

ASIAN DEVELOPMENT BANK

PCR: KAZ 31091

PROGRAM COMPLETION REPORT

ON THE

**PENSION REFORM PROGRAM
(Loan 1589-KAZ)**

IN THE

REPUBLIC OF KAZAKHSTAN

September 2000

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BASIC DATA

A. Loan Identification

| | | |
|----|------------------|------------------------|
| 1. | Country | Kazakhstan |
| 2. | Loan Number | 1589-KAZ |
| 3. | Program Title | Pension Reform Program |
| 4. | Borrower | Republic of Kazakhstan |
| 5. | Executing Agency | Ministry of Finance |
| 6. | Amount of Loan | \$100 million |
| 7. | PCR Number | PCR: KAZ 574 |

B. Loan Data

| | | |
|----|--------------------------------|------------------|
| 1. | Appraisal | |
| - | Date Started | 11 August 1997 |
| - | Date Completed | 29 August 1997 |
| 2. | Loan Negotiations | |
| - | Date Started | 3 November 1997 |
| - | Date Completed | 7 November 1997 |
| 3. | Date of Board Approval | 15 December 1997 |
| 4. | Date of Loan Agreement | 3 February 1998 |
| 5. | Date of Loan Effectiveness | |
| - | In Loan Agreement | 23 March 1998 |
| - | Actual | 23 March 1998 |
| - | Number of Extensions | none |
| 6. | Closing Date | |
| - | In Loan Agreement | 30 June 1999 |
| - | Actual | 30 June 1999 |
| - | Number of Extensions | none |
| 7. | Terms of Loan | |
| - | Interest Rate | variable |
| - | Maturity (number of years) | 15 years |
| - | Grace Period (number of years) | 3 |

8. Disbursements

a. Dates

| Initial Disbursement | Final Disbursement | Time Interval |
|-----------------------------|------------------------------|----------------------|
| 31 March 1998 | 28 December 1998 | 9 months |
| Effective Date | Original Closing Date | Time Interval |
| 23 March 1998 | 30 June 1999 | 15 months |

C. Data on Bank Missions

| Name of Mission | Date | No. of Persons | No. of Person- days | Specialization of Members |
|---|-------------------|----------------|---------------------|---|
| Reconnaissance | 10-20 Mar 1997 | 1 | 10 | Project Economist |
| Fact-Finding ^a | 19 May-7 Jun 1997 | 5 | 75 | Sr. Programs Officer Financial Analyst Young Professional Financial Analyst |
| Appraisal ^b | 11-29 Aug 1997 | 10 | 139 | Sr. Programs Officer Sr. Economist Sr. Operations & Administrative Officer-VPE Counsel Project Economist (2) Young Professional |
| Project Specific Contact/Consultation ^c | 21 Feb-2 Mar 1998 | 2 | 24 | Manager, PE3 Sr. Programs Officer |
| Inception and Review Mission 1 ^d | 27 Apr-2 May 1998 | 1 | 7 | Financial Sector Economist |
| Review Mission 2 | 26 Oct-4 Nov 1998 | 1 | 16 | Financial Sector Economist |
| Program Completion Review | 20-31 Mar 2000 | 1 | 11 | Financial Sector Economist |

^a Assisted by consultants engaged under TA 2780-KAZ: *Pension Reform*, for \$120,000, approved on 16 April 1997.

^b Assisted by two consultants engaged under TA 2780 and TA 2829-KAZ: *Enhancing Pension Management and Information System*, for \$100,000, approved on 23 July 1997.

^c Assisted by the Kazakhstan Resident Mission.

^d Assisted by the Mission Leader of the Country Programming Mission to Kazakhstan.

CURRENCY EQUIVALENTS

| | Currency Unit | — | Tenge (T) |
|--------|---------------------|----------|------------------------------|
| | At Appraisal | | At Project Completion |
| | 11 August 1997 | | 31 March 2000 |
| T1.00 | = | \$0.0132 | \$0.007048 |
| \$1.00 | = | T75.50 | T141.89 |

The exchange rate for the tenge is determined at regular auctions for foreign exchange conducted by the National Bank of Kazakhstan. In this report, the rate of \$1.00 = T142.52, the rate prevailing during the Project Completion Review Mission, is used.

