the effectiveness of ministries, in time, take steps to support the shift of focus from procedures to the achievement of goals. Place stronger emphasis on performance with regard to priority areas of action, in particular by organising more frequent and detailed reporting on priority goals than on other goals.	
Performance indicators can often be removed from the direct outcomes of policy interventions, if they are not logically linked to specific processes and outputs. This can make it difficult to discern what is actually attributable to policy and what results from external factors. This can also leave little room for integrating performance evaluation with a more elaborate approach to risk management, which would help anticipate the effect of adverse developments on policy outcomes.	Integrate performance planning, performance assessment and risk management on the basis of a detailed account of the direct and indirect outcomes and eventual impact of policy interventions. Elaborate detailed guidelines to this effect, building on international practice.	Canada's Report on Plans and Priorities (RPPs); Strategic planning and risk management in the federal government of the United States (Office of Management and Budget)

Summary of gaps	OECD recommendations	Good practices to consider
While significant progress has been made in identifying priority actions, current strategic plans of ministries still tend to encompass the full portfolio of ministry activities. Deepening prioritisation approaches in the strategic planning process will enhance the potential effectiveness of an efficient strategic planning and policy-making process that could provide important impulses to subsidiary bodies to focus their efforts and resources.	Advance the implementation of the recommendations on state planning system included in the 2014 OECD Review and further enhance prioritisation in the activity of ministries and agencies, notably by establishing more frequent reporting requirements for a limited number of targeted priority areas in their strategic plan (potentially linked to the high-level commitments included in the memorandums of understanding between ministers and the Prime Minister).	Canada's Report on Plans and Priorities (RPPs); Strategic planning and risk management in the federal government of the United States (Office of Management and Budget)
Ministries at the moment do not always conduct full-scale policy impact assessments, including RIAs, and instead concentrate on implementing policies defined and set in high-level strategic documents.	Create a mandatory requirement to conduct full-scale policy impact assessments (including RIAs), possibly starting with a number of priority policy interventions.	
While Kazakhstan has introduced many measures to strengthen the independence of the Accounts Committee, it is currently directly dependent on the authority of the President of the Republic with its head and two of its members being appointed by him. The President furthermore approves the Committee's general method of work, the size of its staff and other aspects of its activity, and can give it specific commissions. As such there is a strong scope to further align the practice in Kazakhstan with the Eight Pillars Defining the Independence of Supreme Audit Institutions developed by the International Organisation of Supreme Audit Institutions, which specify that such audit institutions can carry out their function properly only if they are guaranteed independence, inter alia through sufficiently long and fixed terms, protection against removal through the executive, independence from the audited entities and protection against outside influence.	Strengthen safeguards guaranteeing the functional independence of the Accounts Committee, in line with the recommendations of the 2014 OECD Report on Anti-Corruption Reforms in Kazakhstan.	Eight Pillars Defining the Independence of Supreme Audit Institutions

Summary of gaps	OECD recommendations	Good practices to consider
In many OECD member countries, the Parliament has an important role in the audit of the government. In Kazakhstan, too, the Parliament has formal inquiry and oversight authority and a number of communication channels exist between the Parliament and the Accounts Committee as supreme audit institution in Kazakhstan. Yet, given the limited public reporting by Parliament regarding an in-depth investigation of public finances issues or evaluation of public policies in recent years suggest an opportunity to further consolidate role of the Parliament in ensuring oversight over the executive.	Consolidate the role of the Parliament in the auditing of executive bodies.	German Bundestag
2. Devolution, privatisation and oversight: redesigning the functions of the state		
Currently, the public sector at large (governmental bodies, agencies, subsidiary bodies, etc.) carries out a number of functions not typically carried out by governmental bodies in other countries. In addition, there exists a certain degree of duplication of functions across state and quasi-state bodies, which possibly leads to inefficiencies.	Continue the functional analysis of ministries and executive agencies, and extend it to their subsidiary bodies.	
The functional analyses currently do not include an assessment of capacities and capabilities of the public bodies analysed. This might, however, be necessary given the ministries' and agencies' efforts to attract and retain adequate human resources and ensure effective delivery of its functions.	In time, complement the functional reviews with capability reviews by assessing the actual capacity of ministries, local authorities and related stakeholders – whether legal, institutional, financial or in terms of human resources – to fulfil their functions.	UK capability reviews and department improvement plans
At the moment, some uncertainty exists in the relations between executive bodies and their subsidiary organisations, in particular when the latter conduct both economic and policy implementation activities. Additionally, some SOEs report experiencing interferences by governmental bodies in their commercial activities.	Improve the governance of SOEs by executive bodies and increase transparency in the relations between them, including by adopting and effectively implementing codes of conduct and regulations based on the OECD Guidelines on Corporate Governance of SOEs.	OECD Guidelines on Corporate Governance of SOEs

Summary of gaps	OECD recommendations	Good practices to consider
Ministries can often cumulate the functions of shareholder, regulator and contractor with regard to their subsidiary bodies. These multi-pronged relationships risk conflating different and sometimes opposing interests and complicate the relations between governmental bodies and SOEs. In addition, SOEs in their current configuration are often vehicles of policy implementation with broad objectives and responsibilities. Their (partial) privatisation therefore has the potential to fundamentally change the way policy is implemented in Kazakhstan with profound effects on the role of the state in the economy and society.	Launch a cross-governmental reflection and dialogue with stakeholders on the separation of the executive's roles as contractor, regulator and shareholder of its subsidiary bodies, and on the necessary transformation of its structural organisation and policy tools. Review experiences of other countries in this regard.	Poland's experience with regard to public-private partnerships

Chapter 1

Governance reform in Kazakhstan: An overview

This first section provides context in which to situate the recent measures that the government has undertaken to reform its structures and organisation. The topics covered in this overview are: 1) the evolution of governance in Kazakhstan since its independence; 2) the general conclusions of the review of the central administration conducted by the OECD in 2014 and its recommendations; and 3) the five areas of institutional reforms and the 100 Concrete Steps roadmap defined by President Nazarbayev in May 2015.

Governance in post-Soviet Kazakhstan

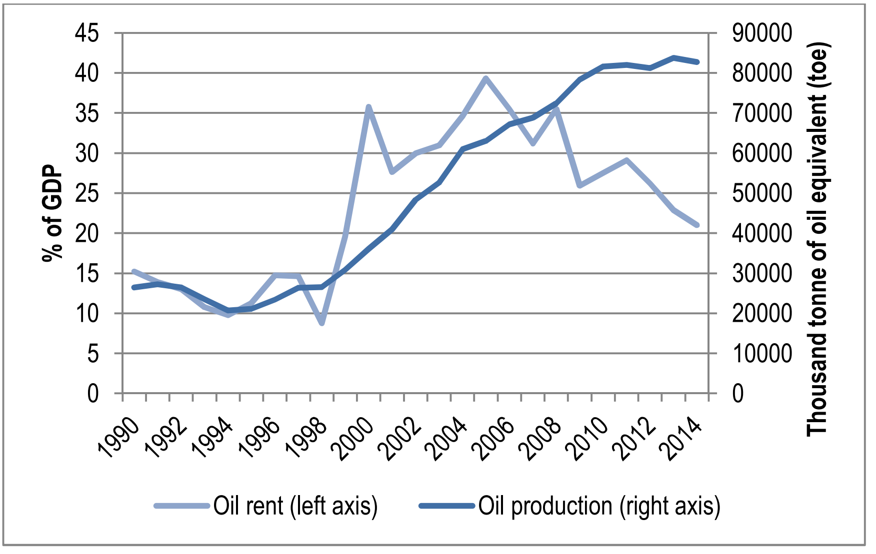
The dissolution of the Soviet Union left Kazakhstan, like all former republics, with a disproportionate public administrative apparatus and an economy that was marked by instability and disarray. In the early 1990s, Kazakhstan had virtually no private sector of any significant size, while it struggled with its legacy, bureaucratic maze. A World Bank report published in 1996 outlined these and other challenges facing the newly independent country, and described the resulting pressures and the need for comprehensive reforms in five main areas: 1) the size and scope of the public sector; 2) health and education policies; 3) budget management systems and instruments; 4) decentralisation to local administrations; and 5) the civil service.

The external pressure on the government of Kazakhstan to reform public administration was soon alleviated, however. The extraction of crude oil, which began in the mid- to late 1990s in Kazakhstan, filled the country's treasury with new funds and provided highly profitable business opportunities for the quasi-state sector. In addition to its oil and natural gas resources, Kazakhstan also enjoys significant repositories of minerals such as uranium, copper and zinc. In the first decade of the century, backed by strong international demand and high prices, the extraction and export of natural resources became the backbone of Kazakhstan's economy. The country became wealthier and its middle class grew substantially.

Poverty rates fell dramatically from 46.7% of the population in 2001 to 2.8% in 2014.[1] In the same timeframe, GDP per capita rose from USD 1 490 to USD 12 601, and GDP from USD 22.2 billion to USD 217.9 billion (at market prices). Despite these impressive achievements in terms of social and economic development, the reliance on natural resources – primarily oil and natural gas – also meant that Kazakhstan's economy became dependent on international commodities markets, and thus vulnerable to external shocks.[2]

With a steady increase in oil production (in volume) since 1995, oil rents as a percentage of GDP peaked just above 35% in 2000 and then again at about 40% in 2005 (see Figure 1.1). The oil wealth allowed the postponement of sometimes painful reforms, and the political system and economy of Kazakhstan continued to be dominated by a large public sector and a strong top-down command hierarchy inherited from Soviet times.[3]

Figure 1.1. **Oil rents and oil production in Kazakhstan**



Source: OECD, World Bank.

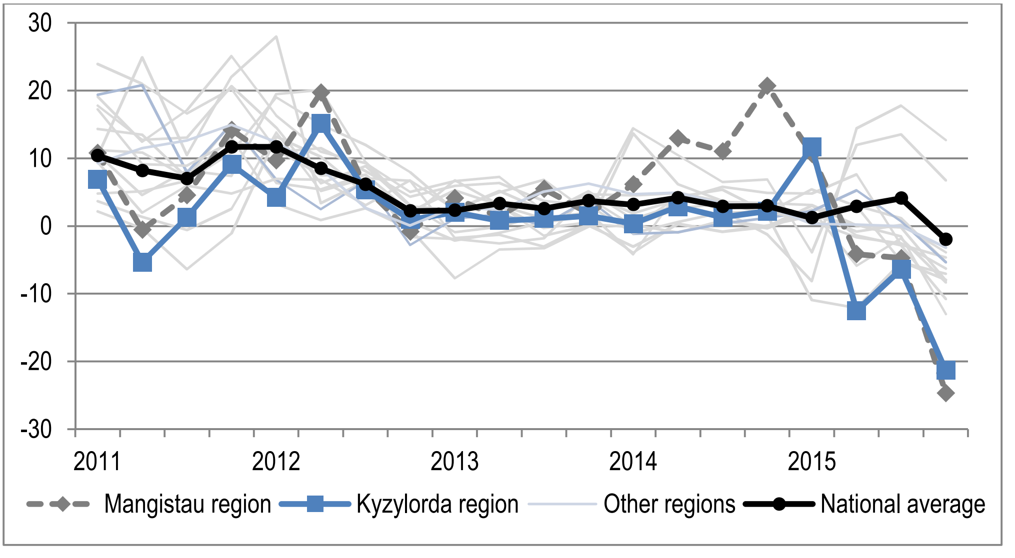
While Kazakhstan managed to cushion the impact of the global financial crisis of 2008 thanks to a sizeable increase in public expenditure funnelled into the economy by holding company Samruk-Kazyna, the significant drop in oil prices since 2014 resulted in difficult reductions in budget revenues. This fluctuation in oil rents was an exogenous "shock" to the economy largely outside the control of Kazakhstan's government. But it was not the only economic trouble in recent times.

The sanctions imposed on the Russian Federation by Western governments – predominantly the United States and the European Union – following Russia's involvement in the Ukraine conflict also resulted in knock-on effects on Kazakhstan's economy as a result of the two countries' strong economic ties.[4] In 2014, goods and services worth USD 6.7 billion, or about 10% of Kazakhstan's total exports, went to Russia, and Kazakhstan imported USD 13.8 billion, or about 33% of its total imports, from Russia. Similarly, Kazakhstan exports goods and services worth about USD 9.9 billion (14% of total exports) to China and imports USD 7.8 billion (18% of total imports) from China.[5] With the recent drop in growth in China, and the overall weakening of Chinese macroeconomic performance, Kazakhstan's economy has thus also been affected by the troubles faced by its other major trading partner in Asia.

This accumulation of adverse developments had a strong impact on the country's economy, with real GDP growth slowing to 1.2% in 2015. Real incomes, which had slowed down since 2012, began to fall in most regions of the country in the course of 2015. In the poorer regions of Kyzylorda and Mangistau, the fall exceeded 20% per year – more than anywhere else in the country (see Figure 1.2). By contrast, the two regions where real incomes continue to grow strongly are the wealthier capital Astana and the region of Almaty.

Economic pressures also led to a strong devaluation of the Kazakhstani tenge (KZT), whose value against both the United States dollar and the euro dropped by 50% during the second half of 2015 (see Figure 1.3). This devaluation further demonstrates the powerful effects the global economy and, in the case of Russia, geopolitical events may have on the domestic economy.

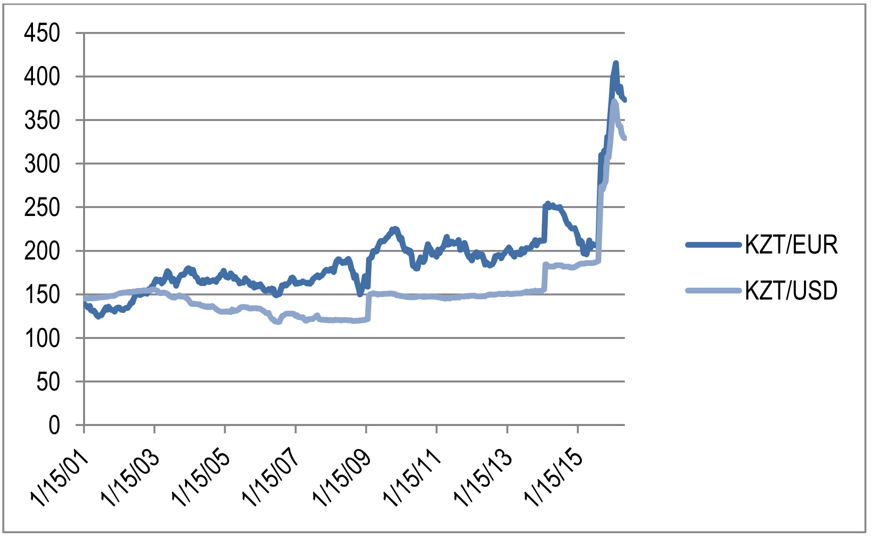
Figure 1.2. **Annual growth in real income (i.e. corrected for inflation)**



Source: Ministry of the National Economy, Committee on Statistics.

Within Kazakhstan, the economic downturn has led to the increased realisation that the structure and organisation of the economy and government need to be transformed to better withstand and absorb future shocks of this kind and others. It has also spurred renewed interest in government decision-making circles in strategic risk management and foresight methodologies that might, going forward, help avoid – or at least alleviate – the impacts of such outside economic forces.

Figure 1.3. **Exchange rates of the tenge against the dollar and the euro**



Source: Deutsche Bundesbank.

