Elena Maltseva[*] and Saltanat Janenova[**]

The Politics of Pension Reforms in Kazakhstan: Pressures for Change and Reform Strategies[***]

Abstract: Following the Soviet Union's disintegration, many post-Soviet states introduced liberal economic and social reforms. The reforms included the replacement of the Soviet-era "pay-as-you-go" pension system with a new fully funded, defined contribution pension system that was based on individual accounts. Built on the example of the 1981 Chilean pension reform and the advice of international financial institutions, such as the World Bank and the IMF, the driving idea behind the post-Soviet pension reform was to reduce government's costs, to encourage personal savings, to avoid government mismanagement of pension funds and to contribute to the development of the financial sector. However, as time passed, the new pension systems displayed several shortcomings, including low coverage, especially of the poor population and women; high fiscal costs of transition from one pension system to another; high administrative costs; serious financial risks for the pensioners; and several other. As a result, in recent years, a number of governments in Latin America, Eastern Europe and CIS, including Kazakhstan, launched another round of pension reforms, this time rolling back the earlier privatization schemes, and reintroducing or strengthening the publicly managed components into/of their pension systems.

This paper discusses the origins and outcomes of the liberal 1998 pension reform in Kazakhstan, and the rationale behind the government's decision to dramatically overhaul the entire pension system in 2013 and 2015. The paper advances two arguments. First, it argues that the origins and dynamics of the Kazakhstani pension reforms during the last two decades can be attributed to a combination of endogenous and exogenous factors, including the growing economic, political and demographic pressures, the role of powerful domestic elites and international financial institutions such as the IMF and the World Bank, and the important shifts in the international paradigm in the area of old age security during the 2000s. Second, the paper uses the Kazakhstani experience with reforming its pension system to demonstrate that introducing pension reforms in the context of weakly developed institutions, a poorly diversified economy and serious socioeconomic problems creates serious obstacles for ensuring an effective and socially just pension system. To address the challenges of old-age pension security, the Kazakhstani government needs to focus on building a comprehensive multi-pillar pension system, with transparent mandatory pillars, a bigger role for voluntary savings, and a basic solidary pension pillar.

In conclusion, based on extensive research, including interviews with the leading experts on the Kazakhstani pension reform, this article offers important insights into the dynamics of institutional and ideational change in transitional socioeconomic and political contexts of post-Soviet states.

Keywords: Pension reform; privatisation; nationalisation; gender; Central Asia; Kazakhstan.

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[*] Elena Maltseva, Ph.D. in Political Science, Assistant Professor, Department of Political Science, University of Windsor. Email: maltseva@uwindsor.ca.

[**] Saltanat Janenova, Ph.D. in Social Policy, Assistant Professor, Graduate School of Public Policy, Nazarbayev University, Kazakhstan. Email: Saltanat.Janenova@nu.edu.kz.

[***] Draft: Please do not cite. Comments are welcome.

Acknowledgements: We are grateful to the International Labour Organisation for providing financial support to this study; to the Ministry of Healthcare and Social Development of the Republic of Kazakhstan and the Unified State Pension Fund (ENPF) for allowing access to the data used in this paper; to the Federation of Free Trade Unions of Kazakhstan and civil movement "For Fair Maternity Benefits", as well as Sabit Khakimzhanov and Meiram Zhandildin for sharing their valuable insights on the implementation of the 2013 pension reform. All errors are our own.

Introduction

Following the dissolution of the USSR, Kazakhstan emerged as the leader of the post-Soviet transformation, having launched some of the most ambitious economic and welfare reforms. The government pursued a program of liberal economic reforms designed to establish a free market economy. In the social realm, dramatic changes in the economy and the failure of the Soviet pay-as-you-go (PAYG) system to provide for the proliferating number of pensioners had led the government to the realisation that Kazakhstan's collapsing pension system and rapidly growing pension arrears needed to be addressed. In response to these pressures, the Kazakhstani government agreed to a radical pension reform, accompanied by an effort to pay off all existing pension arrears. The Pension Law of 1997 provided the basis for the replacement of the PAYG system with a new pension system based on individual investment accounts to be maintained either with the newly established State Accumulation Pension Fund (SAPF) or with non-state (privately owned) pension funds (NSAPF). According to the original plan, an old state-supported PAYG pension system would remain in place for pensioners who had contributed to the system until 1998, with all workers who had accrued benefits under the old system retaining their entitlements. It was expected that the new pension system would completely replace the old one between 2045 and 2050. Critics of this radical privatisation suggested that its emphasis on the technocratic elements of pension reform and on the financial stability of the future pension system, without taking into consideration issues of social justice and the adequacy of pension benefits, could lead to protests and declining levels of old-age social security—thus undermining the system's overall sustainability. This argument, made by the International Labour Organisation (ILO), has often been neglected by countries in transition, primarily because of their close co-operation with international financial institutions such as the World Bank (WB) and the Asian Development Bank (ADB), which encourage specific types of policy changes (privatisation). However, later it had become evident that the radical new pension system displayed several institutional and economic deficiencies and was negatively affected by continuing demographic and labour-market changes.

In 2012 the President of Kazakhstan, Nursultan Nazarbayev, announced an ambitious vision for the country to join the list of the 30 most developed countries in the world by 2050. The *Kazakhstan-2050 Strategy* made clear that this ambitious developmental goal should be achieved by improving levels of education and public health, diversifying the economy, promoting good governance through proper institutional and administrative reforms, attracting foreign direct investment and curbing corruption (Aitzhanova, Katsu, Linn and Yezhov, 2014). The modernisation process also presupposed the creation of the Universal Labour Society and the cultivation of the idea that dependency on the state during one's most productive years was not acceptable. It was therefore not surprising that in 2012 the president made an order to develop a new concept for a pension system that would fall in line with these broad modernisation goals and tackle the deficiencies of the previous system (Mozharova, 2013).