ABBREVIATIONS

| | | |
|--------|---|--|
| ADB | — | Asian Development Bank |
| CRAAPF | — | Committee for the Regulation of Activity of Accumulation Pension Funds |
| GDP | — | gross domestic product |
| KSE | — | Kazakhstan Stock Exchange |
| MIS | — | Management information system |
| MOF | — | Ministry of Finance |
| MLSP | — | Ministry of Labor and Social Protection |
| NBK | — | National Bank of Kazakhstan |
| NPA | — | National Pension Agency |
| NSC | — | National Securities Commission |
| PAYG | — | pay-as-you-go |
| PRAL | — | Pension Reform Adjustment Loan |
| SAF | — | State Accumulation Fund |
| SIC | — | social identification code |
| SPPC | — | State Pension Payment Center |
| TA | — | Technical assistance |
| USAID | — | United States Agency for International Development |

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

I. PROGRAM DESCRIPTION

1. On 15 December 1997, the Asian Development Bank (ADB) approved the Pension Reform Program loan for \$100 million from its ordinary capital resources to the Government of Kazakhstan. The objective of the Program was to support the transition from a pay-as-you-go (PAYG) system to a fully funded, defined-contribution pension system that would be financially sustainable.¹ The Program aimed to provide effective long-term social protection to the working population, while promoting savings, minimizing distortions in the labor market, and facilitating capital market development.

2. The PAYG system was part of a larger system of benefits and entitlements designed to provide basic social protection to old-age citizens during the Soviet period. The system was funded by mandatory contributions to the pension fund from employers, amounting to 25.5 percent of the wage bill. Employees made no contributions.² With the collapse of the Soviet Union and the economic disruption that followed during the early 1990s, Government finances rapidly deteriorated. By the end of 1996, the Government could not support the pension system. In response, with the assistance of aid agencies the Government designed a new pension system that came into effect in January 1998. The system is based on three pillars. The first is a residual PAYG system funded by a 15 percent payroll tax paid by employers. The second is a mandatory, defined-contribution scheme financed by employees' contributions of 10 percent of the wage. The funds are accumulated in individual accounts maintained either with the State Accumulation Fund (SAF) or privately managed pension funds for investments. The third pillar is a privately managed voluntary scheme for individuals who want to augment their pension benefits. Individual social identification codes (SICs) assigned to each employee facilitate record keeping and eventual payment of pensions. Asset management companies invest the funds in various securities subject to guidelines set by regulatory authorities. Thereby, the increased savings promote capital market development.

3. To complement its policy-based lending operation, ADB provided three technical assistance (TA) grants to the Government to (i) strengthen the administrative capabilities of regulatory agencies;³ (ii) provide training for asset managers, actuaries, and insurance industry personnel;⁴ and (iii) improve public information and education to support pension reform.⁵ In June 1998, the World Bank approved the Pension Reform Adjustment loan (PRAL), for \$300 million, and a TA loan of \$17 million to support PRAL implementation. The conditions and activities under the PRAL and the associated TA complemented and carried forward the pension reforms initiated under ADB's Program.

4. This program completion report (PCR) provides an overview and evaluation of the Program.

¹ The term fully funded refers to the new accumulation system. Until the PAYG system is phased out in 2028, the two systems will operate in parallel and thus the pension system at large will be partially funded.

² Under the PAYG, workers were entitled to a basic monthly pension equal to 60 percent of final salary if they had worked at least 25 years for men or 20 years for women. A length of service component amounting to 1 percent of average salary for each year of service over 25 years for men, or 20 years for women. Additional pensions were provided under special circumstances such as dependents, military service and public service.

³ TA 2910-KAZ: *Capacity Building for Pension Reform*, for \$1 million, approved on 12 November 1997.

⁴ TA 2945-KAZ: *Financial Sector Capacity Building to Support Pension Reform*, for \$680,000, approved on 15 December 1997.

