

Revenue Withdrawals, Elected Akims and Local Tax Accountability

How withdrawals from fourth-tier budgets weaken the incentives created by Kazakhstan's local governance reform

KEY MESSAGES

- Between 2018 and 2020, Kazakhstan's rural tier received its own (fourth-tier) budget and assigned revenues, and since 2021 its akims have been directly elected. Local accountability was tied to local resources.
- Interviews show that an under-regulated withdrawal mechanism is breaking this link: a large share of own revenues of fiscally strong rural districts is transferred to the district (raion) budget, and over-fulfilling the revenue plan leads to a higher target.
- In the most telling case, the rural district kept only about one-fifth of the own revenues it collected.
- The marginal return on extra revenue effort approaches zero: the incentive to broaden the tax base disappears, and elected akims cannot show residents a link between taxes paid and local services.
- For villages, rural districts, settlements and towns of district significance we recommend: a statutory cap on withdrawals, a stable three-year revenue baseline, local retention of growth above the baseline, a protected local minimum and a public formula.

About the study

This note draws on semi-structured interviews with akims and akimat staff of rural districts in Almaty Region and Zhetysay Region. All respondents are anonymised; financial figures are rounded and details that could identify districts are generalised.

Summary

Local governance reform in Kazakhstan has progressively built three interlinked elements at the rural level: an own budget, own revenue sources and the direct electoral accountability of the akim to residents. The fourth-tier budget was introduced in phases from 2018 and extended to the entire basic level in 2020. Since 2021, akims of towns of district significance, villages, settlements and rural districts have been elected by the population. Together, these reforms bind local responsibility to local resources.

Our interviews show, however, that this very link is now being broken by an under-regulated mechanism of withdrawals from fourth-tier budgets. As akims take on a growing role in administering local taxes and fees, in a number of rural districts a substantial share of own revenues is withdrawn to the district budget, and over-fulfilling the revenue plan is effectively penalised by a higher target for the next period. Withdrawals at the district level thus offset the effect of reforms launched by central government: growth in the own revenue base does not necessarily translate into comparable growth in resources that remain with the local community.

According to the akims we interviewed, the marginal return on additional revenue mobilisation effort is approaching zero. A fiscally strong rural district has no lasting incentive to expand its tax base,

and an elected akim cannot show residents a clear connection between stricter tax discipline and better local services.

We propose adjusting the mechanism for administrative units directly tied to local communities — villages, rural districts, settlements and towns of district significance — above all where the head is elected by residents. **Key measures:** set a formal cap on withdrawals; establish a stable multi-year revenue baseline; and allow all growth above the baseline to remain local for a defined period. A similar regime need not apply to districts and regions, which perform broader territorial and redistributive functions.

Elections and digitalisation: local tax discipline is tightening

Decentralisation at the rural level did not result from a single reform. First, the functional mandate of akims was gradually expanded. Then a separate fourth-tier budget appeared. Finally, direct elections were introduced. As a result, the rural district has become at once the territory of a local community, a distinct budget unit and the level at which a directly elected head operates.

The fourth-tier budget changed the akim's role on the revenue side. The rural level was assigned its own tax and non-tax revenues, expenditure responsibilities and functions for budget planning and execution. The akim does not set the main tax rates, but the akimat has a direct interest in collecting the assigned revenues. Interviews show this is no formality: rural administrations actually work with taxpayers and arrears.

"Are you, as akim, responsible for tax collection? — Yes, of course. It is not a question of whether we want it or not. It is our job. But we have no leverage over people. We go to someone, ask them to pay their tax, they promise — and that is where it stays, as words."
— Interview with a rural district akim, Almaty Region

"Very few people come to pay their tax voluntarily. Usually we have to call them, warn them. There are persistent non-payers whom we warn once or twice, and then we have to turn to bailiffs. Every year, because of non-payers, we end up with arrears of [several] million tenge."
— Interview with a rural district akim, Almaty Region

Direct elections reinforced this mechanism. An elected akim receives not only the administrative task of meeting the plan but also a political mandate of their own. They answer to people who see every day the state of roads, street lighting, public spaces and utility infrastructure. Interviewees articulate the difference between appointment and election very clearly.