In the spring of 2013, Kazakhstan launched another reform of its pension system. It introduced a Unified National State Accumulative Pension Fund (*Edinyi Natsional'nyi Pensionnyi Fond* in Russian, further referred to as ENPF), thereby imposing a state monopoly in the sphere of pension provision, levied new pension taxes on employers, and raised the retirement age for women from 58 to 63. However, two years after the announcement of the 2013 pension reform, the government went ahead with yet another round of pension reform, this time targeting the basic social pension. In particular, the government announced that starting from 2018 the size of the basic pension payment will be linked to the length of one's employment, thereby establishing a quasi-funded pillar that would be maintained with employer contributions ("Kazakhstan: New Component Added," 2015). The proposed changes confirm the earlier trend of prioritizing economic goals over issues of social justice and pension rights, and raise an important question about the applicability of fully privatised and fully nationalised pension systems in countries undergoing significant socioeconomic and political transformation.

This paper offers insights into the causes, dynamics and outcomes of the Kazakhstani pension reforms. It advances two sets of arguments. First, it argues that the two distinct periods in the transformation of the Kazakhstani pension system during the last two decades can be attributed to a combination of endogenous and exogenous factors, including the changes in the economic, political and demographic environments, the role of powerful domestic elites and international financial institutions such as the IMF and the World Bank, as well as the important shifts in the international paradigm in the area of old age security between 1990s and 2000s. Second, the paper uses the Kazakhstani experience with reforming its pension system to demonstrate that introducing pension reforms in the context of weakly developed institutions, a poorly diversified economy and serious socioeconomic problems creates serious obstacles for ensuring an effective and socially just pension system. To address the challenges of old-age pension security, the Kazakhstani government needs to focus on building a comprehensive multi-pillar pension system, with transparent mandatory pillars, a bigger role for voluntary savings, and a basic solidary pension pillar.

The paper proceeds as follows. Following a theoretical section that places the proposed case study within a broader set of literature on pension reforms, the paper provides a brief overview of the origins and outcomes of the 1998 and 2013 pension reforms. The discussion of the 2013 pension reform highlights the rationale behind the recent policy change, and outlines the views of the major policy actors and the ways in which the government and civil society explained and legitimised their positions. The final section situates the 2013 pension reform in the context of the ongoing welfare policy change and offers some comments on the future of the pension system in Kazakhstan.

Pension reforms in comparative perspective: Understanding the causes of recent reversals of pension privatization schemes[1]

Two sets of literature: understanding policy change and path-dependency in consolidated and transitional contexts, and pension privatization reversals in comparative perspective.

Several studies on social and pension reforms in mature welfare systems have contributed to the understanding of policy change and path-dependency (Pierson, 1994, 1996, 1998, 2000; Thelen, 1999; Andersen & Larsen, 2002; Hinrichs & Kangas, 2003; Schmähl, 2004; Jensen & Pfau-Effinger, 2005; Streeck and Thelen, 2005; Clasen & Siegel, 2007). As some of this research demonstrates there is a tendency of existing institutions to create conditions for their own reproduction over time. As Arza points out, policies distribute benefits, generate expectations, and create their own political constituencies (like pensioners defending their pension rights), which later makes it difficult to change course (2006). Path-dependent policy trajectories are promoted by past policy decisions. In contrast, as we demonstrate in this paper, when policies fail to take root and gain sufficient political and social support due to the deficiencies in their content or the process of their implementation, they may become vulnerable to frequent transformations, with governments reversing the course of earlier policy every time their priorities change.

The limitations of private pension systems in developmental and transitional contexts have been discussed extensively in a number of studies covering Latin American and post-Communist countries. These studies identified the most common problems in the operation of private fully-funded defined-contribution pension systems, including high transition costs, high administrative fees, limited control of accumulated pension funds, volatility of investments and financial

[1] Unfortunately, this section is still being developed. Comments and recommendations of books and articles are welcome.

sustainability, low levels of pension coverage and replacement rates, and issues with gender equity (see, e.g., Bertranou, 2001; Mesa-Lago, 2002, 2006, 2008; Naczyk and Domonkos, 2016). Responding to these challenges, governments adopted different strategies, with some countries such as Chile not moving away from a private fully-funded contributory pension system, but rather combining improvements in the private sector with considerable strengthening of the public sector (Mesa-Lago, 2009).

Overall, there are many studies available on pension reforms and counter-reforms in Latin America (see, for example, Bertranou, 2001; Mesa-Lago, 2002; Calvo, Bertranou and Bertranou, 2010; Arza, 2012; Hujo and Rulli, 2014; Hujo, 2014), and in Central and Eastern Europe (see, for example, Whitehouse, n.d.; Hirose, 2011; Drahokoupil and Domonkos, 2012). However, there is limited knowledge on the transformation of pension systems in Central Asia. While the 1998 pension reform in Kazakhstan was studied by several researchers (Andrews, 2001; Seitenova and Becker, 2004; Holzmann, Hinz, and Bank Team, 2005; Becker et al., 2009), few papers are available on the 2013 and 2015 pension reforms (Zhandildin, 2015).