⁵ TA 3082-KAZ: *Public Information and Education in Support of Pension Reform*, for \$840,000, approved on 1 October 1998.

II. EVALUATION OF IMPLEMENTATION

A. Program Components

5. The Program constituted the first phase of a process aimed at creating a financially sustainable and credible pension system by supporting the transition from a PAYG system to a fully funded, defined-contribution pension system. The pension reform under the Program focused on (i) creating an enabling legal, regulatory, and institutional framework; (ii) raising public awareness of the new pension system to ensure wider participation and compliance; (iii) enhancing administration and management capacity of agencies involved in the pension system; (iv) ensuring financial sustainability, including the establishment of a sound fiscal basis for the pension system and development of key investment instruments and market institutions in its support; and (v) ensuring social sustainability, including adequacy of pension payments, and assessment of the distributional impact of the pension system. The details of each policy action and status of compliance, as of April 2000, are reflected in Appendix 1.

1. Create a Legal, Regulatory, and Institutional Framework

6. To provide an adequate regulatory and institutional framework for the new pension system, the Law on Pension Provisions was enacted by Parliament in July 1997. Subsequently, guidelines and standards on license fees, commission structures, reporting and disclosure requirements, accounting and auditing, minimum capital requirements, and prudential norms were formulated and adopted by the regulatory agencies. Model pension contracts and custodial agreements were developed and are in use by the SAF and the private pension funds. Background work on guidelines, and model agreements and contracts was supported by ADB TA, World Bank, United States Agency for International Development (USAID), and other aid agencies.

7. Investment guidelines for the pension funds were issued in 1997, and were revised in 1999. Under these guidelines, pension funds should invest at least 50 percent of their portfolio in Government securities, and no more than 30 percent in corporate securities of companies with Class A listing on the Kazakhstan Stock Exchange (KSE), no more than 10 percent in securities issued by international financial institutions, and no more than 5 percent in local government bonds. There is also a 40 percent limit on bank deposits, a 5 percent limit on the amount that can be invested in any one company and a 5 percent limit on foreign securities, which must be bonds rated "AA" or higher.

8. Several new institutions were established under the Program, while others were charged with new responsibilities. The State Pension Payment Center (SPPC) is responsible for pension and allowance payments, maintaining the database for the new personal pension accounts, and assigning SICs to citizens. The Committee for the Regulation of Activity of Accumulation Pension Funds (CRAAPF)⁶ under the Ministry of Labor and Social Protection (MLSP) regulates and supervises the activities of pension funds. Sixteen pension funds, including the SAF and 15 privately owned and operated funds have been set up. Seven new asset management companies, which manage pension funds, have been established; and six commercial banks are currently operating as custodians of the assets. The National Commission on Securities (NSC) is charged with licensing, regulating, and supervising asset management companies. The National Bank of Kazakhstan (NBK) regulates and supervises custodian banks. The Government is reviewing several aspects of the institutional structure. Plans are being

⁶ The committee was first named the National Pension Agency (NPA).

developed to sell a minority stake in the SAF as soon as its share of total assets falls below 30 percent from the current level of about 50 percent. The Government is also preparing legislation to end the arrangement under which workers are automatically assigned to the SAF if they do not register a preference for another pension fund. Under the new legislation, all workers would be required to choose a fund and enter into a contract with that fund as a condition of employment. As part of this reform, the SAF is now negotiating contracts with all workers who are still affiliated with it. As of March 2000, the SAF had such agreements with almost 0.9 million of its 1.7 million contributors, while private pension funds had agreements with all of their 1.35 million contributors. Legislation is being prepared to allow pension funds to become their own asset managers, provided they can meet all the requirements now set for asset management companies. This would bring the structure of the pension fund industry in Kazakhstan closer to the structure found in other countries, such as Poland, which have undertaken similar reforms.