Kazakhstan's response has been to launch a large-scale programme of transformation of the state entitled the 100 Concrete Steps (see below). In some respects, the transition phase announced by Kazakhstan's head of state resembles the restructuring processes experienced by OECD member countries at various stages of their recent history – in particular Western European countries in the 1970s and 1980s and Eastern European countries in the 1990s and 2000s. However, some of the reflections engaged by Kazakhstan are beyond classical public sector restructuring and call for innovative public governance responses. This is the case, for instance, of the Kazakhstani government's interest in integrating risk management principles into its extensive strategic planning system in an attempt to increase the country's capacity to anticipate and mitigate external shocks.

The OECD recommendations on governance reform

The OECD review of the central administration in 2014 identified a number of areas in which Kazakhstan has made considerable modernisation efforts in recent years, such as the progress towards performance budgeting, and a few areas in which its performance is remarkable by international standards, such as aspects of e-government. Yet the review also highlighted a number of areas for improvement. For example, the review found that the country's governance model suffers from excessively hierarchical structures in its strategic orientations and policy design, together with inadequate focus on policy implementation, in particular in terms of evaluation of policy effectiveness and accountability. Top-down governance structures impinge upon ministerial autonomy, generate heavy monitoring costs and affect the quality of policy making, while the lack of attention to implementation generates gaps in co-ordination and communication between ministerial departments and their implementation arms, whether within the central administration, local government units or the quasi-state sector. Insufficient focus on implementation also hinders understanding of the actual outcomes of policy.

Accordingly, the review's recommendations focussed on improving the structure of the state planning by developing analytical and research capacities in the ministries and increasing the flow of information from the bottom upwards, accompanied by greater autonomy and responsibility within the ministries and a reformed performance measurement system. The review also recommended improved transparency and accountability in the relations between ministries and their subordinate bodies (state-owned enterprises, committees and so on) by clarifying roles, responsibilities and functions – in particular between committees and departments of the ministries.

To increase the autonomy and responsibility of line ministries in policy making and strategic planning, the review recommended reducing the scope of central planning to issues of strategic importance reflecting governmental priorities and areas where coordination and cooperation between ministries is critical. The review also suggested establishing formal mechanisms through which line ministries could provide the centre of government with technical and policy expertise and input for strategic plans that the centre of government would otherwise lack. Line ministries could also help in identifying policy priorities.

This change would provide new incentives to ministries to develop technical and sectorial policy expertise and analytical capacities. The goal in this endeavour would be to combine new and greater autonomy and responsibility in the ministries with better capabilities to conduct analytical work, undertake research and collect data. Such tasks are vital for line ministries but remain futile if their results are not used for policy making and cannot affect measured performance. The review recommended that ministries develop the expertise to conduct policy evaluations and regulatory impact assessments (RIAs), and to submit these for external scientific review and stakeholder consultations. It also pleaded for a further shift from output- to outcome-based indicators in the system of performance monitoring.

Improvement was also recommended on external stakeholder consultation mechanisms and processes in the ministries, i.e. the ways ministries are able to collect insights and expertise not present in the ministries or their subordinate bodies. In particular, the recommendations suggested expanding opportunities for experts, as well as civil society, to contribute to policy making and provide input into draft legislation, e.g. by strengthening the role of the expert councils established in 2009. The ministries could, as part of their policy-making processes, also proactively target groups with specific relevant expertise, or those that would be directly affected by the policy, and thus facilitate that input in a clear and structured mechanism.

The relationship between ministerial departments and committees was found to be affected in some cases by unclear delineation of roles and responsibilities and inadequate communication channels. The review recommended upgrading the exchange of information and knowledge between committees and departments, thereby facilitating further bottom-up institutional learning and sharing of expertise. It suggested better integrating committees in the policy-making process rather than leaving them the responsibility of developing by-laws and regulations. The increased clarification of the respective roles of committees and departments would, according to the review, lead to more transparency in how policies are developed and implemented. In addition, accountability would be strengthened. This is also true of the large number of state-owned enterprises whose exact functions, roles and responsibilities are often unclear, and which can hinder accountability.

With regard to the management of uncertainties, the review team was highly interested in the integration of a section on risk in the structure of strategic plans, but it also assessed that ministries usually consider that section as a formal exercise and do not exploit its full potential. The review attributed this shortcoming to the centralised nature of the planning system and the lack of a comprehensive risk management approach across government. It recommended establishing detailed risk management guidelines that could be applied throughout the governmental apparatus, including ministries and agencies, and suggested buttressing this process with strategic improvements in risk analysis capabilities. Implicitly, this is also connected to a recommendation on establishing improved strategic foresight capabilities in the centre of government. Such foresight would be used to monitor continually internal and external trends relevant for policy making in order to anticipate and counter challenges to public policy and governance.

Additionally, expanding the functional reviews of ministries to include an assessment of factual situations and capabilities of the ministries, as well as information from programme and policy evaluations, as also recommended, could further enhance efforts to streamline both the centre of government and the line ministries, and thus generally contribute to a more efficient and effective governmental apparatus.

The government's agenda of reforms

Since the publication of the report, the government of Kazakhstan has announced vast initiatives in the area of public governance, in large part inspired by President Nazarbayev's programme of reforms, the 100 Concrete Steps. A degree of convergence appears to exist between the proposed reforms in the area of public governance and the OECD's 2014 recommendations.

The Plan of the Nation, which includes Five Institutional Reforms and the 100 Concrete Steps that should be taken to implement them, is a presidential initiative aimed at maintaining Kazakhstan's economic development and allowing the country to "join the top 30 global economies by 2050". The five institutional reforms are:

- creation of a modern and professional civil service
- ensuring the rule of law
- industrialisation and economic growth
- a unified nation for the future
- transparency and accountability of the state.

The substance of each institutional reform is provided by a number of concrete steps. Many concrete steps address the broad area of public governance, including:

- Step 2. Recruitment and promotion in the civil service must be based on a competency-based approach and merit.
- Step 14. Adoption of a new law on civil service, applicable to employees of all state agencies, including law enforcement.
- Step 15. Comprehensive performance reviews of all existing civil servants following the adoption of a new law on civil service, the strengthening of qualification requirements and introduction of a new system for pay.
- Step 91. Creating a results-oriented state governance system with standardized and minimal procedures for monitoring, assessment and control. A disciplinary oversight system should be based only

on achieving stated target. All procedural tasks and interim oversight should be abolished. State agencies will have independence in their activities aimed at achieving the set targets.

- Step 92. Establishing a reduced state planning system, decreasing the number of state programmes, abolishing sector programmes by integrating them into existing state programmes, as well as into strategic plans of state agencies. Redesigning strategic plans and regional development programmes.
- Step 93. Introduction of a new system for auditing and assessing public service work. Assessment of state programmes will be carried out once every three years. Assessment of state agencies' efficiency will be conducted annually. The Law on State Audit and Financial Control will be adopted. The Accounts Committee will work based on the model of world leading companies and move away from current operational control.
- Step 97. Empowering citizens to participate in the decision-making process through development of local governance. Giving more powers to the private sector and self-regulated organisations, especially when it comes to activities that are not typically performed by the state.
- Step 99. Strengthening the role of public councils under state agencies and akims (local government heads). They will discuss the implementation of strategic plans and regional development programmes as well as budgets, reports and achieving stated objectives; draft legal acts concerning rights and freedoms of citizens and draft program documents. Legally establishing these public councils will enhance transparency of state decision making.

To implement the concrete steps, the presidency, the government and the Parliament have introduced a considerable number of new laws, regulations and acts since the second half of 2015. The rest of this report reviews the most prominent of these initiatives in the areas of planning, evaluation, accountability, devolution and privatisation. Other developments of importance mentioned here include the law on civil service and the law on public councils.

Law 416, On State Service of the Republic of Kazakhstan, adopted on 23 November 2015, entirely renovates the legal framework of the civil service. It defines the legal status and the selection procedure of public servants, regulates labour relations (working time, disciplinary responsibility of public servants, reasons for firing), establishes criteria and procedures for performance evaluation and rewards (both pecuniary and non-pecuniary) and addresses training and turnover issues.

The law provides for differentiated selection and career management procedures for political public servants, who are able to occupy their positions without participating in competition (they are designated or appointed), and administrative servants, who are divided into categories A (managerial staff) and B (other employees).

The law also places great emphasis on anti-corruption in 1) generally calling for efforts to avert corruption; 2) restricting the practice of activities incompatible with public service and revising procedures for transferring assets into trust management; 3) prohibiting persons who committed a corruption crime or were punished for administrative corruption offences during the last three years from being recruited to public service; 4) performing national security checks on newly employed civil servants to ensure compliance with employment requirements; 5) creating the right to legal protection for whistle blowers who inform the law about cases of corruption; 6) prohibiting promotions for persons punished for corruption during the year following punishment; and 7) making it possible to exclude corruption offenders from the civil service.

Law 383, On the Public Councils in the Republic of Kazakhstan, adopted on 2 November 2015, establishes a new consultative body, the public council, at two levels. The republican level concerns ministries and central executive bodies and the local level concerns akimats. To create a public council, the head of a public organisation creates a working group and designates its members in the proportions of one-third for the organisation itself and two-thirds for civil society. The group, in turn, determines the size of the council and selects its members in the same proportions as the working group. Representatives of the civil society are, in principle, to be selected on a competitive basis.

Councils are supposed to carry out public control over state bodies by means of monitoring, public hearings, public expertise and by hearing state bodies' reports of their work. They are also entitled 1) to discuss budget programmes, drafts of strategic documents and their subsequent implementation; 2) to participate in the drafting of legal acts; and 3) to submit proposals for improvement of legislation. As a general rule, the work of councils results in the adoption of recommendations and inquiries, which are submitted to the state bodies and must be considered by them, even though they are not binding.

The public councils expand the areas of consultation and the competences of the pre-existing expert councils. Their members are enabled to participate in the meetings of state bodies, to request information, to submit individual and collective petitions on behalf of citizens and to initiate public discussion. Their conclusions may include an evaluation of the performance of the state body and propose improvement measures.

These laws represent significant advances in the principles of public governance in Kazakhstan, and they respond to a number of recommendations made by the OECD in 2014. As for other laws reviewed in the following chapters, however, it is too early to evaluate their actual impact or conditions of implementation at the time of the drafting of this report.

Notes

1. Poverty rates as measured by the share of the population that lives below the national poverty line. Source: World Bank (2017).
2. The dependence of the national economy on natural resources and its path to diversification are addressed in detail in OECD (2016).
3. This should, however, not be taken to mean that the structure and organisation of the public sector has been static. Many modernisation efforts were indeed introduced and financed through the oil extraction revenues, but certain features of the state apparatus remained or were even reinforced by the resource-based growth model.
4. OECD (2016), op. cit.
5. Source for all trade figures in this paragraph: UN Comtrade Database.

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Chapter 2

Strategy and policy making in Kazakhstan: From instructing to enabling

This chapter reviews and assesses ongoing reforms aiming to transform and modernise strategy- and policy making in the government, particularly when it comes to the role of the Centre of Government (CoG) and the autonomy of line ministries. Two processes largely determine the relations between the CoG (Presidential Administration, Prime Minister's Chancellery, Ministry of the National Economy, Ministry of Finance, Agency for Civil Service Affairs and Anti-Corruption) and line ministries in the government of Kazakhstan: planning, which provides a framework for ministerial strategy- and policy making; and evaluation, through which ministerial activities are closely monitored and assessed. Both processes have undergone legal transformations in the past months. The chapter exposes the main lines of both processes, reviews and assesses the impact of recent reforms, and makes recommendations for further progress towards effective strategy- and policy making.

The structures of the government of Kazakhstan

Kazakhstan's planning system consists of a set of plans and programmes encompassing the activities of the public sector at large[1] – i.e. the central administration, local government units, government agencies and state-owned enterprises:

- The highest-level planning documents are the Kazakhstan 2050 vision, operationalised in a document entitled "Concept of Joining the 30 Most Developed Countries in the World".
- Ten-year strategic plans – currently the Strategic Development Plan of the Republic of Kazakhstan to 2020 – are derived from the longer-term vision documents.
- State and governmental programmes cover particular areas over horizons of up to five years.
- Each ministry and government agency elaborates a strategic plan covering all of its functions and activities over a period of five years; these plans are revised every third year and are implemented via the annual operational plans.
- National holdings and national companies develop strategic plans with ten-year horizons.

The planning system provides ministries, agencies and oblasts with long-term development objectives. It also structures public sector activity on the whole, since every public entity operation has to be included in the strategic plan and in the annual operational plan that is related to it. Ministries are responsible for systematic monitoring and reporting on the completion of their plans. Progress in the implementation of the plan constitutes one of the key criteria on which they are evaluated.

The government of Kazakhstan has an extensive system of evaluation and control of public programmes, in which the traditional functions of internal and external auditing are conducted by a variety of entities and are supplemented by a systematic annual assessment of the performance of all ministries and agencies. In 2014, when the OECD conducted its review of the central administration, CoG entities evaluated all line ministries in seven different areas, including the execution of presidential instructions and the management of strategic goals.

The strength of Kazakhstan's system of planning and evaluation, as assessed by the OECD in 2014,[2] is the sense of long-term direction and the degree of coherence that it provides to government action. At the same time, however, the system diffuses the idea that policy making consists in executing plans established in advance at higher levels of authority, and reinforces the hierarchical structure of policy making; it also generates considerable monitoring and reporting costs, particularly in ministerial departments where it appears to crowd out policy analysis and design work. These bureaucratic tendencies, which are typical deficiencies of planned economies, do not appear compatible with the transition to a system of government that can support the modernisation of the country and diversification of its economy.

The OECD Review of the Central Administration of Kazakhstan therefore recommended various measures to increase the autonomy of ministries and agencies and give them better incentives towards the improvement of their policies, notably by (a) reducing the scope of state planning to strategic priorities and cross-cutting issues, (b) enhancing their contributions to higher-level planning documents, and (c) engaging more vigorously in policy analysis and development, and establishing an active dialogue with their stakeholders in this regard (see Box 2.1). The review pinpointed risk management as one of the key tools to enhance the autonomy and proactivity of ministries in their respective policy areas. Risk-based approaches are also an effective way to overcome the limitations of a deterministic approach to long-term planning, i.e. one that does not explicitly account for the technological, demographic and environmental uncertainties that the future holds.

Box 2.1. **The OECD's recommendations in 2014 in the areas of planning, risk management and policy evaluation**

- Reform the planning system by (a) collecting in a systematic and transparent way contributions from all parts of the government to the elaboration of high-level planning documents; and (b) initiating a gradual reduction of the scope of planning with the aim to focus on a limited number of governmental priorities and areas of inter-ministerial cooperation.
- Encourage initiatives aimed at developing policy analysis, increasing regulatory quality or investigating innovative approaches such as risk management – and more generally proactive attitudes to policy making – in ministries and agencies.
- Within the planning framework, strengthen the capacity of ministerial departments to perform policy analyses, conduct and fund research and collect data. Strengthen information exchange tools and procedures between departments, committees and subordinate bodies. When synergies are important, reintegrate subordinate bodies in charge of data collection and analysis in ministries.