The 1998 pension reform in Kazakhstan: The privatisation stage

Following the collapse of the Soviet Union, Kazakhstan underwent a dramatic socioeconomic transformation that put great strain on the Soviet pay-as-you-go (PAYG) pension system. The key features of the Soviet PAYG system were:

1. Nearly universal coverage with pensions calculated as a fixed earnings–related component, plus an additional component based on the years of service that included years of employment, child care and could even be increased through a host of special rights;
2. Pensions were employment-related and non-contributory for employees, financed by payroll contributions paid by employers and budget transfers;
3. Low retirement age (60 for men and 55 for women), with the possibility of even earlier retirement for selected population groups, such as people working in arduous and dangerous working conditions such as milkmaids, goat herders, miners, as well as mothers of more than three children, and several other categories;
4. Generous earning-related benefits (based on 60 percent of the highest past wages averaged over 12 months for workers with a full employment record, with 1 percent extra for years of service over 25 years for men and 20 years for women;
5. High average replacement rate that often exceeded the two-thirds of the workers' previous highest wages; and
6. A generous system of non-contributory social pensions, which meant that those who did not qualify for an old-age pension due to the absence of sufficient work history were paid a social pension, along with the disabled and survivors, set at the minimum-wage level and calculated based on the social minimum, using a basket of goods and services that were thought to reflect the socially acceptable minimum for the community (Falkingham and Vlachantoni, 2012; Matthews et al., 1989).

Ultimately, the generosity of the Soviet pension system meant that even before the breakup of the Soviet Union, this system was coming under pressure (Falkingham and Vlachantoni, 2012).

By the mid-1990s, the realisation was growing in Kazakhstan that the old Soviet pension system required reform. Among the key factors that contributed to the implementation of the 1998 pension reform were high unemployment and weak economic performance during the transition phase, the aging population and negative trends in the pension system's dependency ratio, the evasion of tax payments and pension contributions due to a large informal sector in the economy, and no connection between the size of contributions on the one hand, and pension and welfare benefits on the other hand (Seitenova and Becker, 2004; Mansoor and Quillin, 2007; Palmer, 2007; Falkingham and Vlachantoni, 2012; Amandykova and Rakhimberlina, 2013). The question was whether the pay-as-you-go (PAYGO) system could and should be retained, or whether a completely new pension system should be adopted.

During this time, calls for radical pension reform became more popular among local politicians and international policy actors such as the World Bank (WB), International Monetary Fund (IMF), Asian Development Bank (ADB), and United States Agency for International Development (USAID), which argued that the old Soviet solidarity pension system caused growing socioeconomic instability (*BBC Monitoring Service: Former USSR*, 25 April 1997; *Kazakhstanskaia Pravda*, 10 April 1997). In this context, the Kazakhstani government designed a private pension-fund system that resembled the Chilean pension model and was based on a concept introduced by the World Bank in its volume titled *Averting the Old Age Crisis* (1994). It was hoped that the new system would avert an old-age social security crisis by promoting self-sufficiency instead of government dependence, help reduce government expenditures, improve the management of pension funds, encourage savings, and contribute to the development of the capital market (Bird, 1997; Kokovinets, 1998; Andrews, 2001; Seitenova and Becker, 2004). The proposed pension reform formed part of a broader package of socioeconomic transformation, comprising the following three components: the privatisation of state-owned enterprises (SOEs), the development of a securities market, and the establishment of private pension funds (Becker et al., 2009).

The new Pension Law No. 136-I was passed on 20 June 1997 and came into effect on 1 January 1998. The reform transformed Kazakhstan's pension system from a solidarity-based system to one based on individual accounts to be maintained either with the newly established state pension fund or with privately owned pension funds, and raised the retirement age from 60 to 63 for men, and from 55 to 58 for women (Soloviev, 1997; Andrews, 2001). Essentially, it meant that the two systems—redistributive and contributory—would operate concurrently to each other for a while. The new pillar known as the mandatory accumulative pension system was financed with a fixed 10 per cent of the mandatory pension deductions from the worker's income, including the citizens of Kazakhstan, foreigners, and stateless persons permanently residing in Kazakhstan. In addition to the mandatory pillar, the government also introduced a voluntary accumulative pension system that was based on voluntary pension contributions (VPC). According to this novelty, all citizens had the right to make voluntary pension contributions to increase their savings and, thereby, to secure a higher income after retirement. In regard to the old solidarity component, the reform recognised accrued rights as earned up to 1998, but terminated the solidarity pension benefits for all other population groups. This move meant that retirees continued to receive their benefits under the old solidarity pension system and that workers who had accrued benefits prior to 1998 retained the right to receive those benefits upon reaching retirement age in the future (Hinz, Zviniene and Vilamovska, 2005). In other words, according to the original plan, the mandatory, publicly funded pension would exist for as long as there were workers with accrued rights.

A decade later, it became evident that few of the government expectations pertaining to the development of the Kazakhstani fully-funded pension system and the capital market fully materialised. Affected by strict capital requirements and state restrictions on investment, as well as concerns about volatility on the international markets and possible exchange and liquidity risks if investing in foreign securities, pension funds had failed to make the positive impact on the development of the Kazakhstani capital market, economy, and pension system envisaged when the government launched the reform in 1998 (Gorst, 2013; Zhandildin, 2015). Implemented in the context of a weakly developed rule of law and underdeveloped financial markets, the introduction of a fully privatised pension system came with a price in the form of non-transparent deals, weak governance in the private pension sector, and high service fees and operation costs (Yesirkepov, 2013).

The 1998 pension reform also failed to achieve high replacement rates, and enhance pension coverage and compliance as expected. The low returns on investments, which averaged 3-4 per cent, made the goal of attaining the 60 per cent replacement rate stated by the government at the beginning of the reform highly unlikely (Yesirkepov, 2013). In short, the insufficient performance by the second pillar (mandatory accumulative pension system) and the limited presence of the first pillar (old solidarity-based pension system) contributed to low replacement rates, which stood at 27.36 per cent in 2010 and 29.27 per cent in 2013 (Zhandildin, 2015).

The situation with pension coverage and the adequacy of old-age pensions was no better. In 2013 the new pension scheme covered 8.5 million people, representing about 80 per cent of the economically active population. However, the World Bank World Development Indicators from 2011 stated that 65 per cent of the labour force in Kazakhstan did not contribute to a retirement pension scheme (Abdih and Medina, 2013). This especially concerned the self-employed workers in the informal sector and/or unemployed people who remained in the socioeconomic shadows. For example, housemaid services and subsistence farming were the two areas that grew rapidly in post-Soviet Kazakhstan and in which many people, especially women, worked unofficially (Semykina, 2014).