"An appointed akim is accountable to those who appointed him. An elected akim is accountable to thousands of people, to the population. So the difference between an appointed and an elected akim is like the difference between heaven and earth."
— Interview with an elected rural district akim, Almaty Region

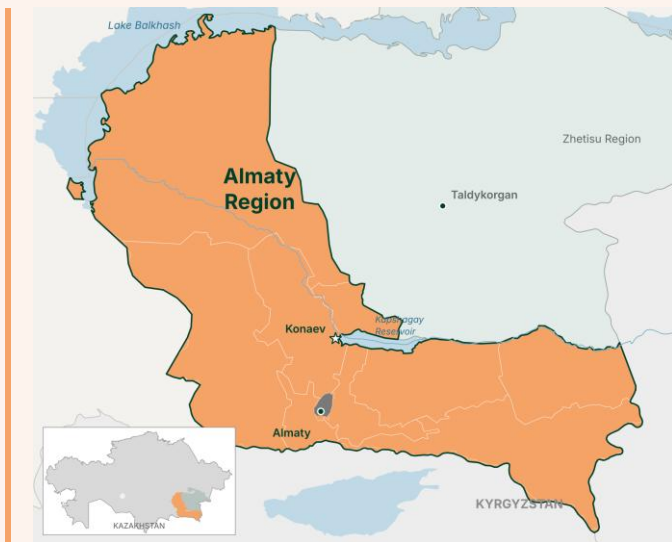


Figure 1. Almaty Region — one of the two study regions. ☆ — regional centre (Konaev); ● — Almaty (city of national significance, not part of the region). Boundaries are schematic. Source: compiled by the authors from geoBoundaries and Natural Earth data.

Since the fourth-tier budget was introduced, growing own revenues has become a management task in its own right. In the strongest cases this goes well beyond passively collecting assigned taxes. Akims look for unregistered tax base, persuade entrepreneurs to register where they operate, link new businesses to future budget revenues and treat every new facility as a source of local development.

“We brought in [more than a dozen] entrepreneurs. We explained to them: ‘Your income tax will go to our budget, and tomorrow we will use this money to build a road in this village.’”

— Interview with a rural district akim, Zhetysay Region; translated from Kazakh

In the same rural district, according to the respondent, personal income tax receipts nearly doubled. This is an important example of **local fiscal effort**: revenue growth does not happen automatically — part of it is created by the concrete work of the local administration.

“One of our key assets is the railway. I am interested in new sidings opening here. Every siding opened here, every LLP created and registered here — that is tax. We have an industrial zone in the district [of several hundred hectares]... If we start next year, the first investors will come in three or four years. And we will probably increase our own revenue tenfold.”

— Interview with an elected rural district akim, Almaty Region

This local activism coincides with the broader digitalisation of tax administration. Nationally, the State Revenue Committee uses integrated information systems, Smart Data Finance, risk-based analytics and e-services for taxpayers. Property and vehicle tax assessments are available through e-Salyq Azamat and banking apps, and the Committee’s systems automate accounting, monitoring and the handling of tax arrears. As a result, **tax discipline as a whole is becoming more visible and better supported by technology**.

For residents, this process is very tangible. Tax obligations are more visible, arrears are tracked more actively, and local administrations more often remind people directly to pay. This is why it is especially important that stronger tax discipline be accompanied by a visible local return. **Otherwise, residents experience tougher administration without seeing a comparable improvement in local services.**