Box 2.1. **The OECD's recommendations in 2014 in the areas of planning, risk management and policy evaluation** *(continued)*

- Reform the regulatory development process in order to make ministerial services responsible for a complete Regulatory Impact Assessment (RIA) and to submit its results to external scientific assessment on a more systematic basis. Provide ministries and agencies with RIA methodological guidelines.
- Expand opportunities for policy debate and stakeholder engagement and strengthen the role of deliberation and consultation in policy making, in particular by reforming the functioning of expert committees, creating effective ways for citizens and stakeholders to provide input to policy making, proactively targeting specific groups, encouraging comments and providing clear consultation mechanisms and timelines.
- Elaborate detailed risk management guidelines; instruct ministries and agencies to implement the guidelines and enhance their risk analysis capabilities; submit the risk management strategies to the same stakeholder consultation and scientific assessment requirements as draft regulations. A first positive step would be for the Centre of Government to provide guidance on the philosophy, procedures and results of risk management, as well as precise implementation steps and responsibilities. After implementation, it will be important to build capabilities for risk analysis in ministries and to submit risk management strategies to public consultation, deliberation in the expert committees and scientific assessment.
- Strengthen budget planning in order to provide a stable multi-year framework to ministries; achieve the connection of budget and strategic planning; enhance the role of the Tax Committee.
- Strengthen an independent parliamentary audit system, including the audit of the efficiency and effectiveness of government expenditures. Develop a comprehensive reform of financial management control and audit, and professionalise the function.
- Strengthen the role of Parliament in reviewing governmental performance to ensure a greater accountability and transparency of the executive for the use of public resources, including value for money and ensuring administration through the law. Introducing a system of ministerial plans and performance reports submitted to Parliament (i.e. a system of ministerial statements) would be an important step in this direction.

Streamlining the planning system

Recent measures

Streamlining the state planning system was one of the objectives of the 100 Concrete Steps proclaimed by the President of the Republic of Kazakhstan in May 2015:

"Establishing a reduced state planning system, decreasing the number of state programs, abolishing sector programs by integrating them into existing state programs, as well as into strategic plans of state agencies. Redesigning strategic plans and regional development programs." (Step 92)

In application of that step, the President of the Republic passed two decrees reforming the planning system in November 2015 and January 2016.[3] The first decree introduced new conditions for the development of state programs, such as the prior assessment of socio-economic impact and consultation of the Parliament and public councils. It also simplified the procedure for the adoption of ministerial strategic plans[4] and modified their content (see Table 2.1). The new structure shortens the strategic plans and focuses more sharply on strategic directions. In particular, the detailed description of activities, performance indicators and budget programmes is transferred to the budget document, which is to become more closely connected to the strategic plan thanks to progress towards results-based budgeting.

Table 2.1. **Correspondences between the old and the new structures of the ministerial strategic plans**

Old structure	New structure
Section 1. Mission and vision	Section 1. Mission and vision
Section 2. Analysis of context and trends in the development of relevant industries (spheres of activity)	Section 2. Analysis of context and risk management Section 3. Priority directions in the sphere of activity / industry
Section 3. Strategic directions, goals, objectives, target indicators, measures and indicators of results	Section 4. Architecture of the relationship between strategic and budget planning Section 5. Strategic directions, objectives and target indicators
Section 4. Programmes	Deleted
Section 5. Inter-ministerial cooperation	Deleted
Section 6. Risk Management	Deleted
Section 7. Budget programs	Section 6. Resources

The second decree simplified the planning system by reducing the number of state programmes from 10 to 8 and the number of sectorial programmes from 44 to 16. The concept of sectorial programmes was later abandoned, as 11 of the 16 programmes were cancelled and the remaining five were labelled as government programmes. The decision was informed by the results of an audit of all state and sectorial programmes conducted by the Ministry of the National Economy in 2014, with the aim of identifying inefficient and duplicate projects. This resulted, for instance, in the abolition of the state program of further modernisation of the judicial system and in the integration of the state programme of transport infrastructure development until 2020 in the greater state programme of infrastructure development ("Nurly Zhol" [Bright Path]). In addition, regional administrations were discharged from the mandate to develop the strategic plans and elaborate forecasts of social and economic development at the local level. As a result, the total number of planning documents in the country fell from 954 to 313.

Besides decreasing the number of government programmes, the government has sought to streamline their goals and to build a clear hierarchy of priorities in application of Step 91 of the 100 Steps Programme. According to the new scheme, the government adopts an annual list of priorities, on the basis of which specific memoranda are established between each ministry and the Prime Minister's Chancellery. The strategic plans of the ministries must then reflect the commitments made in these memoranda.

The Ministry of the National Economy (MNE) is in charge of implementing the decrees reforming the state planning system.

In addition, the MNE is working to develop a single indicator database integrating all of the government's strategic goals, structured according to the hierarchy of planning documents, so that the long-term development goals of the country can be broken down into objectives and indicators for each governmental body.

Implementation of the reforms: the experience of the MID

The Ministry of Investment and Development (MID) is currently implementing its strategic plan for 2014-16, which was last amended in June 2016. The case of the MID, as explained in the introduction, is of particular interest. The ministry was formed in 2014 from the merger of the Ministry of Industry and New Technologies, the Ministry of Transport, the Kazakhstan Agency for Communication and Information and the National Space Agency, as well as the Industrial Safety Department of the Ministry of Emergency Situations. In 2015, the MID engaged an internal reform process in order to adapt its structures, policies and strategy to these changes. The "transformation" process, as it has been called within the MID, has paralleled and interacted with government-wide reforms in the areas covered by this report, in particular strategic planning, devolution and the oversight of state-owned enterprises, and sheds light on their actual reach and practical implications. It should be noted that in May 2016, the Committee on Communications, which replaced the former Agency for Communication and Information, was separated from the MID and became part of the newly founded Ministry of Information and Communications.[5]

In 2015, the MID's management found that when asked about their ministry's mission, most of its employees were not able to recall the official (and fairly convoluted) description that had been drafted after the merger in order to amalgamate the missions of all merged entities (SCMi Group LLP, 2015). This led the ministry to adopt a new mission statement that would capture the common element in all of its areas of responsibility and indicate its policy principles and goals. This new mission statement opens the MID's strategic plan. It reads:

"Achieving a high level of quality of life in Kazakhstan through diversification of the resource-dependent economy, by creating competitive and innovative industries."[6]

The statement directly relates the mission of the MID to Kazakhstan's overarching goal to diversify its economy, and identifies the creation of more competitive and innovative industries as a key objective for the ultimate achievement of a better quality of life for the population. The commitment to more competitive and innovative industries is indeed relevant for the entire range of activities of the MID, notwithstanding the diversity of its services and those of the many subsidiary organisations under its oversight. The new mission statement also aimed to clarify the MID's purpose in a clear and concise statement that could be easily communicated to all employees.

The strategic plan then provides details about the current context, risk management provisions and priority areas for activities in two strategic directions. This is the core of the plan, which establishes the course of the ministry's policies in all of its areas of work. The first strategic direction, entitled "The creation of conditions for the industrial and innovation-based development of the country, industrial security and the development of space infrastructure" addresses developments in mining, steel production, car manufacturing, mechanical engineering, construction, wood products, the chemical and pharmaceutical industries and light industry, as well as export controls, the safety of hazardous installations, local content policies, energy efficiency, foreign direct investment (FDI) and the investment climate, the industrial mapping of the country and special economic zones, geological surveys, subsoil resources, tourism and the space industry. The second direction focuses on the transport sector and infrastructure.[7]

As can be seen from this short description, the two directions seem directly inherited from the main entities that formed the MID (the Ministry of Industry and New Technologies and the Ministry of Transport). The priority areas pinpointed in the third section of the plan include measures to take in all of the above sectors. Some of these measures are discussed only in broad strokes, such as increasing labour productivity, promoting domestic demand or improving the regulatory framework. As such, there is scope for greater prioritisation in the strategic plan of the MID, in conformity with the government's general orientation in this regard.

With regard to risk management provisions, the MID's strategic plan shows significant progress in comparison to the strategic plans examined by the OECD in its 2014 review. The MID identifies a large number of risks that could affect its various areas of activity and, for each of these, briefly mentions one or more prevention and mitigation strategies. In some cases, which seem to correspond to situations for which a detailed risk management plan already existed, such as the possibility of natural disasters affecting space installations, the strategy is detailed in a list of concrete steps. In most cases, however, there is room to further specify the proposed risk management measures. For instance, in response to a "lack of demand for finished products inside the country", the plan could identify a more specific set of actions than "increasing the added value of products". Furthermore, the plan could further elaborate on the mechanisms through which the realisation of a particular goal would be endangered by an identified risk and safeguarded by the proposed risk management strategy. Finally, the plan could also include indications on the type and magnitude of the damage resulting from the occurrence of risk, and of the resources needed to implement the strategy.

The following sections of the plan establish the link between the strategic plan and other planning documents. Section 4 defines 14 strategic objectives for the Ministry: 8 for the first strategic direction (industrial development) and 6 for the second (transport). The objectives tend to be derived from the higher-level planning documents – the MID's strategic plan mentions about 11 goals from the Kazakhstan 2050 vision, 50 areas of action from the Concept of Joining the 30 Most Developed Countries in the World, and 29 indicators from the Strategic Development Plan to 2020. The same section of the plan relates each strategic objective to one or more budget programmes (28 in total). Section 5 defines the target indicators associated with each strategic objective, and section 6 specifies the financial resources planned for each budget programme over the next three years. The separate budget plan provides additional details about each budget programme, together with a set of "indicators of direct results".

It appears that the budget plan's results indicators only partly coincide with the strategic plan's target indicators. There is also an opportunity to strengthen the logical links between those indicators and the priority measures in the strategic plans and the budget programmes; as well as between the MID's plans and higher-level planning documents. Consider, for instance, the strategic objective of supporting innovation (see Annex A). The priority areas described in the strategic plan consist in improving the existing financial instruments (grants), developing the innovation infrastructure (including the "Park of Innovative Technologies") and conducting information and communication campaigns in direction of businesses and the research community. Two budget programmes, focussing on the support to innovative projects and the Park, are listed under the objective. The strategic plan associates seven target indicators with the objective, six of them related to Kazakhstan's position in the World Economic Forum's rankings, and the share of innovative products in the GDP. However, the budget plan lists only the latter as a direct result indicator.

Altogether, almost a third of the MID's target indicators (24 out of 79) are based on the country's position in a particular international ranking. While such measures provide an independent assessment of Kazakhstan's achievements on the global stage, they depend on a host of factors outside the control of any individual ministry, and therefore they cannot provide a useful indication of its performance. This also applies to most of the MID's impact indicators based on domestic statistics, such as the productivity of labour in a particular industry.

Overall, the priorities and target indicators included in the MID's strategic plan tend to generally reflect higher-level priorities and indicators, in line with the planning system established by the Presidential Decree of March 2010, although the MID acknowledges developing additional sectoral indicators at the ministry level.[8]

Further to the reform of strategic planning, the MID envisions bringing its strategic planning closer to the everyday work of its staff by making every employee aware of his or her contribution to the achievement of the organisation's objectives and goals. This is to be achieved by training the Strategic Planning Department ministry staff on how to compile an effective strategic plan, and then having the trained employees disseminate their knowledge to the others. Additional training will also be provided in scenario and corporate planning will further enhance the strategic planning system of the ministry. Finally, the strategic planning reform will also include the introduction of new Key Performance Indicators (KPIs) for structural units and divisions of the ministry to improve the monitoring and evaluation of performance.

Strengthening audit and evaluation

As mentioned in the introduction, the President's Concrete Step 93 provides the following instructions with regard to the evaluation and control of central government bodies:

- A new system for auditing and assessing public service work will be introduced.

- An assessment of state programs will be carried out once every three years.
- An assessment of state agency efficiency will be conducted annually.
- The Law on State Audit and Financial Control will be adopted.
- The accounts committee will work based on the model of global leading companies and move away from the current operational control.

Several measures have been taken recently to implement these changes.

Auditing and control

As requested by Step 93, the Law on State Audit and Financial Control was passed in November 2015 to clarify the framework for the exercise of state audit and financial control and define the competences, structures, rights and duties of bodies involved in their conduct.[9] The law distinguishes between two forms of audit: external and internal.

External state audits target the effectiveness and legality of the use of national resources, understood as financial, natural, material, information and human resources. They fall under the responsibility of the Accounts Committee, the highest audit body that reports directly to the President of the Republic. Audits in regions and cities of republican subordination (Astana, Almaty) fall under the responsibility of the corresponding Revision Commissions.

The audits of the Accounts Committee generally focus on the use of budget funds from standpoints of compliance and performance. In some cases, however, the Committee also verifies the conformity of governmental interventions to particular state development programmes. In 2016, for instance, it is scrutinising the actions taken by relevant ministries and agencies with the Roadmap of Business Development to 2020, the Informational Kazakhstan Programme, and the Healthcare Development Programme for 2011-15.[10]In addition, the new law extends the Committee's performance audit competences from budget execution only to the budget planning process.

Internal state audits are oriented towards the evaluation of achievements of direct and final results, as described in relevant planning documents, as well as the reliability of financial and administrative information, the effectiveness of internal organisation of state bodies, the quality of state services and the security of state assets. Internal audits are performed by the Committee of Internal Public Audit (formerly the Financial Control

Committee) under the Ministry of Finance, and by the inspection services of central state bodies (other than the National Bank), of their units[11] and of local executive bodies. The Internal Public Audit Committee supports the internal services of government agencies in terms of methodology and standards of audit, and controls their performance through inspections. Internal audit inspections are independent from the other departments of government agencies and report directly to the head of the agency.

The Law on State Audit and Financial Control also includes a number of provisions aimed at optimising resources and reducing redundancies, such as: 1) the mandatory planning of control measures on a risk basis; 2) a shared database of public audit and financial control integrated into the e-government system and information systems of governmental authorities; 3) the mandatory registration of audits with the Committee for Legal Statistics and Special Accounts of the State (of the General Prosecutor's Office); and 4) the mandatory mutual recognition of outcomes of public audits by all public audit and financial control agencies (OECD, 2015). The institutions performing state audit and financial control participate in the work of a specialised coordination council in order to share experiences and coordinate their activities. Decisions of the council are mandatory for the participating institutions.

In addition to the Law on State Audit and Financial Control, a separate law introduced important amendments to existing legal acts regulating audit and control procedures.[12] In particular, the law introduced new provisions concerning the audit of the quasi-state sector, which mandates the conduct of an audit on contractual basis by private audit organisations in cases where a quasi-state body is the final receiver of budget funds. The object of the audit has to report any identified breaches to the public audit authorities. The Law on Parliament Committees and Commissions has been modified to enable the head and members of the Accounts Committee to take part in meetings in the Parliament. The Law on Local State Governance and Local Self-Government enables the maslikhat (local self-governing body) to appoint the head and members of Revision Commissions.

Effectiveness assessments

The government's key tool for evaluating the quality of its policies and services is the system of Assessment of Effectiveness of Activities of Public Organisations, which was set up in 2010 as a formal procedure for examining once a year the achievements of ministries, agencies, oblasts and the municipalities of Almaty and Astana.[13] The process was later extended to state-owned enterprises (on a five-year basis and under the authority of their boards of directors), and its methodology was gradually refined, from an initial focus on quantitative and output- or process-based indicators to the integration of qualitative aspects and a shift to outcome-based assessments. After its last modification in December 2015,[14] the procedure currently covers five aspects of the activities of ministries:

- management of strategic goals
- budget management
- human resource management (HRM)
- IT use
- services to citizens.

The Ministry of National Economy currently considers further consolidation of the assessments into three blocks:

- achievement of strategic goals (in relation with budget programs and expenditures)
- interaction with citizens, based on (1) the quality of government services and (2) the openness of government agencies
- organisational development, based on (1) human resource management and (2) the use of information technologies.