Likewise, the new system failed to provide adequate old-age income security to a significant number of people with low earnings, shorter, broken careers, and/or a lack of an official employment record, all of which particularly applied to women. This problem especially concerned women born in 1948–1950 who retired before 1998 during the period of economic stagnation. Because of the negative economic effects of the transition period during the 1990s—with resulting business closures, loss of production volumes, involuntary lengthy unpaid leaves, and minimal wages—these women were unable to provide proof of their most recent employment and average salary. As a result, because of interruptions in their employment record, but also because of their low earnings, many of them received a minimum pension only ("O sovershenstvovanii sistemy rascheta urovnia pensii," 2013).

In conclusion, the presence of various economic, fiscal, demographic and social problems motivated the government to launch the reform process, which, in turn, was heavily influenced by the ideology of neoliberalism and the advice of such powerful international policy actors as the IMF and the World Bank. However, as the time passed, the deficiencies of the newly implemented pension system raised an important question about the applicability of fully privatised pension systems in the context of weakly developed political and economic institutions. The political instability of the 1990s was accompanied by serious problems in the economic and financial sectors, as well as the labour market, including a significant number of people employed informally and/or partially (Sziraczki, 1995). Since many people were paid unofficially, or received low official wages, it prevented them from exercising sufficient retirement savings, with many people making no contributions to the pension fund at all. In this context, the government's decision to focus on the development of a fully-funded pension system without considering options for keeping the parallel solidarity system to protect workers, especially those with low-pay or no-pay work histories, from poverty in old age should be approached critically. Essentially, having cancelled the full operation of the solidarity pension system in the context of a deep economic crisis and weakly developed labour market, the government created a problem for itself in the future. Inadequate or absent social protection at old age further exacerbated such problems as old-age poverty, economic insecurity, growing levels of inequality and greater old-age healthcare costs. The weakly developed labour market also prevented the pensioners from accessing well-paid jobs at older ages. In short, the existing problems made it obvious that the type of the pension reform implemented by the Kazakhstani government in 1998 fell short of providing its citizens with an adequate level of pension security. Therefore, a range of adjustments to the 1998 pension system were required.

Reforming Kazakhstan's pension system: From privatisation to nationalisation

The first attempt to address the shortcomings of the new pension system came in June 2005 when the government introduced a basic social pension (*Bazovaia Pensia* in Russian) that targeted the least protected population groups. According to the original plan, the basic social pension was not dependent on private contributions and work history and would be provided to all persons reaching retirement age. This pension came in addition to the one earned under the residual old solidarity system and the fully-funded accounts, and was often described more as a safety net rather than a fully functioning first pillar. Nonetheless, the introduction of the basic social pension was a positive development that guaranteed at least minimum income security to all citizens reaching old age. Following its introduction, the minimum level of pensions rose immediately by nearly half – from 6200 tenge in 2005 to 10270 tenge in 2009, and the average pension, including as a percentage of the subsistence minimum, also increased significantly after 2005 (Kurmanov, 2011). At the same time, all other issues related to the performance and quality of the Kazakhstani pension system discussed earlier remained unaddressed.

The wind of change came on 27 January 2012 during President Nazarbayev's state-of-the-nation address titled "Socio-Economic Modernisation—The Main Vector of Kazakhstan Development," in which he announced the beginning of a wide range of administrative, social, and economic reforms. Shortly after, the president made an order to develop a new concept for a pension system that would fall in line with the proposed modernisation goals and tackle the deficiencies of the previous old-age social security system (Mozharova, 2013).

The 2013 reform was a radical shift that reversed a policy adopted as part of a wider process of market reforms in the late 1990s. With this move, the Kazakhstani government became the first Central Asian republic to follow in the steps of several Latin American countries that introduced important changes into their fully-funded, defined-contribution pension systems. The reform process was swift, top-down and initially involved a limited number of policy actors, thereby limiting the possibilities for consensus building and social dialogue during the early stages of the reform. To be more specific, the reform process was led by the president, the government, the Ministry of Labor and Social Protection headed by Serik Abdenov, and the National Bank of the Republic of Kazakhstan under the leadership of Grigory Marchenko, whereas the involvement of civil society, private pension funds, and other stakeholders, including international policy actors, was minimal. The draft bill *On Pensions in the Republic of Kazakhstan* presented to the public in April 2013 proposed the following changes to the 1998 fully-funded pension system:

1. creation of a single pension fund under the name of Unified Accumulative Pension Fund (UAPF, or ENPF in Russian) on the basis of State Accumulation Pension Fund (SAPF);
2. assigning of the National Bank with the management function of pension assets held by the ENPF;
3. increasing the retirement age for women from 58 to 63 progressively between 2014 and 2024; and
4. introducing mandatory 5 per cent contributions paid by the employers for the workers employed in difficult and dangerous occupations (Medeusheyeva, 2013; Torebayeva, 2013).

However, given the government's top-down approach to the reform process and the lack of open debate prior to the reform, an openly negative reaction from citizens, especially women's groups, followed. The public protests provoked the active discussion of the controversial bill in Parliament and with the public. Most of the public outrage was directed at the proposed changes in women's retirement age that were announced shortly after the labour minister publicly stated that there was no need to raise the retirement age (*Diapazon*, 27 September 2012). The legitimacy crisis deepened after Parliament supported the controversial bill, despite strong public protests and calls for further discussion. The bill *On Pensions in the Republic of Kazakhstan* was passed by the lower (Mazhilis) and upper (Senate) chambers of Parliament on 23 May 2013 (*Forbes Kazakhstan*, 24 May 2013).