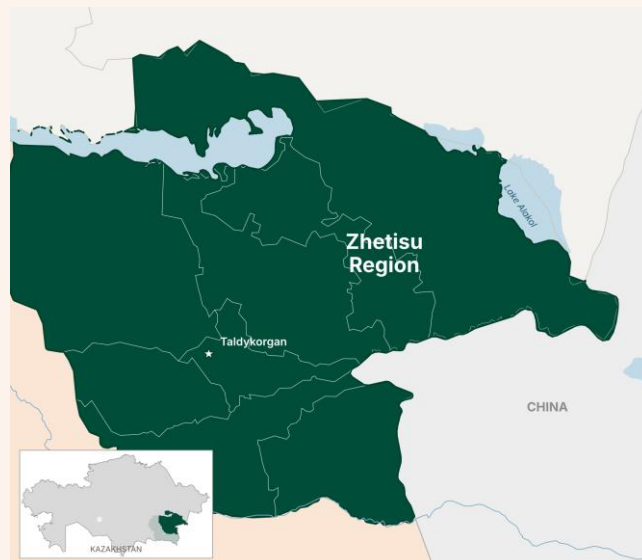


Figure 2. Zhetysay Region — the second study region, separated from Almaty Region in 2022. ☆ — regional centre (Taldykorgan). Boundaries are schematic. Source: compiled by the authors from geoBoundaries and Natural Earth data.

In short, after the introduction of elections the rural akim faces two stronger incentives at once: to collect own revenues and to show residents visible results. Withdrawal rules — which in a more centralised system were mainly a technical element of intergovernmental equalisation — now directly shape the political and managerial logic of the reform.

How the withdrawal mechanism changes incentives

The interviews reveal a single mechanism through which part of the own revenues of fiscally strong rural districts is withdrawn to the district budget. It operates in two modes:

Two modes of one mechanism

- 1. Planned withdrawal.** The rural district is assigned in advance a fixed amount of reverse transfer that it must remit to the district. The budget framework explicitly treats rural districts as units for calculating subventions and withdrawals. The problem lies in the under-regulated procedure for changing planned amounts.
- 2. Dynamic withdrawal effect.** If a rural district collects more, it does not necessarily keep the benefit: the additional revenue may be absorbed by withdrawal, and high actual collection becomes grounds for raising the future plan.

This is what turns ordinary equalisation into a **disincentive to grow the tax base**: withdrawing above-plan revenue and raising the target make the marginal return on additional collection zero or even negative.

The most telling case is a fiscally strong suburban rural district. In 2024 its total budget revenue was about KZT 1 billion, of which roughly a quarter came from transfers. Of its own revenues (about KZT 0.8 billion), some KZT 0.6 billion was remitted to the district budget as a withdrawal. The rural district itself kept less than KZT 0.2 billion of own revenues — **about one-fifth** of what it had collected.

≈ 1/5

share of own revenues left at the rural district’s disposal in the most telling case (2024)

Moreover, successful tax administration was followed by a higher “revenue plan”:

“— Is this amount withdrawn every year? — We already know for sure, it has already been allocated: [over 0.7 billion] tenge is taken. They leave us only [under 0.2 billion].”

— Interview with akimat staff of a rural district, Almaty Region

“We collect [about a billion], and they leave us [only a small part]... There is no point in collecting more of these taxes, because it is withdrawn anyway. Even though we constantly go round demanding payment, we even check advertising all the time. I always say: why should we ask for a transfer when you could simply reduce the withdrawal from us? On top of everything, it is a waste of time.”

— Interview with the akim and akimat staff of a rural district, Almaty Region

Not only the volume of withdrawals matters, but also their dynamic effect. A staff member of another akimat describes how over-fulfilling the revenue plan leads to the plan being raised. Early collection and active work with the tax base therefore do not create lasting additional room for local spending.

“Sometimes we over-fulfil the tax plan: for example, the plan is [N] tenge, spending is also [N], but we collected [more than twice as much]... And then at the next maslikhat session they increase it. We want to collect all the planned taxes in six months, but then they raise the plan: as in, you can collect even more.”

— Interview with akimat staff of a rural district, Almaty Region

A similar mechanism is seen in other fiscally strong rural districts. One district in the Almaty agglomeration received no transfers in 2024: its own-revenue plan (about KZT 0.1 billion) was over-fulfilled by more than 10%. Yet the respondent describes the withdrawal of an accumulated free balance and an outright loss of incentive for further mobilisation.

“The incentive disappears. You think you could go and work in any settlement — they will give money for the akimat’s upkeep anyway. Akims will have no goal... We had a free balance from 2022 and 2023; I was saving it, thinking I would do something big in 2024. And in 2024 they just took it all away.”