The new methodology is expected to be approved and enacted by the end of 2016.

Two additional areas, namely the quality of execution of presidential and governmental orders and the effectiveness of legal support services, have been recently excluded from the assessments. The decree defined the competent authorities responsible for the assessment of each of the five areas. In principle, the MNE should be in charge of assessing strategic objectives, the Ministry of Information and Communications should assess IT applications, the Ministry of Finance should assess budget management and the Agency for Civil Service Affairs and Anti-Corruption should assess HRM and services to the citizens.

In each area, the evaluation of ministerial performances follows an established methodology that can be fairly complex. On strategic planning, for instance, evaluations address not only the achievement of the plan's objectives, but also the quality of the analysis on which it is based, of its risk management provisions and of the linkage between its various sections, among others.[15]

The 2014 OECD review noted the attention given by Centre of Government authorities to effectiveness assessments as a governance tool, and indeed underlined some of the positive consequences of their introduction, in particular in highlighting the importance of results to ministerial managers and, in some cases, supporting a shift to outcome-based budgeting.

However, the assessment system also has a number of weaknesses and unintended adverse effects, including:

- its contribution to reinforcing the ministries' focus on the delivery of planned outputs at the expense of developing policy capacity, exploring broader policy impacts and using course correction
- excessive time and resources spent on documenting and reporting achievements, staff overburdening and excessive working hours
- the risk of its becoming a formal process within the administration, leaving a potential gap between the official image of the functioning of the government and the actual outcomes
- its lack of attention for capacity issues at the operational level in ministries (and, probably to an even larger extent, in local government), which are often the root cause of low performances.

Correlatively, as the 2014 review pointed out, the assessment system does not appropriately take into account the effectiveness and impact of policy choices at the ministerial level. As such, the system reinforces the ministries' neglect of policy evaluation. In Kazakhstan, draft legislation has to undergo systematically an "economic expertise" that has some of the features of a Regulatory Impact Analysis. Yet, as an OECD review of regulatory policy in Kazakhstan noted in 2014, the economic expertise is usually conducted by the Institute of Economic Research, and the ministry at the origin of the draft law does not actively use it as a tool for better policy making (OECD, 2014b). Generally speaking, the practice of investigating, evaluating and improving the outcomes of policy through impact assessments (regulatory, socio-economic, environmental or other) is still not firmly established in the executive. Ministries usually do not have adequate resources and competences for conducting such assessments. Their policy departments are typically in charge of state planning and devote most of their time and resources to the plan development, monitoring and reporting.

Overall, in the words of the 2014 review, the government of Kazakhstan could do more to "promote a culture of public policy making, which considers the impacts, effectiveness and efficiency of various policy choices. Developing such a culture would be particularly important to increase the autonomy and authority of ministries in designing policies and programmes. Moreover, this would help build a management culture in which policy evaluations, assessments of programme implementation and audits are always followed by action, and actions are always followed by audits and evaluations."

Assessment and recommendations

The government has introduced several meaningful changes in its strategic planning, performance assessment and audit procedures in the past two years. The authority of the Accounts Committee has been notably strengthened, and a number of purely formal and/or redundant procedures have been simplified. In essence, however, the reforms have sought to rationalise the existing systems of planning, monitoring and control rather than to change their logic. Although some measures have slightly increased ministerial autonomy, all in all the hierarchical structures of the government have been reinforced.

Strategic planning and risk management

A number of important steps have been made towards the streamlining of the planning system, which the OECD saw as an important area of reform in 2014. The number of planning documents has been substantially reduced, particularly if one takes into account the local government level. These efforts especially focused on eliminating redundancies and reorganising planning documents on the basis of updated system of performance budgeting over three-year horizons (in line with the recommendations of the 2014 OECD review). The link between the budget process and strategic planning appears to be strengthened. Ministries have a greater role in the adoption of their strategic plans, the structure of the plans has been simplified and the number of main objectives, which are evaluated within state programmes, has been reduced.

While important efforts have been made, there is room to further strengthen the prioritisation of ministerial activities, as reflected in the strategic plans. For example, Kazakhstan may consider the example of Canada's Reports on Plans and Priorities, which include a very clear set of priorities (see below). Kazakhstan may also consider establishing a differentiated reporting regime by establishing more frequent reporting in the priority areas, while reducing the reporting requirements in other areas of ministerial activities, as practised in a wide range of OECD countries. This could help avoid high reporting costs and the persistence of a culture of executing instructions at the expense of ministerial autonomy. It may also support Kazakhstan's efforts to strengthen ministerial capacities to undertake policy analysis, design and evaluation of effectiveness.

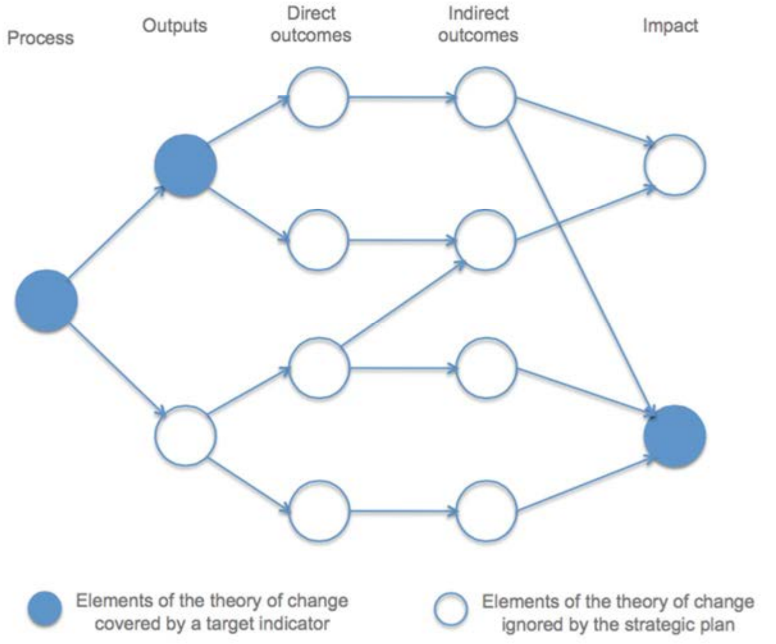
The strategic plans could also go further in providing ministries a framework for evaluating the effects of their policies. Outcome- or impact-based target indicators could be made more specific to a particular intervention, instead of covering fairly disparate areas of action (see the example of the MID's innovation policy above). Furthermore, targeted outcomes could be more closely connected to the interventions, building on the logical connection between the two and reducing the number of factors that can affect these outcomes and stand outside of the ministry's control.

This narrative, which is sometimes called a theory of change, could be spelled out more prominently in the strategic documents of ministries and agencies in Kazakhstan. Part of their narrative could be included in the opening sections of the strategic plan in a more systematic manner, providing a logical framework for the analysis and interpretation of the target indicators (see Figure 2.1). This would allow to better attribute an observed change in any indicator (whether positive or negative) to a specific intervention. The inclusion of the theory of change in the strategic plans could help answering questions such as: If a target is not met, is it because of a deficient design of the planned action? Its poor implementation? The lack of complementary measures? An adverse development in international markets that was not foreseeable? Or simply because the target was too ambitious given all other factors?

There is further scope to strengthen the risk management provisions of strategic plans, so as to provide ministries with a clear picture of the main uncertainties that they are facing and the alternative courses of action at their disposal. While there have been improvements in the risk section of the MID's five-year plan, further steps could be beneficial to identify clear risk management strategies in case proposed interventions would not have the intended consequences. In line with the envisaged direction by Kazakhstan's authorities, Kazakhstan would strongly benefit from developing clear risk management guidelines, which would:

- Include a systematic approach to the identification and ranking of the sources of uncertainty about the completion of strategic goals. This would enable strategic plans to characterise risks in detail, and list them with proper consideration of their likelihood or the magnitude of their consequences.
- Identify clear and precise prevention and mitigation strategies.
- Estimate the resources needed to implement response strategies and the residual risk incurred (i.e. the likely impact on strategic goals after response strategies have been implemented).

Figure 2.1. **A representation of the link between a strategic plan and a theory of change (fictive example)**



Yet, given the amount of work that ministries already devote to strategic planning, it does not seem advisable to engage them in a substantial effort to develop detailed theories of change and risk management provisions over the entire span of their plans. A less resource-intensive – and possibly more fruitful – option would be for each ministry to define a limited number of priority areas within its plan (as recommended above). Focussing on these areas only, a given ministry would then reflect more deeply on its interventions and their direct and indirect outcomes, internal and external factors of success, target indicators, sources of uncertainty and alternative courses of action. This would also be a step forward in empowering ministries in their areas of policy making and introducing a degree of prioritisation in their strategic plans.

For interesting models of strategic planning that underscore priorities, leave room for ministerial initiatives and integrate risk management, the government of Kazakhstan could turn to the experiences of Canada and the United States.

Canada's Reports on Plans and Priorities (RPPs) are primary instruments of accountability to Parliament and strategic planning. They are annual expenditure plans that provide information on departmental strategic outcomes and program activities, plans and priorities, expected results, performance indicators and resource requirements on a three-year basis. The approach adopted by the Government of Canada departments and agencies requires them to include all their planned and actual expenditures and performance against all of their programmes and activities as part of the RPPs. Yet, in addition, each RPP outlines a set of annual priorities for each department and agency that are much more narrowly defined that the full spectrum of activities and programmes delivered by each department and agency. The RPP also outlines why each priority has been set and the respective plans to meet it. It indicates whether a priority is new or whether it is being carried over from the previous years and the type of programme/subprogramme it relates to under the responsibility of the department or agency. Each RPP includes a risk management section, which identifies strategic risks for the delivery of the core programmes and proposes a series of targeted activities to mitigate these risks. Importantly, the priorities are established by departments and agencies on the basis of the consultation with central agencies.

The approach in the United States aims at reaching a balance between government coordination which addresses a limited number of cross-cutting issues, and the autonomy enjoyed by sectorial agencies in identifying important policy issues, targets and risks. It also places constant emphasis on prioritisation, leading agencies to determine between two and eight annual policy objectives within their strategic plans (see Box 2.2).

Box 2.2. **Strategic planning and risk management in the US federal government**

The Office of Management and Budget (OMB)'s circular A-11 addresses the preparation, submission and execution of the budget for the federal government. The circular includes detailed guidelines for the implementation of cross-agency priority goals (section 220), the development of agency strategic plans (section 230) and priority goals (section 250) and the conduct of data-driven reviews of performance and enterprise risk management (section 270).[1]

Cross-Agency Priority (CAP) goals are identified in areas where it is likely that increased cross-agency coordination can improve progress in outcomes, and they apply to all relevant branches of the executive. The 2015 budget, for example, defined 15 CAP goals, which include, among others, the improvement of mental health outcomes of current and past members of the Armed Forces; the improvement of education in the sciences, technology, engineering and mathematics; and the improvement of government efficiency and effectiveness through the increased use and interoperability of open data to increase entrepreneurship and innovation.[2]

At the beginning of every new presidential term, every federal agency is required to produce a new Strategic Plan that defines the agency mission, long-term goals, strategies planned and

Box 2.2. **Strategic planning and risk management in the US federal government** *(continued)*

approaches that will be used to monitor progress related to its mission. Long-term goals are translated to strategic objectives and then to performance goals, such as Agency Priority Goals (APG), in the Annual Performance Plan. An APG is focused on a result or achievement that can be accomplished within 24 months and is predominately reliant on agency execution and not external variables such as changes in legislation and funding. While strategic goals by definition cover all of an agency's areas of work, APGs are more targeted and typically concern only a few activities – at least directly.

Identifying a limited number of APGs, normally between two and eight, does not mean that other agency goals or legislative and policy priorities are unimportant, but should be seen as an important tool to stimulate conversation and require decisions about agency priorities, measurement, strategies and responsibility of leading implementation efforts.

All agencies that contribute to a CAP goal are mandated to address it in their Strategic Plan, Annual Performance Plan and Annual Performance Report. CAP Goals are elaborated every four years, Agency Priority Goals every two years and Strategic Goals and Objectives every four years. Performance targets are reviewed and considered for updates at least annually.[3]

The process of enterprise risk management (ERM) is designed to manage risks and challenges related to the delivery of each organisation's strategic objectives. ERM aims at understanding the combined impact of various risks as opposed to addressing them individually. It provides an agency-wide, strategically aligned portfolio view of organisational challenges. This insight makes the agency better equipped to effectively prioritise and manage risks that are threatening mission delivery.

OMB's circular A-123 provides a step-by-step approach to agencies for developing their risk management policy and describes its connection with auditing and control.[4] Importantly, agencies are required not only to identify and assess risks, but also to devise, implement and report on a risk management strategy. The following table (2.2) shows an example of a so-called Risk Profile that every government agency is required to produce. Notably, it lists the risks identified by the agency and also the risk mitigation measures that have been put in place. This elevates the risk management strategy from a simple identification of risks to a holistic approach that devises countermeasures even before the risks materialise.

1. For more information, see www.whitehouse.gov/omb/circulars_a11_current_year_a11_toc.

2. See www.performance.gov/cap-goals-list (accessed 7 October 2016).

3. See www.performance.gov/cap-goals-list (accessed 7 October 2016).

4. See www.whitehouse.gov/sites/default/files/omb/memoranda/2016/m-16-17.pdf.

Table 2.2. **Example of a risk profile established by a government agency**

RISK	Inherent Assessment		RISK MITIGATION	Residual Assessment		PROPOSED ACTION	OWNER	Proposed Action Category
	Impact	Likelihood		Impact	Likelihood			
STRATEGIC OBJECTIVE – Improve program outcomes								
Agency X may fail to achieve program targets due to lack of capacity at program partners	High	High	REDUCTION: Agency X has developed a program to provide program partners technical assistance	High	Medium	Agency X will monitor capacity of program partners through quarterly reporting from partners	Primary – Program Office	Primary – Strategic review
OPERATIONS OBJECTIVE – Manage This Risk of Fraud in Federal Operations								
Contract and Bidding fraud	High	Medium	REDUCTION: Agency X has developed procedures to ensure contract performance is monitored and that proper checks and balances are in place	High	Medium	Agency X will provide training on fraud awareness, identification, prevention, and reporting	Primary – Contracting Officer	Primary – Internal Control Assessment

Auditing and evaluation

The Accounts Committee has seen its competencies extended and strengthened by the Law on State Audit and Financial Control. The reinforcement of audit functions inside the government, in particular the expansion of the scope of external audits, is a positive development in line with the recommendations of the OECD's 2014 review. The law specifically requires the work of the Accounts Committee to be built on the principle of independence, understood as the interdiction of any interference in the performance of state audit and financial control (article 6).

It should be noted, however, that the Accounts Committee is also directly dependent on the authority of the President of the Republic, who appoints its head and two of its members (three additional members are named by each of the chambers of the Parliament – i.e. nine members in total). The President approves the Committee's general method of work, the size of its staff and other aspects of its activity, and can give it specific commissions. The President has the right to dismiss the head and members of the Accounts Committee by decree prior to the expiration of the five-year term of their office.