The positions of actors affected by the government decision varied from openly negative to cautiously optimistic. As stated earlier, the most negative reaction to the reform came from female non-government organisations and women's rights movements, who openly criticised the various aspects of the proposed increase in the retirement age for women from 58 to 63. Indeed, the intensity of protests and public discussion of the controversial bill in mass and social media was unprecedented in scale, and rather unique for post-Soviet Kazakhstan. Peaceful demonstrations by the women's movement groups took place across different regions in several major cities of Kazakhstan, and a collective petition was signed by over 100,000 citizens including prominent female leaders in education, culture, sports and politics against the increasing retirement age for women. The petition was passed to the president with alternative suggestions on how to improve the welfare system for females (Janenova, 2015).

The female activists argued that the introduction of changes to women's retirement age should have been accompanied by comprehensive reforms of Kazakhstan's labour market and healthcare systems, as well as better access to childcare facilities for families with young children. Kazakhstani women, even though they live longer than men, have numerous health problems that undermine their ability to work effectively after the age of 58, and are disproportionately affected by the deficiencies of the Kazakhstani labour market.[1] The respondents argued that in regard to women's health, changes to Kazakhstan's healthcare had to be introduced that emphasise prevention and regular checkups, especially in rural areas and among poorer population groups, or for women living and/or working in inhospitable climatic and/or working conditions.

Speaking of the conditions of the Kazakhstani labour market, many women raised the issue of how difficult it was for women age 40 and older to find stable employment and change jobs. Related issues concerning youth employment and the necessity to create additional employment opportunities, not only for the elderly population but also for the youth, were brought up by the participants. Moreover, as some women argued, the introduction of a higher retirement age would dramatically affect the economic well-being and social fabric of many Kazakhstani families. Given the shortage of state-run pre-school childcare facilities, many young families have to rely on their mothers for free babysitting services. In the absence of timely developments in this area, the participants claimed that many young families would find it extremely difficult to balance their work and family obligations.[2] In summary, the respondents argued that Kazakhstan needed more jobs, a diversification of the economy to accommodate a greater number of female workers, better employment policies and their stricter enforcement, and significant improvements in the healthcare and education systems if the government wanted to move ahead with a higher retirement age for women.

In light of negative public reaction and a series of protests organised by women's groups, the government was forced to defend the proposed policy change. It did so by pointing to growing demographic and fiscal pressures, claiming that under the current system, although men were paying the bulk of money into the pension system, they could not benefit from it because they had a lower life expectancy and higher retirement age than women. Therefore, the government decided to extract the cost of financing the pension system from women by increasing their retirement age so as to create parity between the pension contributions of male

[1] Author interviews with the President of the Federation of Free Trade Unions of Kazakhstan, Kazakhstan, 10 June 2015, and the leader and founder of a civil movement "For Fair Maternity Benefits", Astana, Kazakhstan, 9 July 2015.

[2] Author interview with the leader and founder of a civil movement "For Fair Maternity Benefits", Astana, Kazakhstan, 9 July 2015.

and female workers.[1] The government argued that such an equalisation would increase the opportunities for women for getting larger pensions. Women account for 3.8 million, or 45 per cent, of the total number of individual retirement accounts, yet their average amount of pension savings is 25 per cent lower than those of men. The official reasons for the gap in pension savings are that women participate less in the labor force, and are victims to gender pay differences.

In an attempt to soothe the public discontent, the government promised that more than 500,000 vacancies would be created by 2020 to keep the unemployment rate at 5 per cent (Government of the Republic of Kazakhstan, n.d., *Business Road Map for Employment – 2020*). It also declared the intention to address the structural problems evident in the labour market and to introduce measures to improve the skills of women workers through on-the-job training; engage self-employed women in the *Employment Program—2020*; improve access to micro-credit for women engaged in business or willing to start their own business; and train women who are on maternity leave in their chosen professions. In addition, a complex plan, *Initiative 50+*, was enacted to facilitate the employment of people over 50 years old within state and sectoral programs (Government of the Republic of Kazakhstan, 2013a). Amendments were made to the Labour Code to strengthen guarantees aimed at the elimination of discrimination during employment and at keeping jobs for employees who are over 55 years old, as well as introducing fines for publishing vacancies that contain gender and age requirements. Finally, it was argued that further gender differences in pension provision would be reduced thanks to the availability of a minimum pension guarantee for persons who reached retirement age but did not have sufficient retirement savings.

The president took a reconciliatory position. He publicly criticised the government and National Bank as the initiators of the reform, dismissed the labour minister, and returned the draft law to Parliament for additional discussion and voting on the timing of the retirement age hike. In the end, the government pushed the start date of the retirement age hike from 2014 to 2018, with an annual increase of the retirement age by six months (Article 11), and kept the right for early retirement for some groups such as women with five or more children, and several other categories unchanged.

In regard to the nationalisation of pension funds, the 2013 pension reform was driven by the imperfections of the 1998 pension system, domestic political considerations, and the desire to make the existing old-age social security system an important element in the country's modernisation process. The government and the president argued that the poor performance of the private pension funds, high fees that the private pension funds charged for their services, low returns from investments and frequent cases of corruption made it necessary for the state to intervene and rescue the accumulated pension funds from the deficiencies of financial markets. And although some private pension funds demonstrated better performance with regard to investment profitability and were more competitive on the market compared to the state pension fund, this fact was not brought to the attention of the general public by the public officials. Without a doubt, such framing strategy that also pointed to similar reforms in other countries such as Poland and Hungary helped justify the need for reform of the private pension sector in the eyes of many ordinary citizens.