— Interview with a rural district akim, Almaty Region

Another large rural district describes the same logic through plan increases: after over-fulfilment, the target for the next year was raised again. The respondent notes that, when “balancing” loads, a reduced target for one district may be offset by a higher target for another.

“With over-fulfilment we collected [over 400 million], and this year they raised our plan [even higher]... One year it went like this: another district defended itself on taxes, proved it could not meet the plan. They lowered theirs, and to balance it out, they took the difference and put it on us — that is, they raised our plan.”

— Interview with a rural district akim, Almaty Region

In effect, the system taxes additional local effort at a high marginal withdrawal rate. This does not mean equalisation is unnecessary. But when the clawback rate is too high, the own tax base no longer converts into local autonomy.

Negative consequences for decentralisation

Demotivated akims and staff

The first consequence is weaker motivation to mobilise own revenues. This is not an abstract risk but an effect the respondents articulate directly. If additional collection leaves the district no additional resources, an active and a passive akim ultimately get the same financial result.

“The incentive disappears... Akims will have no goal.”

— Interview with a rural district akim, Almaty Region

This matters especially after the electoral reform. An elected akim has extra motivation to seek resources because they must show results to residents. If the system simultaneously strengthens their

responsibility for collection and cancels out part of its effect, it creates an internally contradictory set of incentives.

Conflict with residents: taxes are visible, fiscal architecture is not

The second consequence is a widening gap between those to whom residents address their demands and those who actually decide the volume of available resources. A resident pays vehicle, property, land and other taxes and sees a specific akim. They do not see the budget commission, the withdrawal formula or the procedure for redistribution across tiers.

“Properly speaking, these are funds we collected from the population, so it is their money. People get indignant now if roads are in poor condition: ‘We pay taxes, so why aren’t the roads being repaired?’ We are not going to spend our own residents’ money carelessly.”

— Interview with a rural district akim, Almaty Region

Withdrawals therefore have not only fiscal but also negative political consequences. Formally, accountability to residents is localised, while resources remain partly vertical. This makes the akim the main target of discontent over decisions they control only in part.

Stronger tax discipline without a comparable local return

This consequence is the most sensitive for the long-term legitimacy of the reform. The state is making tax administration more technology-driven and more visible to citizens, and the local level more active in collection. But if higher collection does not turn into visible additional resources for the territory, an asymmetry emerges: citizens feel the obligation to pay more strongly but see the local return less clearly.

For an elected akim the problem is even sharper. They cannot explain a lack of results to residents simply by pointing to the district budget, since they themselves received a mandate to solve local issues. This is where the fiscal architecture begins to limit the effect of the electoral reform: political signals and the devolution of functions by central government are nullified by the actions of district authorities.

International experience: equalisation without killing incentives

International experience shows that fiscal equalisation and preserving incentives to grow the own revenue base are not mutually exclusive. The key question is not whether to abolish withdrawals, but what share of additional fiscal capacity a local unit should keep.

The **OECD** treats the equalisation rate as a kind of marginal tax, or clawback: it shows what share of a jurisdiction’s additional revenue is absorbed by the equalisation system. By OECD estimates, on average just over 70% of additional tax revenue goes to equalisation, and in some countries the rate is close to 100%. The OECD warns that high rates create moral hazard, weakening incentives to expand the tax base and to collect taxes — particularly where subnational governments administer taxes themselves [1].

Norway offers an example of a symmetric approach. Since January 2026, the symmetric part of municipal income equalisation has been 64%: municipalities with above-average tax revenues contribute 64% of the difference between their level and the average. Equalisation remains strong, yet 36% of additional fiscal capacity stays with the municipality [2].

In **England**, the Business Rates Retention System is built around baselines. From 1 April 2026 the system is being fully reset: baseline funding levels are set on a 50% retention basis, most growth accumulated to date is redistributed according to an updated assessment of need, and authorities then again retain growth until

the next reset. In designated areas, authorities keep 100% of business rates growth above a fixed baseline, typically for 25 years, and this growth is protected from the reset [3].