Yet, the *Eight Pillars Defining the Independence of Supreme Audit Institutions*, developed by the International Organisation of Supreme Audit Institutions (INTOSAI) specify that "the condition for appointment of [Supreme Audit Institutions (SAI)] heads and members of collegial institutions should be specified in legislation. The independence of heads of SAIs and members of collegial institutions can only be ensured if they are given appointments with sufficiently long and fixed terms with removal only by a process independent from the executive. This allows them to carry out their mandates without fear of retaliation". In its resolution A/66/209, INTOSAI also recognised that supreme audit institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence.

In its 2014 report on Anti-corruption Reforms in Kazakhstan, the OECD recommended to safeguard the Committee's functional and institutional independence through a specific law (OECD, 2014c). Although such a draft law was elaborated, it has not been adopted at the time of the drafting of this report. As such, while the adoption of the Law on State Audit and Financial Control in Kazakhstan constitutes an important progressive step, it has not fully addressed the concerns expressed in the 2014 report on Anti-Corruption Reforms in Kazakhstan on the heavy dependence of the Accounts Committee on the President. To ensure effective implementation of the President's Transformation Agenda envisaging a more accountable and open state, Kazakhstan would be encouraged to advance its efforts in this area.

The Law on State Audit and Financial Control has also enhanced relations between the Accounts Committee and the Parliament. It has mandated the Accounts Committee to report to the Parliament once a year on the execution of the state budget, and once a quarter on its own work. It has also enabled Committee members to participate in parliamentary sessions. In addition, the members of both the Accounts Committee and the Parliament can participate in government hearings devoted to the implementation of the state/governmental programs.

The members of the Parliament have the right to make formal inquiries to the Accounting Committee (though in the list of inquiries done from the beginning of 2016 till the moment of drafting there were no questions related to the audit and only two questions related to the financial discipline). The standing Committee for Finance and Budget of the Majilis (lower chamber) of Parliament can invite the representatives of the Accounts

Committee for its meetings and request all the materials and information necessary for its activity.

A number of other countries, including OECD members, have set up similar channels of communication between parliamentary committees and SAIs. The main purpose of these is to enable committees to examine in detail the audit reports and actively present their own comments and recommendations to Parliament on government activities examined by the SAI. The stronger role of the committees is viewed as a means of improving public accountability of the government and strengthening the role of SAIs (OECD, 2002).

However, despite its formal inquiry and oversight authority, the Parliament has not published any report regarding an in-depth investigation of public finances issues or evaluation of public policies in recent years, at least according to publicly available information.[16]

Moving forward, as Kazakhstan embarks on the journey of building a more accountable state, it would be important to consider strengthening the role and capacity of the Parliament to effectively engage in the audit process. The case of the German Bundestag provides an example of how to reinforce parliamentary capacity to investigate and control public management and policy issues (see Box 2.3).

Box 2.3. **Audit and control powers of the German Parliament (Bundestag)**

The Bundestag is the only constitutional body at the federal level in Germany that is elected by the people. It is in charge of electing the federal chancellor (head of government) who then proposes federal ministers to be appointed by the federal president. The federal chancellor and his or her ministers are accountable to the Parliament for their actions and policies. The Bundestag is equipped with a number of comprehensive audit and control rights that allow it to de jure and de facto hold the government accountable.

The “instruments”[1] through which the Bundestag exercises its audit and control functions include, among others, a number of opportunities through which parliamentarians can pose questions to the government and its individual ministries. One such opportunity is known as “Small and Big Inquiries”. These instruments usually carry with them the requirement of a response by the government. In the case of Small Inquiries, a written response is required, and for Big Inquiries both a written response and a formal parliamentary session are granted. For Small Inquiries, the response must follow within 14 days but can be prolonged in agreement with those posing the questions. Responses to Big Inquiries usually take longer. In 2015, a total of 1 029 Small Inquiries and 4 Big Inquiries were posed to the government.

In addition, the Parliament has the right to form committees to further exercise its control functions. A number of Permanent Committees have been established, for example, whose portfolios of responsibility usually mirror that of a particular ministry. These Permanent Committees specifically monitor and receive reporting from the ministry in question.[2] For

Box 2.3. **Audit and control powers of the German Parliament (Bundestag)** *(cont.)*

example, the Health Committee controls the Federal Ministry of Health, while the Foreign Affairs Committee controls the Foreign Office. This specialisation ensures a more effective control and audit function of the government through parliamentary "specialists". In order to collect additional expertise on legal and technical matters, the committees can at any point hold public hearings of interest groups, lobbyists and external experts to supplement their own expertise.[3] Within their assigned portfolio, committees can also act independently to discuss particular issues and request information regarding legislative matters from ministries. The Parliament and its committees are also supported by the Scientific Service, which consists of technical and policy experts on practically all policy issues. The Scientific Service, which works exclusively for the Parliament, provides technical information, analyses and expert counsel.

On the request of at least a quarter of its members, the Bundestag must put in place so-called Investigatory Committees composed of parliamentarians whose main task is to investigate potential misconduct, deficiencies or other shortcomings in the government and its administration. These committees can question witnesses and experts and initiate additional investigations by courts or administrative agencies. These wide-ranging rights make the institution of Investigatory Committee a powerful tool of parliamentary control.[4]

A particularly important committee is the Budget Committee, responsible for preparing the approval of the budget every fiscal year. The Budget Committee consists of members of Parliament. In the current legislative period, this committee comprises 41 members and is thus one of the largest Permanent Committees. Without the approval of the committee, no government budget can be approved. Every federal government must therefore present its budget and negotiate its intended spending with the Budget Committee and the rest of the Parliament. For every plan or programme in the draft budget, the committee appoints one member of each parliamentary group as a rapporteur, who subsequently analyses in depth the financial needs of every government agency and ministry. For this analysis, the rapporteurs meet with the respective ministers and heads of administration (state secretaries) to discuss the proposed budget lines before they report back to the Budget Committee. Finally, the committee, for each plan or programme, recommends to the Bundestag whether to approve the budget line.[5]

While the Budget Committee is mainly responsible for the approval of the budget, the Audit Committee – a subcommittee to the Budget Committee – audits and controls budget execution. At the moment, the Audit Committee has 17 members. This system of parliamentary control ensures that the federal government is accountable to the parliamentarians and, by extension, to the German people, for its policies and spending.

1. See "Instrumente der Kontrolle", website of the German Bundestag at www.bundestag.de/bundestag/aufgaben/regierungskontrolle_neu/kontrolle/instru/255462 (accessed 6 October 2016).

2. See "Gremien zur Kontrolle", website of the German Bundestag at www.bundestag.de/bundestag/aufgaben/regierungskontrolle_neu/kontrolle/grem/255458 (accessed 6 October 2016).

3. See "Funktion und Aufgabe der ständigen Ausschüsse", website of the German Bundestag at www.bundestag.de/bundestag/ausschuesse18/aufgaben/260206 (accessed 6 October 2016).

4. See "Untersuchungsausschüsse", website of the German Bundestag at www.bundestag.de/untersuchungsausschuss (accessed 6 October 2016).

5. See "Arbeit und Aufgaben des Haushaltsausschusses", website of the German Bundestag at www.bundestag.de/bundestag/ausschuesse18/a08/arbeit_und_aufgaben/260606 (accessed 6 October 2016).

In addition, the overall relationship between the audit procedure and the system of annual assessment of the performance of ministries can be further clarified. In areas such as the execution of strategic plans and compliance with the state planning framework, audits seem to constitute an additional layer of control in an already hierarchical structure.

The abundance of control mechanisms contrasts with the weakness of evaluation tools enabling ministries to investigate which interventions are the most effective. Stronger tools would make it possible for ministries to engage a dialogue with stakeholders in this respect.

It seems necessary to integrate a systematic evaluation of the impact of public policies with the system of effectiveness assessment and, over time, to generate knowledge inside the government about the type of interventions that are most effective in each policy area. Impact and efficiency assessments should become the ultimate criterion on which to base decisions of keeping, expanding or reducing programmes and functions.

As already suggested by the 2014 review, such evaluations could be first applied to some of the priority or pilot initiatives, and then extended, over time, in a systematic manner. The results of these policy evaluations and assessments of programme implementation would provide useful inputs to the functional reviews undertaken by the government to support decisions related to government functions and programmes.

Policy recommendations

- Integrate performance planning, performance assessment and risk management on the basis of a detailed account of the direct and indirect outcomes and eventual impact of policy interventions. Elaborate detailed guidelines to this effect, building on international practice.
- Advance the implementation of the recommendations on state planning system included in the 2014 OECD review and further enhance prioritisation in the activity of ministries and agencies, notably by establishing more frequent reporting requirements for a limited number of targeted priority areas in their strategic plan (potentially linked to the high-level commitments included in the memorandums of understanding between ministers and the Prime Minister).
- In the evaluation of the effectiveness of ministries, in time, take steps to support the shift in focus from procedures to the achievement of goals. Place stronger emphasis on performance with

regard to priority areas of action, in particular by organising more frequent and detailed reporting on priority goals than on other goals.

- Create a mandatory requirement to conduct full-scale policy impact assessments (including RIAs), possibly starting with a number of priority policy interventions.
- Strengthen safeguards guaranteeing the functional independence of the Accounts Committee, in line with the recommendations of the 2014 OECD report on Anti-corruption Reforms in Kazakhstan.
- Consolidate the role of the Parliament in the auditing of executive bodies.

Notes

1. Decree of the President of Kazakhstan No. 827 of 18 June 2009, on the System of State Planning in the Republic of Kazakhstan, as amended by the Decree of the President of the Republic of Kazakhstan No. 120 of 30 November 2015, On Amendments and Additions to Some Decrees of the President of the Republic of Kazakhstan.
2. For the detailed assessment, see Chapter 4 in OECD (2014a).
3. Respectively, Presidential Decree No. 120 of 30 November 2015, On Amendments and Additions to Some Decrees of the President of the Republic of Kazakhstan; and Presidential Decree No. 182 of 26 January 2016 modifying the Presidential Decree No. 957 of 19 March 2010, On Approval of the List of State Programs.
4. The ministries have been granted the authority to adopt their own strategic and operational plans on the basis of a draft approved by the Ministry of National Economy and the Ministry of Finance, while formerly the entire plans had to be approved by the Cabinet.
5. The frequency of such changes to the machinery of government is a characteristic feature of the central government of Kazakhstan (see Chapter 5 in OECD, 2014a).
6. Strategic Plan of the Ministry of Investment and Development of the Republic of Kazakhstan for the years 2014-18. Order of the Minister for

Investment and Development of the Republic of Kazakhstan No. 329, dated 5 April 2016.

7. A third direction on information technology and communication was taken away from the plan after the Ministry of Information and Communications was created in May 2016.

8. Presidential Decree No. 931 on the issues of further functioning of the system of public planning in the Republic of Kazakhstan, dated 4 March 2010.

9. Law 392, On State Audit and Financial Control, adopted on 12 November 2015.

10. For more information, see http://esep.kz.

11. Committees, which as described below constitute the ministerial bodies in charge of policy implementation, can have their own internal audit service.

12. Law 393, On Amendments and Additions to Some Legislative Acts of Kazakhstan on Issues of Public Audit and Financial Control", adopted on 12 November 2015.

13. Decree 954 of the President of the Republic of Kazakhstan, On the System of Annual Performance Evaluation of the Central State and Local Executive Bodies of Oblasts, Cities of Republican Status, Capital, passed on 19 March 2010.

14. Decree 123 of the President of the Republic of Kazakhstan, passed on 2 December 2015.

15. Order of the Acting Minister of Economic Development and Trade of the Republic of Kazakhstan No. 351, passed on 29 December 2012.

16. See the parliament's website: www.parlam.kz/en.

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Chapter 3

Devolution, privatisation and oversight in Kazakhstan: Redesigning the functions of the state

This chapter focuses on the reshaping of the public sector through functional reviews, the devolution of state functions to the private sector and privatisation. As previously, these reforms will be reviewed from the standpoint of their design (principally by the MNE and the Ministry of Finance) as well as from the perspective of their implementation (by line ministries, in particular the MID).

In reference to, among others, Step 97, which was cited above on the subject of empowering citizens by "giving more powers to the private sector […] especially when it comes to activities that are not typically performed by the state", the government has formulated plans aimed at transforming Kazakhstan's public sector through large-scale devolution and privatisation, as well as the introduction of corporate management principles in state-owned enterprises (SOEs).

Kazakhstan's complex public sector

The central government of Kazakhstan comprises 15 ministries and one central executive body (i.e. the Agency for Civil Service Affairs and Anti-Corruption) with similar functions, which are traditionally classified as strategic, regulatory, executive (i.e. related to implementation), controlling and supervisory. In the past, agencies have on various occasions been integrated to or transformed into ministries – and conversely. The main distinctive feature of ministries is that they incorporate legally distinct bodies in charge of their executive functions, that is, the committees. The strategic functions of ministries, by contrast, are the exclusive remit of their departments. Regulatory, control and supervision functions, finally, can be shared between departments and committees.[1] In general, committees are organised with a board at the central level and territorial units, and they have substantially higher staff numbers than departments.

The Law on State Property defines competences within the central government with regard to the supervision of state-owned entities.[2] Ministries and central executive bodies are each responsible for the supervision of a number of subsidiary bodies, in terms of both management and the regulation of their activity. Property rights over all subsidiary bodies are in principle exercised by the Committee on State Property under the Ministry of Finance, but, in particular instances, the government can decide to transfer ownership rights from the Committee to the relevant ministry. In particular cases such as JSC Samruk-Kazyna, Kazakhstan's largest public company, subsidiary bodies can also be placed directly under the supervision of the prime minister's chancellery.

There are three legal forms of subsidiary bodies: state enterprises, joint stock companies and limited liability companies, and state institutions.

There are 6 269 state enterprises in total. These are established by the government (or by local executive bodies) and operate in sectors where the direct provision of a public service is deemed necessary. This is a condition that the Law on State Property equates with any of the following criteria:

1. relation to national security, national defence or the protection of public interest
2. use and maintenance of strategic assets owned by the state
3. activities in areas defined as state monopoly
4. inadequate private sector production capacity and lack of similar or substitute goods
5. establishment by the laws of the Republic of Kazakhstan and the decrees of the President of the Republic of Kazakhstan.

Ministries responsible for the oversight of state enterprises are entitled to:

1. set the prices for the goods and services produced and provided by the state-owned state-operated enterprises
2. submit proposals to the Committee on State Property with regard to the scope of activities and objectives of the enterprise
3. examine, coordinate and approve development plans and implementation reports in cases prescribed by the law
4. supervise the implementation of the development plans
5. control the management of state assets by the enterprise.

Joint stock companies (JSCs) and limited liability partnerships (LLPs) total 679 in Kazakhstan. JSCs are corporations in which the state has a stake, though it may be a minority stake. LLPs are public-private partnerships. They can be established by the government (including the Committee on State Property) and the National Bank, and in principle both engage in the production of market goods and services in a competitive environment.

National managing holdings, national holdings, national development institutions and national companies are particular forms of JSCs that play an important role in Kazakhstan's development and industrial and financial policies, among others. These companies have the state as their only shareholder, and they elaborate ten-year development strategies that should be coordinated by the MNE and approved by the government, thereby taking part in the national planning system. Samruk-Kazyna and KazAgro are foremost examples of national holdings (see Box 3.1).