[1] According to various accounts, the percentage of Kazakhstani citizens over 65 years was set to increase from 6.7 percent in 2005 to 11 percent in 2030, and exceed 25 percent by 2050. Most importantly, most of these pensioners would be women (UNDP, 2005). For example, as of the beginning of 2015, the female population in the age category of 65+ amounted to 766,852 people, whereas men accounted for only 420,725 people (Agency of Statistics of the Republic of Kazakhstan, 2015b).

The official government position was that the creation of the national pension fund would enhance the process of pension accumulation by the citizens and increase the effectiveness of pension assets management through greater transparency and accountability (ENPF, 2014). At the same time, the government also stated that it intended to use the accumulated pension funds for further investment in the national economy, thereby indicating that the government's economic strategy was focused on state-led development. By and large, the new pension reform did not change the contributory nature of the Kazakhstani pension system, keeping the individual pension accounts as the primary instrument of pension provision, but entrusting their administration de-facto to the state (as mentioned earlier, the consolidated fund is managed by the National Bank of Kazakhstan).

The decision of the government was met with little resistance and only some criticism from international financial institutions that had been among the main advocates of pension privatisation in the 1990s, and neither the business organisations nor private pension funds attempted to openly challenge the government's decision. Some experts expressed concern about the "nationalisation" of pension assets and pointed to potential negative outcomes of this decision such as the violation of the rights of depositors, the lack of competition, the ineffectiveness of public administration, and the loss of approximately 12,000 - 20,000 jobs in private pension sectors. Among other negative results of this reform, the expansion of corrupt transactions, the monopolisation of the market, and the deterioration of market conditions for investors were identified. It was suggested that the reform could adversely affect the profitability of pension savings and competition in the securities market (Savchenko, 2013). So, for example, the investment bank *Visor Capital* argued that as a result of the 2013 pension reform, international investors would lack confidence in Kazakhstan's capital market, which would negatively affect the economy ("Visor Capital" JSC team, 2013). Other observers pointed out that the nationalisation of pension funds raised the risk that the fund's investment strategy would be decided by political priorities, rather than a balanced assessment of risks and likely financial returns (*The Economist: Intelligence Unit*, 15 August 2013). By and large, these attempts by different international and local experts to protect the private management system were not expressed collectively, and they seemed to have avoided further confrontation with the government on this issue.

Overall, the relative ease with which the controversial bill that ordered the nationalisation of all pension funds was passed in Parliament demonstrated not only the problem with the quality of Kazakhstan's political institutions, but also the growing dissatisfaction with the performance of the private pension system established since 1998. The official statements made by the key political actors showed that there was widespread discontent about how private pension funds had performed. Legislators supporting the nationalisation bill emphasised the poor performance of the private pension funds, low profitability of their investments, high administrative fees and misuse of the pension assets by the administrators of the pension funds. And even the critics of the new bill spoke not of preserving the private pension system, but rather criticised the manner and approach to pension reform. They were concerned about the possible negative outcomes of the state monopolisation of pension funds, as well as the hasty manner in which the bill was passed and implemented.

In summary, after 2013 the Kazakhstani pension system underwent profound changes that made the ENPF the only organisation responsible for the administration of pension funds and introduced a gradual retirement age hike for women starting from 2018. The reform institutionalised a three-pillar pension system comprised of basic plus solidarity, mandatory, and voluntary levels. In 2013 no changes to the basic social pension were made, with the government providing it to all individuals who have reached retirement age. Both – the basic social pension and the solidarity pension – were financed from the state budget. At the same time, changes affected the mandatory accumulative pension system that was financed with a fixed 10 per cent of the mandatory pension deductions from the worker's income. As part of the reform process, the government introduced additional 5 per cent contributions to be paid by the employers of workers employed in difficult and dangerous occupations (Ministry of Healthcare and Social Development of the Republic of Kazakhstan, 2012). To prevent some possible dissatisfaction and to compensate the employers for the losses incurred as a result of these additional payments, the government promised tax deductions. It also urged employers to improve working conditions for their employees, as this would allow them to obtain certificates confirming safe working conditions, and hence stop paying occupational pension contributions for its workers (Telemtayev and Adjivefayev, 2014).

The reform process was swift, top-down and involved no real policy dialogue, with the government (as a policy designer and decision-making center) presiding over the process of policy formulation. The reform was presented as an urgent matter, although many critics called for a more detailed analysis of the problem, including such aspects as the importance of the basic pension payment and the solidarity component, the changes in the demographic and labour market situation, as well as the problems faced by the private pension funds and the obstacles to the development of the capital market. In regard to women's retirement age, no meaningful civil society consultations were organised, which meant the reform was met with resentment and hostility by women who formed protest groups and demanded public discussion of the law and its possible consequences. In the end their actions resulted in the modification of the law and the postponement of the increase of women's retirement age until 2018. Public discussions of the reform also pointed to several structural problems that had to be tackled congruently with raising women's retirement age, such as a greater emphasis on women's health and the prevention of chronic diseases, the development of retraining programs targeting specifically an elderly female population, improving the labour market conditions with more entry points for elderly women and youth, and introducing important changes to the Kazakhstani pre-school education system. By and large, the reform process revealed several structural and processual deficiencies that threatened to undermine the effectiveness of the implemented policy changes.

Two years after the implementation of the 2013 pension reform, the government announced additional changes to the pension system. In particular, by 2018 the government plans to link the size of the basic pension payment to the length of service/employment and introduce the so-called quasi-funded pillar, in which each participant will have an individual retirement account (in addition to the already existing accumulative account) and to which employers will make contributions in the amount of 5 per cent of the employee's income. This pension payment will be available to all citizens with work experience of no less than five years (Atabaev, 2014; *Zakon.kz*, 14 May 2014; *Khabar.kz*, 17 February 2015). Participants with at least 10 years of contributions will be entitled to 50 per cent of the subsistence minimum, and then, for every year worked, this figure will be increased by 2 per cent. With 20 and 35 years of pension contribution, 70 and 100 per cent of the minimum subsistence level will be paid, respectively. It is envisioned that the new quasi-funded pillar will support both the cumulative and the solidarity principles. The accumulation principle will be represented by everyone getting a second account for additional regular contributions to be transferred to. The solidarity principle is reflected in the subsequent pension bonus being a lifelong one, unlike the funds that come from the cumulative system, where the pension is allocated until the funds are exhausted (Urazova, 2014).