These examples should not be transplanted mechanically to Kazakhstan. Their value lies elsewhere: mature equalisation systems pursue two goals at once — reducing territorial inequality while preserving a positive marginal return on growth in the own revenue base.

Recommendations

1 Set a formal cap on withdrawals

For villages, rural districts, settlements and towns of district significance, the maximum share of own revenues that may be withdrawn to a higher-level budget should be set in regulation. The specific ratio should be calculated on the full dataset of fourth-tier budgets, testing several scenarios and assessing their impact on equalisation and on local fiscal effort.

2 Fix a stable multi-year revenue baseline

The own-revenue plan should not be revised upwards automatically during the year or immediately after over-fulfilment. A three-year baseline with pre-defined indexation rules would separate ordinary base growth from the additional results of the akim's work.

3 Leave all growth above the baseline with the community for a time

During a three-year planning cycle, all own-revenue growth above the baseline should remain at the disposal of the unit concerned. The baseline can be recalculated at the end of the cycle. This preserves equalisation in the long run while giving the akim time to convert extra collection into visible local projects.

4 Establish a protected local fiscal minimum

Even where withdrawals apply, a basic administrative unit should retain a minimum amount above mandatory spending on the akimat itself. Otherwise a formally independent budget exists but creates no real room for solving local problems. The minimum could be set as a share of retained own revenues or as a per-capita standard for local development.

5 Apply the special regime to community-level units

Limits on withdrawals are most justified for villages, rural districts, settlements and towns of district significance — where there is a direct link to the local community and the head is elected or election is part of the reform's logic. A similar cap need not apply to districts and regions, which perform broader territorial, coordinating and redistributive functions.

6 Make the formula public and explainable

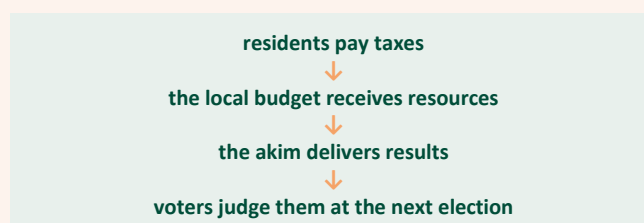
For each rural district, the following should be known in advance: the baseline, the marginal withdrawal rate, the protected local resource, the share of growth retained and the date of the next review. An elected akim should be able to tell residents how much was collected, how much went to equalisation and how much remained for local needs.

Conclusion

Kazakhstan's reform has created a rare combination at the grass-roots level: a separate budget, own tax sources and an elected head. This design is potentially powerful because it connects tax discipline, local responsibility and visible results. But it works only if additional effort by the local administration brings additional resources to the territory.

Today the interviews point to the opposite risk. Akims collect taxes more actively, look for taxpayers, persuade businesses to register locally, answer for the plan — and at the same time answer to residents. Yet in several cases a large share of revenue growth is withdrawn or leads to a higher target. As a result, it is precisely the most active and fiscally strong districts whose own revenue growth fails to translate into real autonomy.

The issue, therefore, is not abolishing fiscal equalisation but changing its marginal logic at the basic level: part of the result should remain where it was created. For an elected rural akim, this is not merely a financial incentive but a condition for the accountability chain itself to work:



References

- [1] OECD/KIPF (2021). Fiscal Federalism 2022: Making Decentralisation Work, ch. "Evaluating fiscal equalisation: Finding the right balance". OECD Publishing, Paris; Blöchliger, H. Fiscal Equalisation. OECD Network on Fiscal Relations across Levels of Government.
- [2] Regjeringen (Government of Norway). Løpende inntektsutjevning [Current income equalisation], 2026. regjeringen.no
- [3] Ministry of Housing, Communities & Local Government (2025). Resetting the business rates retention system from 1 April 2026. GOV.UK.

Authors

Sabina Sadiyeva
Bauyrzhan Yedgenov
Bibizhamal Amangeldi

Disclaimer

The findings, interpretations and conclusions expressed in this note are those of the authors and do not necessarily reflect the official position of the Center for Regional & Local Development or of the authors' affiliated institutions.

Acknowledgements

The authors thank the akims and akimat staff who agreed to be interviewed.