Box 3.1. **The national holdings Samruk-Kazyna and KazAgro**

Samruk-Kazyna is a joint stock company and sovereign wealth fund that was formed in 2008 by presidential decree through the merger of the two joint stock companies, Kazakhstan Holding for the Management of State Assets SAMRUK and the KAZYNA Sustainable Development Fund. The fund describes its key purpose as "manag[ing] shares (interests) of national development institutions, national companies, and other legal entities it owns to maximise their long-term value and competitiveness in the world markets". Samruk-Kazyna, in other words, is an entity through which the government manages a number of other state-owned companies and with which it aims, among other goals, to improve their competitiveness domestically and abroad. Among the companies that Samruk-Kazyna owns wholly or to a substantial degree are some of the most important economic entities in modern Kazakhstan. These include:

Box 3.1. **The national holdings Samruk-Kazyna and KazAgro** *(continued)*

- KazMunayGaz, the state-owned oil and gas company responsible for the "exploration, production, refining and transportation of hydrocarbons" (90% of shares are owned by Samruk-Kazyna, and the remaining 10% are held by the central bank of Kazakhstan)
- Air Astana, the national "flag bearer" and biggest airline in Kazakhstan (51% ownership by Samruk-Kazyna, 49% by the British BAE Systems company)
- KazAtomProm, Kazakhstan's national operator for the "import and export of uranium, rare metals, nuclear fuel for power plants, special equipment technologies and dual-purpose materials" (Samruk-Kazyna is the sole shareholder).

Samruk-Kazyna acts as a main vehicle of governmental policy implementation, reflected in its "main directions of operation":

- "support to modernization and diversification of [the] national economy
- support to economic stabilization in the country
- enhancing efficiency of [its subsidiary companies]".

During the financial crisis of 2008 onwards, Samruk-Kazyna was an integral part of the Republic of Kazakhstan's actions to stabilise its economy against the international financial reverberations of what started with the collapse of US bank Lehman Brothers. It spent about USD 7 billion – or approximately 5% of its GDP – particularly on infrastructure development and support to small- and medium-sized enterprises. Notable is the importance that economic stabilisation appears to play in Samruk-Kazyna's objectives, akin to what Western European governments aimed to achieve in the postwar period through control of their respective state-owned enterprises. Using Samruk-Kazyna to disburse directly such substantial funds is a clear case of policy implementation – where the policy might be summarised as "economic stabilisation" – through state-owned enterprises.

Such a case sheds light on substantial transparency issues in the use of funds by state-owned enterprises, with reference to the OECD guidelines on corporate governance of state-owned enterprises.

The KazAgro National management holding joint stock company is a state-owned holding, established in 2006, whose declared mission is the "implementation of the state policy on stimulating industrial development of [the] agro-industrial complex". Like Samruk-Kazyna, KazAgro owns a number of state-owned subsidiary companies which it manages and oversees on behalf of the government. These are:

- the Food Contract Corporation, focussed on grain and grain state reserves
- the Fund of Financial Support of Agriculture, tasked with the development of rural entrepreneurship and an "effective micro lending system in rural areas"
- KazAgroFinance, a provider of financing to agricultural manufacturers

Box 3.1. **The national holdings Samruk-Kazyna and KazAgro** *(continued)*

- the Agrarian Credit Corporation, a provider of crediting to support "high-tech investments" of agricultural businesses as well as food security
- Kazagromarketing, a provider of information and marketing services to the agricultural sector
- KazAgroGarant, dedicated to the development of a system of guarantees regarding the fulfilment of obligations of entities operating in the "agro-industrial complex"
- KazAgroProduct, tasked with "ensuring food security and the development of the export potential of the livestock industry through supporting the production and promotion of livestock exports".

Through its subsidiaries, KazAgro controls the majority of activity in Kazakhstan's agricultural sector or "agro-industrial complex". Despite the decreasing share of agriculture in Kazakhstan's GDP, the sector nonetheless remains central to the country's economy, not the least in terms of guaranteeing food security and predictability.

Source: The information provided in this box about the two national holdings originates from their respective websites, http://sk.kz and www.kazagro.kz.

Other enterprises controlled by the state also prepare development plans under the supervision of their line ministry, which also monitors the implementation of the plan.

State institutions, finally, are non-commercial entities created by the president, the government or local executive bodies for carrying out socio-cultural or administrating functions. By far the most numerous (18 902 in total), state institutions are financed directly from the budget of their line ministry or local executive body, and they do not own the assets that they operate. They are often subsidiary bodies of their ministry in charge of the implementation of a particular service, including the territorial units of the ministry's committees.

In 2014, the OECD made a number of recommendations aimed at better delineating the roles and status of government and public sector entities, creating the necessary separations and transparency requirements to address governance concerns and streamlining executive bodies with the help of regular reviews of their functions and capabilities (see Box 3.2).

Box 3.2. **The OECD's recommendations in 2014 with regard to the roles, functions and accountability of public sector entities**

- Clarify the distinction between government agencies, ministerial services and committees. In cases of conflicting functions or impartiality issues, consider the creation of arm's length agencies. The denomination of agency could be used for arm's length organisations in charge of policy aspects that are insulated from direct political interference because of conflict of interest, impartiality or credibility issues.
- Differentiate the status of subordinate bodies according to the nature of their main activities.
- Expand the functional analysis of ministries to integrate an assessment of factual situations and capabilities, including the effectiveness, efficiency and capacities of ministries and agencies as well as a thorough identification of policy gaps and synergies, based in particular on international comparisons. In time, build a permanent capacity to analyse the machinery of government on an ongoing basis. The functional reviews initiated in 2011 are an important step in this direction.
- Consider streamlining ministerial organisational structures, in particular with regard to administrative functions.
- Clarify and strengthen accountabilities at the government-wide and ministerial levels for achieving policy, programme and management results. Clarify competencies between the cabinet and individual ministries, as well as executive secretaries, across levels of government, and between ministries and their subordinate organisations.
- Review public management functions and their allocation across central agencies for greater coherence in the government-wide policy and management framework. This review would build on, deepen and consolidate the latest functional review and the government reorganisation of August 2014.

Redesigning governmental functions

As President Nazarbayev's Step 97 suggests, the devolution process rests on the assumption that public bodies in Kazakhstan are currently carrying out functions for which they do not have any particular advantage compared to the private sector. One of the main objectives of the process of functional reviews undertaken by the government of Kazakhstan is to identify these functions.

Functional reviews

A "functional review" refers to a type of analytical process usually carried out by a government organisation as part of a reform programme aimed to increase efficiency, effectiveness, or cost-effectiveness (Manning and Parison, 2004). Functional reviews involve investigating, mapping and reviewing the functions performed by a government ministry, agency or similar body. These reviews aim to identify possible improvements in efficiency, remove duplicate functions within or between several government entities and investigate whether certain functions are appropriate to be performed by the government. Particularly in this last aim, a functional review can be considered as the first step in identifying all the functions currently being performed by the government. Further steps might include eliminating, transferring or devolving to the private sector some of these functions.

The government of Kazakhstan has been conducting functional reviews since 2011, as provided for in the Strategic Plan for the Development of the Republic of Kazakhstan until 2020.[3] During a first phase reported on by the OECD in 2014, the reviews were conducted by the National Analytical Centre, a think tank working under the MNE. The reviews concerned four public bodies every year.[4] Focus was placed on an analysis of the body's functions as defined by the law. The reviews checked for consistency and correspondence with the body's strategic plan. While the reviews produced a comprehensive mapping of the legal functions and business processes of most ministries and agencies, they lacked information about budgets and outputs, and thus they did not assess completely the effectiveness and efficiency of public bodies.

The MNE has recently developed a revised functional review methodology that, in addition to mapping functions and identifying gaps, redundancies and unnecessary functions, also aims to estimate the optimal level of staffing of reviewed public bodies. It expects to achieve this by (Ministry of the National Economy of the Republic of Kazakhstan, 2016a):

- standardising functions and evaluating the average time needed to complete them[5]
- conducting a survey of the employees of the body
- analysing horizontally and vertically integrated functions
- evaluating the conditions of transfer of certain functions to the private sector, notably through a market analysis.

The MNE defines the main objectives of the exercise as "eliminating unneeded functions, delimiting overlapping functions, consolidating new functions in the light of strategic goals and outcomes, as well as the transfer of non-core functions to a competitive environment and self-regulatory organisations, [leading to] the formation of an optimal portfolio of functions in each public authority", associated with optimal staff numbers.[6] The aim is to establish the reviews as an ongoing activity spanning the entire central administration, on the model of the annual reviews conducted by the US Government Accountability Office.[7] Although the reviews had not yet been endorsed by an official government policy document at the time of this draft, the MNE saw them as a key tool for the process of transformation of the state in Kazakhstan.

The process of devolution

In parallel to the reflections on functional reviews, the government has started to organise a process of devolution of state functions to the private sector. To pilot the process, the government has formed a Commission for the Transfer of Government Functions to the Competitive Environment and Self-Regulatory Organisations.[8] At the time of the writing of this report, the Commission, in which the MNE acts as the Secretariat, had begun to determine its principles and method of work, but the government had not yet defined the perimeter and schedule of the devolution process.

Within the context of the Commission, and in partnership with the industry federation Atemeken, the MNE has developed a decision support algorithm to guide devolution decisions.

The algorithm, which is a decision tree, is supposed to apply to every function in the inventory of each governmental body. Overall, it lists six main points to be investigated: (a) the legislative justification, (b) the type of function, (c) the identification of recipients of a direct outcome of the function, (d) transfer to the private sector, (e) transfer to market participants (including SOEs), and (f) transfer to self-regulatory organisations. Under each of these headings, a number of decision nodes guide the analyst through examination of the function, ultimately leading to a final decision node. The recommendations of the algorithm to the decision maker include:

- the function is eliminated (the state simply ceases to perform the function)
- the function remains within state authority
- the function is transferred to the competitive environment
- the function is transferred to a self-regulated organisation
- the function is transferred to market participants

- the laws of the Republic of Kazakhstan are to be amended (in cases where there currently is no normative act, decree, law or code that ascribes the function to the public body, but it is nevertheless deemed necessary to maintain the function within its scope)
- the procedures for implementation of the function are to be improved (if it can be neither abolished, privatised nor devolved).

The logic and recommendations of the tool may appear systematic and, to a certain degree, mechanistic. Yet the algorithm allows for the analyst's evaluation of conditions in certain nodes, which point to separate procedures for assessing some particularly important questions. These include:

- the distinction between types of functions, divided into (a) strategic (which automatically remain under state authority), (b) regulatory (which remain under state authority "if the function has implications for political and economic risks"), (c) implementation, and (d) auditing and control
- whether the function can be carried out in a non-governmental format and an assessment of the "readiness" (i.e. capacity) of the competitive environment to perform that function.

The tool does not specify the method of assessment of "political and economic risks" or of the socio-economic impact of transfer decisions, which appear to have a strong influence on the outcome.

Business process reengineering at the MID

Following the adoption of a new mission statement and a new approach to strategic planning, the MID envisions a reform of its structure based on the functional review methodology and the devolution decision support tool elaborated by the MNE. The reform is expected to lead to a reduction of functions, as intended, by either stopping their provision or devolving it to the private sector. However, given the ministry's genesis through a merger of disparate units and organisations, a comprehensive functional review can also be a useful tool in shaping and restructuring the ministry for its future mission. Indeed, the MID plans to use the method to identify those units and departments within the ministry that are the "core providers" working towards the overall mission of the ministry, as opposed to tangential functions and tasks not directly related to the newly defined mission statement and objective.

Strongly related to the functional analysis are the ministry's plans of Business Process Re-engineering (BPR). Like functional analyses, BPR is a common tool used by public administrations to optimise, streamline and clarify their work processes. Work processes are understood here as standardised, regularly re-occurring internal work streams. According to the World Bank (2000), "BPR is said to produce organisations that are better suited to the modern speed of communication and a better-informed and educated public and work force."

In the MID, the objective of BPR is to improve the overall efficiency of administrative, operational and support processes by simplifying and optimising all processes, tying them to Key Performance Indicators and linking them to the organisational structure of the units and departments. It is envisioned that "standard algorithms" for all tasks will be defined, and the tasks and procedures of every unit in relation to a specific task or process of the ministry will be clearly defined and standardised. Lastly, based on this re-engineered structure, monitoring and control procedures will be clearly articulated and formally enshrined. Finally, the re-engineered business processes will be linked not only to KPIs, but also to every employee, presumably to further improve measurements of efficiency and control.

For each unit in the ministry, the re-engineering process should consist of four successive stages:

1. preparation
2. identification and drafting initiatives, including mapping all existing processes and prioritising opportunities
3. planning for the implementation of the changes identified in the previous step
4. introduction / implementation of these changes.

The plan recognises the importance of adequate training of employees to facilitate the success of the re-engineering processes and provide the adequate knowledge and skills to realise the hoped-for gains in efficiency and effectiveness.

Privatisation of state-owned enterprises

Alongside the functional reviews and the devolution process, the government has also declared its intentions to proceed with a large privatisation programme – the first of this magnitude since the mid-1990s.[9] A first phase of the programme was launched by President Nazarbayev in his January 2014 annual address to the people of Kazakhstan as the Comprehensive Privatization Program for 2014 to 2016.[10] Based on the results of the initial privatisations, the head of state launched a subsequent, follow-on Comprehensive Privatization Program 2016-20 in his November 2015 annual address.

The government's privatisation plans since 2012

After a first wave of privatisations in the mid-1990s, the contours of Kazakhstan's public sector remained fairly unchanged for close to fifteen years. In 2012, the government announced that the shares of a number of SOEs – including Air Astana, KEGOC and KazTransOil (Nurshayeva, 2011) – would be for sale on the Kazakhstan Stock Exchange in order to develop the private ownership of company stocks in the country (Desai and Wheeler, 2016). Through this plan, known as People's IPO,[11] the government aimed to:

- provide citizens with a new savings instrument and opportunities to buy shares of the country's major enterprises
- further develop the stock market
- improve the possibilities for businesses to raise funds to finance their investment plans.[12]

The initiators of the People's IPO anticipated rising between USD 100 million and USD 200 million in additional funds through the programme.

It is difficult to assess precisely the success of the People's IPO. According to some, lack of interest from Kazakhstani citizens and the low level of private savings hampered the programme (Desai and Wheeler, 2016). According to other estimates, however, the selling of 10% of the shares of KEGOC on the Kazakh Stock Exchange in 2014 generated KZT 13 billion (close to USD 90 million)[13] – thus covering on its own almost half of the maximum revenue that the government expected from the programme. In any event, because the ultimate beneficiaries of the sales are not known, it is impossible to determine if the People's IPO also managed to achieve the goal of dispersing ownership of major national companies among ordinary citizens.

In his annual address to the people of Kazakhstan in January 2014, President Nazarbayev announced a new plan to sell state assets entitled the Comprehensive Privatisation Programme 2014-2016. The programme included a review of SOEs in order to derive a list of potential companies to transfer to the private sector.[14] The methodology adopted for deciding whether a particular company could be privatised was modelled after the "Yellow Pages" rule of the Singaporean government, which forbids government agencies from creating enterprises in sectors of economic activity where private companies performing similar functions and tasks could be found in the yellow pages.[15] In the Kazakhstani context, this rule had to be adapted so as to address plans not only for new SOEs, but also for existing ones. It was decided that every time a private competitor was already present, the public entity would be either privatised or entirely abolished, presumably to let the private actor take over the delivery and provision of the given functions and activities.