The proposed changes suggest that from 2018 onward the sources of pension benefits will be: the budget, the employers, and the contributions of the workers themselves. The ministry promised that the new method will increase the average pension by 10 to 20 thousand tenge. But this is true only for those who have held official jobs for a fair number of years, whereas those who have no or few qualifying years are not going to get any increase from the reform. Given the weakly developed labour market, and the number of self-employed people without individual pension accounts (according to the Agency of Statistics, in 2014 there were about 2.6 million self-employed workers in Kazakhstan), a risk remains that some workers will be gravely affected by these changes. Also, as some keen observers of the Kazakhstani government's recent pension innovations noted, the introduction of the notional pension accounts may boost the shadow economy. According to the senior analyst of the Agency for ROI Analysis, Yerlen Badykhan: "To meet the new requirements employers will have to either proportionately cut the incomes of their workers, so as to avoid cost overruns or start practicing so-called 'gray wages'" (Urazova, 2014). And given the deeply entrenched practices of tax evasion in many post-Soviet countries and the general skepticism on the part of many Kazakhstanis about their pension system in general, this concern should be taken seriously. For many people, the need to receive the money here and now will certainly outweigh the risks of a low pension in the future (Atabaev, 2014). In conclusion, the proposed changes to the basic social pension once again indicate the prioritisation of economic goals over issues of social justice and pension rights.

Kazakhstan's pension system at the crossroads

It should be emphasised that the problems affecting the operation of the Kazakhstani private pension system, including the weakly developed rule of law, underdeveloped financial and labour markets, the poor diversification of investment portfolios, issues with the transparency of private pension funds, the depositors' limited control of their pension funds, high administrative fees and reports of misuse of pension funds, as well as the low coverage of the population, especially women, were not unique and demanded some correction from policy-makers.

To some degree, Kazakhstan's new development strategy known as *Kazakhstan-2050* has attempted to address some of these problems with programs targeting poverty, social imbalances in the regions, and labour market conditions (Nazarbayev, 2012, 2014). The government promised to pay greater attention to infrastructure development, the management of natural resources, industrialisation, the modernisation of the agricultural sector, and support of entrepreneurship. Further investments in Kazakhstan's education, research, and training and retraining systems were also announced. The strategy also demonstrated an understanding that goals such as solving social problems and addressing the needs of the young and the old were closely related and had to be tackled at the same time.

In this context, the introduction of the basic social pension in 2005 considerably improved the living standards of many Kazakhstani pensioners, whereas the 2013 pension reform contributed to a slight increase in the number of account holders and noticeable improvements in the quality of the ENPF's customer services, as well as greater transparency and accountability of the ENPF to its contributors (*Kursiv.kz,* 2013; National Bank of the Republic of Kazakhstan, 2015a; Association of Financiers of Kazakhstan, 2015a). The reform also helped reduce commission fees and operational costs by almost half (*Kursiv.kz*, 2013; Association of Financiers of Kazakhstan, 2015a).

Still, several problems remained. The investment portfolio of the new pension system has stayed the same, with most pension funds invested in low-risk government securities. For example, in 2015, the major share of the total investment portfolio of the ENPF was composed of government securities and corporate securities issuers of the Republic of Kazakhstan: 44.1 per cent and 39.1 per cent, respectively, whereas the volume of investments in bonds of foreign issuers amounted to only 6.4 per cent. No doubt, the issue of ENPF transparency is one of the most important from the perspective of pension contributors, especially in the context of global financial market volatility dramatically affecting the Kazakhstani economy. This is well understood by the government and the ENPF management that reports regularly on the performance of the Kazakhstani pension system (Association of Financiers of Kazakhstan, 2015b). At the same time, the nationalisation of pension funds has not resulted in profitable long-term ventures and investments that would benefit pensioners and the country. In November 2015, in an attempt to boost the fund's profitability but also stimulate the economy, the President signalled another dramatic change and announced his decision to transfer the management of pension fund into private Kazakhstani and foreign hands (Rakhzhanov, 2016).

In regard to citizen involvement in the decision-making process, there was no real policy dialogue during the initial stage of the 2013 pension reform, as well as the formulation of the 2015 changes to basic pension payment. The government failed to consult the public, and especially women. In reality, the government was the only stakeholder acting as a policy designer and decision-making center, whereas all other stakeholders, including Parliament and civil society groups, did not participate equally in the process and thus had no chance of influencing the policy agenda during the initial stages of policy development. Instead of building genuine dialogue with the public, the government limited itself to communicating the reform through public information/education campaigns, which failed to build public support for the reform and instead resulted in numerous protests against the reform. And even though the protests did indeed lead to the intervention of the president and a shift in the government position on some aspects of the pension reform, they did not fundamentally change the government approach to dealing with sensitive policy issues and they also undermined the public trust in government and its actions.

Low pension coverage is another issue of concern. According to various accounts, more than 30 per cent of the population are still not covered by the funded pension system. This especially concerns women, who are more likely to be engaged in the farming industry or in cleaning and housekeeping services. In fact, the situation of many formally employed workers is no better, as their monthly income is so low that their pension contributions are minimal, significantly complicating their current living situation, and also not contributing in any meaningful way to the pension fund. Not surprisingly, this problem again concerns women who usually have lower salaries and are more likely to be employed in agriculture, education, healthcare, and other lower-paid sectors of the economy (Agency of Statistics of the Republic of Kazakhstan, 2015a). High levels of unofficial employment in the population suggest significant problems in the structure of the Kazakhstani economy, including the slow growth of jobs in the formal sector and high rates of growth in the informal sector. It could also mean that the country lacks noticeable developments in manufacturing, and has instead a large agricultural sector, where self-employment is widespread (Yessenova, 2014).