The privatisation programme led to the sale of 37 companies previously under the national holding company Samruk-Kazyna. This sale resulted in about KZT 50 billion (close to USD 270 million) of revenue raised in 2014-15.[16]

The Comprehensive Privatisation Programme 2016-20

The next wave of privatisation was launched by President Nazarbayev in his November 2015 annual address to the people of Kazakhstan. Described as a measure to promote economic competition and stable economic growth, this second programme's aim is to reduce the size of the public sector, which, at the time of the speech, "contain[ed] more than 6 500 enterprises",[17] and alleviate problems of overstaffing and overuse of budgetary resources.[18]

The address points to inefficient management by national holding companies Samruk-Kazyna, Baiterek and KazAgro of their respective subsidiary companies and describes them as "inefficient intermediaries between the budget and banks".[19] This new programme was to include all state-owned enterprises in its scope, even though, of course, the programme does not aim to privatise all state-owned enterprises. Public enterprises in strategically important sectors, or where the private sector can or could not replace the government's activities, were not scheduled for privatisation. In terms of methodology, the annual address refers to IPOs and public auctions as the main mechanisms through which the capital of state-owned enterprises would be sold to private investors.

Due to the significant number of state-owned enterprises that are managed through the national holding company Samruk-Kazyna – about 40% of the total Kazakhstani GDP, according to the president[20] – the holding is expected to play an important role in the government's privatisation plans in the coming years (see Box 3.3). The plan, however, is now only at the beginning stage of its implementation, and the list of companies to be transferred to the private sector have already been revised multiple times.[21]

Box 3.3. **Samruk-Kazyna's role in the Comprehensive Privatisation Programme 2016-20**

Samruk-Kazyna, Kazakhstan's largest state-owned enterprise and an owner and shareholder of many of the country's state-owned companies, both large and small, plays a central role in the Comprehensive Privatisation Programme 2016-2020 aiming to transfer a significant number of companies currently under Samruk-Kazyna to the "competitive environment", i.e. the private sector via privatisations. As part of this plan, two lists of companies subsidiary to Samruk-Kazyna were drawn up, where the first list contains "major assets" of the fund, i.e. the biggest and/or most important companies. "Important" is understood here to mean companies that are important players in a strategic industrial sector, e.g. KazMunayGas for oil and gas. The second list includes smaller, medium-sized subordinate companies. These lists correspond to those compiled for the Resolution of Government 1141 from 30 December 2015, On Some Issues of Privatization for 2016-2020 for Samruk-Kazyna. The lists in the resolution also include companies not under Samruk-Kazyna. However, not all companies under Samruk-Kazyna are on these two lists. Some companies are not planned to be privatised, reorganised or liquidated. According to the fund itself, the criteria for inclusion in one of the two lists were as follows:

- "discrepancy with main operations
- market presence of other private companies engaged in similar operations
- lack of strategic importance and influence on issues of national security and defence of the state and law and order
- lack of public importance in the performance of state functions to provide social support to the population".

For companies for which these criteria are not fulfilled, the fund may partially privatise the company but maintain a majority stake in it to ensure the continued influence of governmental decision makers on an enterprise with presumably strategic importance within certain areas, such as defence, social affairs and presumably extractive industries.

The privatisation plan foresees that assets on the first list will be offered either through IPOs or through a number of other mechanisms such as direct sales or electronic auctions. Assets on the second list will primarily be put on sale via electronic auction and, in cases where there is insufficient demand, they will be either reorganised or liquidated altogether – at least, according to Samruk-Kazyna's plan.

Source: The box is based on information provided by Samruk-Kazyna on the web page it dedicates to the privatisation programme: http://privatization.sk.kz/ (accessed 24 June 2016).

Oversight and accountability of the public sector

This section focuses on the reform of ministerial oversight and corporate management responsibilities with regard to their subsidiary bodies.

The rise of the regulatory state

According to the IMF, Samruk-Kazyna controlled assets worth about USD 77.5 billion in 2011, equivalent to 55% of Kazakhstan's GDP (International Monetary Fund, 2011). This figure demonstrates the central importance of SOEs in the country's economy, and also points to a number of challenges for public governance and economic policy. In its complex web of relations with the SOEs, the government currently plays three roles at the same time. The government is a contractor for the production of public and private goods, a regulator and a shareholder. These roles will have to be clearly separated in the future.

This particular aspect of the political economy landscape of Kazakhstan is not unlike that of certain European countries in the 1970s, where, in addition to their operations in the production sphere, large public conglomerates served as vehicles for the implementation of governmental policies, and influenced these policies in return.

Among OECD countries, privatisations in the 1970s, 1980s, and 1990s saw an enormous amount of state assets being sold to the private sector. In the United Kingdom, for example, net proceeds from privatisations from 1972 to 2013 were in excess of GBP 70 billion (current prices), peaking at just under GBP 12 billion in 1991 (Rhodes, Hough and Butcher, 2014). "Networked" utility sectors in particular, such as water, electricity, post and telecommunications, saw widespread privatisations and the opening of their respective markets to private competition (Lahidji, 2009).

While privatisations were initially guided by the belief that government administration and provision of basic services was inefficient compared to what the private sector could achieve, later empirical evidence painted a more mixed picture of the outcomes of privatisation. Prices were not always reduced, for example, and the quality of services was not always higher. Notably, the belief that privatised utility infrastructures would require less government intervention also turned out to be misplaced – in fact, the need for regulation of these utility sectors increased rather than decreased (Lahidji, 2009).

The lessons from these privatisations, therefore, are that the maturity of the private sector and the readiness of the government for its new oversight responsibilities are crucial factors for the success of privatisations.

In parallel with the process of privatisation, most OECD countries experienced the rise of what has been called the regulatory state in the last decades of the 20th century. In addition to the large-scale transfer of public companies to private ownership, the main features of this transition can be summarised as: (a) the breakup of monolithic bureaucracies into a larger number of smaller, more specialised agencies and other public bodies, and (b) the transformation of the means by which the state implements policy (Majone, 1992).

Previously integrated government bodies were broken up into smaller units with more specialised portfolios, transferring a number of state functions to the private sector in the process. This structural change went hand in hand with a move towards a different style of governance, namely governance by regulation. Previously, governance occurred through the direct control of state-owned enterprises and utility providers, whereas after privatisation, governments transitioned to governing "at a distance" through regulation, i.e. rulemaking. Governance thus became more indirect. Policy implementation was left to the private sector, which had to conform to rules set out by the government. With time, this led to the creation of specialised government agencies whose sole tasks were to regulate society in fairly technical and confined policy spaces – for example within the financial sector, housing policy, building codes, etc. These regulatory agencies often operated at arm's length, meaning that they were not part of the normal structures of the executive branch. Their relative independence was engineered such that one of the shortcomings of democratic systems could be overcome: since relatively short election intervals put limits on the continuity of policies, thus creating uncertainty, independent regulatory agencies could ensure a greater continuity of regulations across legislative periods, thereby increasing the overall credibility of the regulatory framework (Majone, 1992).

Oversight responsibilities of the MID

One of the main tasks of the MID is oversight over a large number of state-owned enterprises through its various committees, as well as regulatory authority in many of the industries in which its state-owned subsidiary bodies operate.[22] The largest state-owned enterprise under the supervision of the MID is the national holding joint-stock company Baitarek, whose main strategic directions are, among others, to provide support to the "sustainable development of the economy" and to small and medium-sized enterprises as well as for innovation.[23]

The MID has a total of 50 subordinate companies of various legal setups (joint stock, limited liability, state enterprise) and employs about 15 000 people. The majority of these companies have been found to be inadequately efficient and profitable (Ministry of Investment and Development of the Republic of Kazakhstan, 2016). This is in contrast to a country such as Singapore, where every company established by the state must be profitable. Many of these companies are not commercial entities operating in certain markets; rather, they are enterprises that provide services more or less exclusively to the ministry itself, including various governmental functions. As such, some of the subordinate companies are more akin to governmental agencies than to commercial enterprises.

Furthermore, a financial and economic analysis by the MID has shown that most of its subordinate companies' revenues stem from public contracts, and that the share of profit earned in open markets is small. The Transformation Plan identifies this dependence on public spending as a problem and a macroeconomic risk, since these subordinate bodies would be directly affected by significant government spending cuts. This risk is, of course, one of the drivers of the transformation of the state in the Republic of Kazakhstan generally.

In response, the MID is seeking to develop a new "portfolio strategy", following a process described in the MID's Transformation Plan: a detailed analysis of the MID's portfolio should result in the identification of profitable or potentially profitable companies that might be appropriate candidates for further development and investment, and others that should be liquidated, reorganised – e.g. through mergers with other companies – or transferred to the competitive environment. The term "competitive environment" can, in the context of Kazakhstan, refer to privatisation of state assets or to devolution to the private sector, which is akin to the devolution of a function as a result of the functional analysis outlined above. Another idea that is being considered is that of Initial Public Offerings (IPO) for a number of subsidiary companies. These companies would sell their stock on international stock exchanges.

The existing corporate governance of subsidiary portfolio companies under the MID is perceived to be lacking operational efficiency and effectiveness. To succeed with IPOs or privatisations, the corporate governance of the ministry's SOEs will have to be improved. For this purpose, the ministry plans to conduct benchmarking with successful similar foreign companies, and to increase the value of assets, dividend payments (to future potential stakeholders) and value creation (Ministry of Investment and Development of the Republic of Kazakhstan, 2016). On this basis, the MID envisions implementing its transformation process in three stages: first, increase the effectiveness of its subsidiary companies; second, transform its own asset management practices; and third, transfer the companies to the competitive environment on better terms.

An additional motivation behind the reform plans appears to be the existence of gaps between the planned contributions of subsidiary bodies to national development targets and their actual development strategies. The ministry recognises that, to fulfil its core mission, it requires the co-operation and active participation of its subsidiaries. A problem of structural arrangements is that many of the subsidiary bodies are not directly under the authority of the ministry; rather, they are controlled by a number of its committees, which may make decisions without consulting the ministry first. This results in a structural problem wherein the ministry needs the SOEs for its core mission, but because of the relative independence of its committees, it does not have the kind of direct influence on its subsidiaries that it requires.

To alleviate this situation, the MID intends to study international experiences of state-owned enterprises, including the OECD Guidelines on Corporate Governance of State-Owned Enterprises,[24] and consider transferring the responsibility for corporate management from the committees back to the core ministry, thereby strengthening the ministry's asset management department. Overall, the reform efforts on SOE corporate governance aim to enhance the value of portfolio companies, to form a balanced portfolio of companies that generate profits (as opposed to costs) and to provide each portfolio company with a new mission, vision and strategy.

Assessment and recommendations

Functional analysis and devolution

The government has developed and tested a number of procedures aimed at reviewing and possibly transferring the functions of its bodies. The functional review methodology and the algorithm and process of devolution elaborated by the MNE and others are the latest examples of the government's interest in these transformational tools. The government has also studied the experience of foreign countries in this regard.

The government would find it useful to support the process of devolution and transformation with a greater attention given to organisational and individual capacities, as the 2014 OECD review has pinpointed. Considering the struggle by Kazakhstan's ministries and agencies to attract and retain adequate human resources, it seems necessary to complement functional analyses with an evaluation of the actual capacity of a body to fulfil its function. In this respect, the 2014 OECD review proposed gradually setting up a process of capability reviews – a recommendation that seems even more topical today given the government's reform agenda.

Furthermore, as already pointed out, it would be advantageous for functional analyses to include a systematic assessment of the actual impact of different policies and programmes.

Finally, the government should provide a clear signal regarding its intentions and procedures for conducting functional reviews and implementing devolution plans, which remain uncertain at the time of the writing of this report.

Privatisation and oversight

Given the size and functions of its quasi-state sector, Kazakhstan's devolution and privatisation plans are likely to face two types of challenges in the coming years: one is the considerable impact that they could have on the role of the state and the economic and social instruments at its disposal, and the resulting need for policy instruments, in particular in the regulatory area; the other is the necessity of clearer relations between state-owned enterprises and government oversight bodies.

SOEs such as Samruk-Kazyna, KazAgro and Baiterek are major vehicles for policy implementation in Kazakhstan, tasked with broad portfolios of economic, social and technological objectives and responsibilities – from providing financing and market-analytical services to attracting foreign investment and promoting national products. In such a context, there are two prerequisites for these SOEs to shift effectively to a market-driven mode of operations: first, that their role in policy implementation be clearly delineated within activities that are essentially commercial in nature; second, that their relations with government bodies be clearly organised and regulated. The challenges of fulfilling these conditions are not new to the government (see Box 3.4).

Box 3.4. **Corporate governance codes and the management of relations between the executive and SOEs**

Sovereign wealth fund Samruk-Kazyna, the country's foremost joint stock company, elaborated a Corporate Governance Code in 2012 in order to create a framework for its relations with government bodies. The government officially endorsed the Code through a decree, including for its last revision in 2015.[1]

The Code enacts the strong linkages between the fund and state institutions, in part due to the strategic nature of some of Samruk-Kazyna's assets and activities. The prime minister is the head of the board of directors of the fund, and other members of the government also sit on its board (without performing the functions of directors). The chief of staff of the prime minister's office is the corporate secretary of the fund. In addition, the government as sole

Box 3.4. **Corporate governance codes and the management of relations between the executive and SOEs** *(continued)*

shareholder appoints the chief executive officer of the fund. Some of the fund's subordinate organisations also have their CEO appointed by the board of directors only upon approval of the president of the republic or the chief of staff of the presidential administration.

However, the Code seeks to separate more clearly Samruk-Kazyna's economic activities from its policy implementation functions. According to the Code, the government manages the fund for the purpose of improving the national welfare. This may be achieved by increasing the fund's long-term value, increasing the value of its organisations and ensuring effective management of the fund's assets. Its first article states that the government should clearly distinguish its competences of sole shareholder of the fund from its public regulation missions.

An Audit Committee within the fund's board of directors comprises the independent directors and a representative of the governmental Accounts Committee. The Accounts Committee oversees Samruk-Kazyna's use of public money received from the budget and/or from the National Fund. This use is also subject to regular controls by the Accounts Committee.

In parallel to the adoption of the Code and in order to manage interferences by government agencies in its commercial activity, the fund initiated a special Agreement on Interactions between the Government and the Joint Stock Company Sovereign Wealth Fund Samruk-Kazyna, which was approved by a government decree in 2012.[2] The Agreement specifically states that the investment activity of the fund has to be performed on a commercial basis in accordance with its strategy, if not otherwise decided by the board of directors. Decisions regarding low profitability projects delivering particular social outcomes or industrial innovations are to be taken by the board of directors of the fund.

The Agreement forbids the government, members of the government and officials from government agencies from interfering in the operational activity of the fund except for cases envisaged by the law or by acts or commissions of the President of the Republic of Kazakhstan. According to the Agreement, the government grants the fund full operational autonomy within the legislative framework. Cases of attempted interference in the operational activity by government agencies should be reported to the board of directors.

However, implementing the Agreement appears to be challenging and attempts by government bodies to influence Samruk-Kazyna's decision-making processes outside of the normal governance structures still seem to be commonplace in 2016.

Building on the experience of Samruk-Kazyna's Corporate Governance Code and Agreement, the MNE is currently working on a draft Model Code of Corporate Governance in Joint-Stock Companies (JSCs) with State Participation. The Model Code comprises principles and recommendations for state-owned JSCs that would "ensure effectiveness, transparency, accountability, and high standards of ethics within the JSC and among other stakeholders" (Ministry of the National Economy, 2016b). It has been designed in order to be consistent with the OECD Guidelines on Corporate Governance of State-Owned Enterprises and the G20/OECD Principles of Corporate Governance.

Box 3.4. **Corporate governance codes and the management of relations between the executive and SOEs** *(continued)*

The Model Code was planned to be enacted in September 2016, but it was postponed to leave time for further discussions with different stakeholders. When finalised, the Model Code will be approved by a decree of the Minister of National Economy. All JSCs will then be mandated to submit their own codes of corporate governance based on the MNE Model for consideration of their shareholders (or sole shareholder). The limited liability companies owned by the state or with state participation are also supposed to follow the future Model Code in all the areas where this does not contradict the provisions of the law on limited and additional liability companies. In principle, all existing corporate governance codes in state-owned enterprises should also be revised in order to conform to the new Model Code, even if, like Samruk-Kazyna's Code, they were approved by a higher-level legal act.

To enhance the operational independence of the SOEs and prevent interference from government agencies in commercial activities, the Model Code contains the following provisions:

1. Every government agency should separate its competences as the shareholder of an SOE from its competences related to the execution of public functions to prevent conflicts of interests (clause 17).
2. State agencies playing a role as shareholder should avoid distorting competition in favor of the SOE or organisations in which it participates (clause 18).
3. Government agencies have to ensure full operational autonomy of JSCs, and cannot interfere in their operational or investment activities, except for the cases specified by the legislation of the Republic of Kazakhstan, decrees or commissions of the President of the Republic of Kazakhstan (clause 21).
4. In its economic activity, a JSC should aim at the same level of profitability as private companies operating in a similar environment (clause 23 [3]).
5. All interactions between government agencies and JSCs should take place through the Board of Directors and/or the Executive Board of the JSC in accordance with the principles of proper corporate governance. The roles and functions of the chairperson of the board of directors and the chairperson of the executive board should be clearly separated and defined in the documents of the JSC (clause 25).
6. At the same time, the JSC should reveal to the government agency as a shareholder and to the board of directors all of the necessary information about its activity in accordance with the legislation of the Republic of Kazakhstan and the Charter of the JSC, and should ensure transparency of its activity for all stakeholders (clause 25).
7. The shareholder(s) should provide strategic directions and their expectations with regard to the key performance indicators of the JSC through their representatives in the board of directors or by written notice (clause 30).

Box 3.4. **Corporate governance codes and the management of relations between the executive and SOEs** *(continued)*

8. JSCs should protect minority shareholders from any abusive practices of any actors that have a power to directly, indirectly and/or in any other way influence the decisions taken by the JSC (clause 34).
9. Not less than one-third of the board of directors must comprise independent directors. The number of independent directors should be sufficient for ensuring the autonomy of decision making and a fair attitude to all shareholders. The recommended share of independent directors is up to 50% of the total number of board members (clause 62).

At the same time, the draft contains some exceptions that may affect the commercial independence of a large number of SOEs. For instance, the Code establishes that all relations between a JSC, its shareholders and its other stakeholders should be based on normal commercial principles within the framework of existing legislation (clauses 22 and 23 [1]). However, this provision is followed by: "except for the cases when one of the tasks of the JSC is the implementation or participation in the implementation of public policy related to the development of some economic sectors of the Republic of Kazakhstan". This exception can be applied to a large number of activities performed by SOEs.

1. Government Decree n°239, passed on 15 April 2015.

2. Government Decree n°1599, passed on 14 December 2012.

Further progress in establishing transparency and strictly regulating the economic, financial and governance relations between national holdings and executive bodies appears to be a key area for future governance reforms, not least with regard to large-scale privatisation and devolution.

With regard to government bodies, privatisation and devolution of state functions to the private sector should go hand in hand with the development of alternative policy instruments and implementation channels in areas including mining, energy, food and agriculture. To prepare for these transformations, the government should organise an internal reflection and dialogue with stakeholders on the type of government that Kazakhstan should have in the short-, medium- and long-term future, how changes in the structures of government are likely to affect its various development objectives and how the government should manage these effects and start preparing for its future roles. The experience of other countries in this process should be carefully reviewed (see Box 3.5 on Poland's experience with public-private partnerships).

Box 3.5. **Poland's experience with regard to public-private partnerships**

In July 2005 the Polish Parliament passed the first law on public-private partnerships (PPP). Before 2005, several road investments had been implemented in a model similar to a PPP, but with a different legal basis. The draft of the law was prepared in the Ministry of Economy (MoE) after examining several existing models, with special focus on the experiences of the United Kingdom Spain and Portugal. According to this law, the PPP model was to be used by the central government administration and by all three levels of local government.

Despite the information campaign conducted by the MoE and initial interest among the stakeholders, not a single PPP project was started under this law.[1] Some of the most frequently mentioned reasons for this failure are: (a) the excessive strictness of the regulation, (b) an unfavorable political climate generating fear among politicians and civil servants of being accused of corruption, and (c) lack of knowledge and capacity among officials. The law also suffered from significant delays in the preparation of its implementation acts. A regulation defining the categories of risk and associated statutory regulations in the implementation of PPP projects was issued with a delay of one year, while the standard form of the notice for the search for a private partner was never adopted.

Criticism centered, in particular, on the obligation to prepare, prior to the selection of the private partner, many detailed analyses on the profitability of the investment in the PPP formula, regardless of the scope and nature of the planned project. As a result, every public entity had to spend significant resources on analytical work with no certainty whether co-operation with the private partner would be started.[2]

Given this outcome, the government decided that the best option would be to prepare a new law. In December 2008 the law on public-private partnership was adopted,[3] introducing a number of simplifications that removed some of the bureaucratic burdens. The law defined two options for selecting the private partner: using either the public procurement law or the concession law. An amendment to the law passed in May 2010 added a third option: using a competitive procedure based on the Civil Code. In January 2009 the legal framework was extended by adopting the law on concessions for construction works or services.[4]

These changes made it possible to prepare, contract and implement the first PPP projects. The progress was, however, slow: 2 projects were contracted in 2009, 11 in 2010, 11 in 2011 and 9 in 2012. It is worth mentioning that the Regulatory Impact Assessment prepared by the MoE for the draft law included only one measurable indicator – an increase in PPP projects by 30% within two years.

A report on PPPs in Poland published in 2013 by a non-profit organisation indicated several barriers to the dissemination of the PPP model, including: (a) a reluctance to operate at the interface between the public and private sectors, (b) a reluctance to share information with other public entities, (c) cooperation issues between Polish public institutions due to their hierarchical organisation, and (d) a lack of capacity to use different possibilities for carrying out public investments.[5]

Box 3.5. **Poland's experience with regard to public-private partnerships** *(continued)*

The report also pinpointed necessary conditions for a wider and more effective use of the PPP model, including political will, readiness, competence and capacity of public sector and credible private partners. The last two conditions are particularly important when PPPs deal with the delivery of public services in conditions that are still largely determined by public authorities, in particular regarding access to the services.

According to recent Ministry of Development data,[6] 105 PPP projects have been contracted since 2009, for a total value close to PLN 5.1 billion (approximatively USD 1.3 billion). The majority of these projects were prepared by local government units. The projects are executed in the areas of local infrastructure, sport and recreation, transport, health, education and energy efficiency. The vast majority of PPP agreements are relatively small – 84% are below PLN 50 million (approximately USD 13 million), with an average value of PLN 4.9 million (USD 1.4 million). It should be emphasised that only one-fifth of launched procedures end up with a signed contract between the public entity and the private partner.

The modest success of the PPP model in Poland stands in contrast with the magnitude of its potential market. According to some estimations, the needs for PPPs in Poland are, in proportion to the GDP, similar to the United Kingdom and Portugal.

One of the barriers to the realisation of this potential has been the lack of a coherent institutional framework. Until recently several public entities were responsible for PPP development, including the Ministry of Infrastructure and Development, the Ministry of Economy and the Polish Agency for Enterprise Development. This situation is about to change, given that the Ministry of Economic Development is currently strengthening its PPP Department and taking over the responsibility for PPP policy and development.[7]

The Polish case includes important lessons for the transformation of the state in Kazakhstan. The evolution of public-private partnerships in Poland illustrates the importance of the perception of officials and civil servants, the simplicity of the regulatory framework, coordination between public entities and a readiness to adapt models developed in other countries to local realities, when it appears that existing programmes are not achieving the desired policy objectives.

1. See Sześciło (2009).

2. Cf. Sześciło, op. cit.

3. See www.ppp.gov.pl/English/Documents_and_publications/Documents/2013_05_10_ACT_on_PPP_ENG.pdf (accessed 10 October 2016).

4. See www.ppp.gov.pl/English/Documents_and_publications/Documents/20121212_Act_on_Concession_for_Works_or_Services.pdf (accessed 10 October 2016).

5. For the Polish version, see www.centrum-ppp.pl/templates/download/RaportPPP2013.pdf (accessed 10 October 2016).

6. As of 19 September 2016. See www.mr.gov.pl/ (accessed 10 October 2016).

7. A web PPP platform, for example, was created in 2011, available at www.ppp.gov.pl/english/strony/default.aspxso-ca (accessed 10 October 2016).

Policy recommendations

- Continue the functional analysis of ministries and executive agencies, and extend it to their subsidiary bodies.
- In time, complement the functional reviews with capability reviews by assessing the actual capacity of ministries, local authorities and related stakeholders – whether legal, institutional, financial or in terms of human resources – to fulfil their functions.
- Improve the governance of SOEs by executive bodies and increase transparency in the relations between them, including by adopting and effectively implementing codes of conduct and regulations based on the OECD Guidelines on Corporate Governance of SOEs.
- Launch a cross-governmental reflection and dialogue with stakeholders on the separation of the executive's roles as contractor, regulator and shareholder of its subsidiary bodies, and on the necessary transformation of its structural organisation and policy tools. Review experiences of other countries in this regard.

Notes

1. Although, in principle, only departments are in charge of developing by-laws and regulations, in practice committees have in some instances carried out this function (see Chapter 5 in OECD, 2014).
2. Law 413-IV, On State Property, adopted on 1st March 2011.
3. Decree of the President of the Republic of Kazakhstan No. 922 on the Strategic Plan for the Development of the Republic of Kazakhstan until 2020, dated 1 February 2010.
4. See Chapter 5 in OECD (2014).
5. The methodology designates this operation as "works chronometry", which it defines as a "type of observation in which cyclically recurring operational items [are studied], as well as elements of preparatory and final work or maintenance work [in] a workplace. The objectives of the timing are: the establishment of standards of time and [provision of] the data to develop standards for labour; study and implementation of

advanced techniques and methods of work; check the quality of existing rules; [and identify] causes of non-compliance [with the] standards by individual employees."

6. Ibid.

7. The results of the reviews are published in the report series, *Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*. For the 2016 report, see www.gao.gov/assets/680/676473.pdf.

8. Self-regulatory organisations designate professions that are partly governed by private regulations, such as lawyers, physicians, etc.

9. For details on Kazakhstan's first wave of privatisations, see e.g. Brown (1998).

10. Presentation of the programme on Samruk-Kazyna's website at http://privatization.sk.kz/skPageAnonse/view/6 (accessed 24 June 2016).

11. Presentation on Kazakhstan Stock Exchange's website at www.kase.kz/en/page/ipo (accessed 24 June 2016).

12. Ibid.

13. See, for instance, www.fitchratings.com/site/pressrelease?id=994217, www.kase.kz/en/shares/show/KEGC, and http://privatization.sk.kz/skPageAnonse/view/6 (all accessed 28 June 2016).

14. Presentation of the programme on Samruk-Kazyna's website at http://privatization.sk.kz/skPageAnonse/view/6 (accessed 24 June 2016).

15. For more information, see http://siteresources.worldbank.org/EDUCATION/Resources/278200-1121703274255/1439264-1242337549970/Economic_Development_Strategy_Lawrence_Wong_v3.pdf (accessed 24 June 2016) and http://privatization.sk.kz/skPageAnonse/view/6 (accessed 24 June 2016).

16. See http://privatization.sk.kz/skPageAnonse/view/6 (accessed 24 June 2016).

17. For more information, see www.akorda.kz/en/addresses/state-of-the-nation-address-by-president-of-kazakhstan-nursultan-nazarbayev-november-30-2015 (accessed 24 June 2016).

18. Ibid.

19. Ibid.

20. Ibid.

21. Source: Interviews conducted by OECD assessment team.

22. Note however that, legally, all state-owned enterprises are owned by the State Asset Committee under the Ministry of Finance.

23. See www.baiterek.gov.kz/en/about/information/ (accessed 8 June 2016).

24. Available at www.oecd.org/corporate/guidelines-corporate-governance-soes.htm (accessed 23 June 2016).

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Annex A

The MID's strategic objectives, actions and indicators in the area of innovation

	National plans	MID strategic plan	MID budget plan
Objectives	*from Kazakhstan 2050:* • Encourage private companies to invest in research and innovation. • Continue the development of the two leading innovative clusters: the Nazarbayev President University and the Park of Innovative Technologies.	• Support the development of the national system of innovation.	• innovative development of the Republic of Kazakhstan to improve the competitiveness of the economy of the country
Actions	*from Concept of Joining the 30 Most Developed Countries:* • special economic zone of the Park of Innovative Technologies • incentives for the creation of spinoffs in innovation clusters • target technology programmes • training programmes to facilitate technology adaptation and transfer • development of tax measures and technical regulation and standards in support of innovation • development of technological parks to provide better technical infrastructure and services • creation of innovation centres in the regions • expansion of international technology transfer centres • focus on the accumulation and exchange of fundamental and applied knowledge in the priority sectors of the economy • cooperation between scientific organisations and businesses • priority areas: robotics, nanotechnology, aerospace, etc.	• improvement of financial instruments (grants) to support innovation • further development of the innovation infrastructure (in particular the Park of Innovative Technologies) • development of information and awareness-raising activities	• support adoption of new technologies, including through technology transfers • analytical studies on effective technological policies • development of innovation clusters in the Park of Innovative Technologies

	National plans	MID strategic plan	MID budget plan
Indicators	*from Strategic Development Plan to 2020:* • The share of actively innovative enterprises will increase by up to 10% by 2015; up to 20% by 2020.	• WEF indicator Venture capital availability • WEF indicator Availability of latest technologies • WEF indicator Ability of companies to use modern technology • WEF indicator Ability to innovate • WEF indicator Company R&D expenditures • WEF indicator Patents per million population • share of innovative products and services in GDP	• increase in the share of innovative products in GDP from 1.9% in 2016 to 2.1% in 2017 and 2.3% in 2018

Glossary

Decentralisation	The transfer of functions from the central government to local government units.
Devolution	The transfer of functions from the state to the private sector, encompassing private corporations, self-regulated professions (such as physicians and lawyers) and non-governmental organisations.
Impact assessment	Rigorous assessment of the outcomes of a particular policy intervention, whether direct or indirect, intended or not. Types of impact assessment include regulatory, socio-economic and environmental impact assessments.
Policy analysis	Examination of the case for a public policy intervention and of the various options that can be considered to this effect.
Policy evaluation	Systematic estimation of the value of a particular policy intervention. Methods of policy evaluation include cost and benefit analysis, cost-effectiveness analysis and multi-attribute analysis.
Privatisation	The transfer of ownership of assets from the public to the private sector.
Risk management	Set of activities aimed at identifying and evaluating the uncertainties with regard to an organisation's objectives, and, on this basis, preventing and mitigating negative outcomes.
Theory of change	Set of assumptions relative to a project, program, policy measure or organisation, which establish cause-and-effect relations between its inputs, outputs, direct and indirect outcomes and eventual impact.

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