With this in mind, the Kazakhstani government should be concerned with the very high percentage of workers with incomplete histories, primarily women, and informal workers who may have incomplete histories of employment, as well as workers who are self-employed or working in informal sectors. As a result, there is a risk of elderly poverty increasing. Moreover, in the context of the difficult economic situation that is currently being experienced by Kazakhstan, it is expected that the number of unemployed, as well as the number of employees moving from the formal to informal economy will rapidly increase.

To address the weaknesses of the existing pension system, the Kazakhstani government needs to continue the complex transformation of the country’s social and economic structures, while also paying attention to issues of social justice and adequate social security provision. Given the various nuances of the Kazakhstani situation, but also taking into account the experience of other countries that reformed their private fully-funded contributory pension systems, the government of Kazakhstan needs to proceed by establishing a social dialogue with all interested parties, and building a multi-pillar pension system, with transparent mandatory pillars, a bigger role for voluntary savings, and a basic solidarity pension pillar.

The government needs to better and more actively engage with civil society and work on developing social consensus around controversial policy issues before embarking on a radical reform process. It is equally important that the Ministry of Healthcare and Social Development and the ENPF start educating workers both about what they have accumulated over time and what they can expect to have at retirement, as well as how to think about the financial choices they can make in the future. This information campaign should also reach informal workers from all regions in order to educate them about the advantages of a voluntary pension system and encourage them to make voluntary contributions. Workers need to know that they can have voluntary savings. The government should not be relieved of the responsibility for voluntary pensions, thinking that voluntary pensions should be organised by the private sector. A voluntary contribution system, which currently hardly exists in Kazakhstan, depends critically on the government's capacity to provide incentives for the private funds to manage voluntary pension assets. In the Kazakhstani economy with the vast numbers of workers in the informal sector with no experience of making such financial decisions, it is critical to provide education on the implications of different choices.

The problem of informal workers is a complex one that requires clarification of the status of unemployed and self-employed people, a diversification of the economy to ensure the faster growth of jobs in the formal sector, especially in rural areas, and better law enforcement. In regard to the first pillar, the government should recognise that the right to decent old-age security is one of the basic social rights for all workers, including the ones in the informal sector. In this respect, the 2005 government decision to introduce the basic pension payment was justified on the grounds that it addressed the issues of social justice and improved the living standards of many Kazakhstani pensioners. In a similar vein, the recent government decision to introduce the notional individual accounts and link the size of the basic pension payment to the length of service/employment raises some concern as to whether those citizens who were employed unofficially and/or have none or few qualifying years will be eligible to receive the basic pension payment. In other words, a risk remains that some workers will be gravely affected by these changes. Given the problems facing the Kazakhstani economy and labour market, it is recommended that the government elaborate a more nuanced basic pension payment that not only takes into account the employment record but also provides pension protection to socially vulnerable groups, such as women.

Further, solving the problem of adequate pension levels for women will require more than just aligning the retirement age of women with that of men. The government needs to address the issue of gender inequality from multiple perspectives by reducing the salary gap between men and women, providing more opportunities for participating in the labour market and in career development for women by adopting new social policies (e.g., financial stimulation of paternity leaves, improving child care facilities, introducing flexible working hours and working from home for women with little children, etc.). These changes require a significant cultural shift in Kazakhstani society, which needs to be supported by systematic, cross-sectoral, and government-public collaboration.

Finally, the government should avoid frequent re-shuffling of the pension system and concentrate on the analysis of the weaknesses of the current system and improving performance of the ENPF, and its profitability, investment plan and customer relations. Management of the pension system requires effective coordination between central, regional and local levels of government, National Bank, Ministry of Healthcare and Social Development and ENPF, since all of these institutions have a role in supporting the elderly. Mandatory pensions managed by the government require significant public-sector capacity. The ENPF and the Ministry for Healthcare and Social Development must be able to collect contributions effectively, to maintain records over the years for workers who will be mobile both geographically and across organizations, to make actuarial calculations to adjust benefit levels for the age at which they start, and to pay pensions in an accurate and timely way. There is a need for adequate auditing and supervision for pension fund portfolio management, which is even more important in the context of a transitional country which lacks transparency and public accountability.

Conclusion

The transformation of the Kazakhstani pension system is a continuing process. It started in the mid-1990s with the radical overhaul of the old Soviet pension system to the one based on a fully-funded, privately managed pension system with individual accounts and defined contributions. However, various factors including weakly developed and enforced rule of law, underdeveloped financial and labour markets, problems with the modernisation and diversification of the economy, changing demographics, low levels of education and information about the advantages of private pension systems, and deeply entrenched gender differences affecting the job prospects, employment and average salary of the female population undermined the effectiveness of the Kazakhstani private pension system, thereby affecting the level, breadth and scope of old-age pension protection. The experience with the implementation of private pension systems in the development and transitional context reinforced the importance of publicly funded pension systems that are offering at least some basic level of old-age social protection to everyone regardless of their skills, professional occupation and employment record.

The 2005, 2013 and the most recent 2015 pension reforms in Kazakhstan sent the message that the government was not satisfied with the performance of its fully-funded pension system, and was willing to experiment with its pension system. However, the challenges and the potential shortcomings of the new policy changes suggest that the Kazakhstani government needs to focus on building a multi-pillar pension system that offers its citizens an opportunity to rely on both publicly and privately funded pillars in tandem with other economic and social reforms.

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