9. Along with this change, the Government is considering consolidating the responsibilities of the three separate regulatory authorities under the NSC. The current regulatory structure does not draw a clear distinction between the role of pension funds and the role of asset managers in developing investment policies. Since different bodies currently regulate the two institutions, ambiguity in their relative roles can easily lead to conflict of interest, overlap, and duplication in regulation. If pension funds are allowed to assume the additional role of asset management, the merger of regulatory responsibilities would be even more important.

2. Increase Public Awareness of Pension Reform

10. To inform enterprises and the population about the new pension system, a public information campaign was undertaken. In 1997, MLSP set up a special information unit to educate the public about pension reform. With USAID assistance, the Government undertook a public information campaign that included distribution of pamphlets and brochures providing details of the new pension scheme, and the contribution and enrollment procedures for enterprises.

11. The public information and education program gained momentum with the implementation of ADB's TA (footnote 3), which focused on the (i) design of a comprehensive public information campaign, (ii) training and education for all market participants, and (iii) support for implementation of the campaign, including production of related materials. Two national surveys conducted in April and November 1999, showed that overall survey respondents were better informed about the pension system than they were at the beginning of the TA, with 45 percent reporting they received enough information. The number of articles published on pension reform issues increased significantly immediately after the TA began. Mass media became rather unbiased, factual, and often supportive of the reform. The number of problems regarding SIC issuance and record keeping decreased following TA implementation.

3. Enhance the Administration and Management Capacity of the Pension System

12. In line with the Program, the Government established a management information system (MIS) that regularly compiles operational and financial statistics of the SAF and private pension funds on their investment activities. Performance reports are produced quarterly, semiannually, and annually. ADB TAs (footnotes 1 and 2) helped the key regulatory agencies, namely, the CRAAPF, NSC, and NBK's Insurance Supervision Department (i) strengthen regulatory and

supervision capabilities to set up an MIS, and (ii) train asset managers and insurance industry personnel. This assistance was closely coordinated with ongoing MIS assistance from USAID.

13. In addition to ADB TAs, assistance from other aid agencies was provided to build capacity and train officials of relevant institutions: (i) the PRAL provided capacity building for SPPC and MLSP; (ii) the USAID TA provided legal expertise in actuarial and tax compliance areas; and (iii) other bilateral assistance agencies provided TA including Japanese Government funding of a study tour to Chile of key Government officials from MLSP, SPPC, NPA, and SAF in September 1998.

14. SPPC met its goal of registering all formal sector workers by mid-1999. It is now working on registering those already receiving pensions, and plans to have this accomplished by the end of September 2000. By the end of February 2000, 3.5 million people were registered and assigned SIC numbers, and the number of contributors to the accumulation system grew to 3.1 million, or 0.4 million less than the number of SICs assigned. Part of the difference may be explained by people who lost their jobs or moved to the informal sector after receiving their SICs. Duplicate numbers also account for part of the difference. It is estimated that contributions totaling as much as T2 billion may still await allocation to their proper accounts at the SAF.

15. MLSP, the Tax Inspectorate, and the Ministry of Internal Affairs are now developing a joint initiative under which all three agencies will use the SIC as the sole identification code. This should help improve enforcement of tax and pension contribution rules, and streamline Government data collection and management efforts. When this initiative is implemented, the rest of the population, mainly children and workers in the informal sector, will be registered. Eventually, SIC codes will probably be assigned at birth.

16. The record of current pensioners has been computerized in each of the local offices, and SPPC is now in the process of constructing a central pensioner database in Almaty. When completed in the second half of 2000, the central database will provide a more effective mechanism for tracking beneficiaries and will allow SPPC to pay pensions electronically through the banking system if the pensioner so chooses. This will speed the delivery of pension payments.

4. Ensure Financial Sustainability of the Pension System

17. The Program envisaged a number of measures to ensure continued payments of PAYG obligations. The 15 percent payroll tax for pensions will, together with budget transfers, fund public pension liabilities accrued under the PAYG system. Although arrears were cleared in 1997 at the beginning of the reform, they recurred in 1999 due to a tight fiscal situation following adverse economic developments in 1998 and early 1999. Kazakhstan was affected by the financial crises in Asia and the Russian Federation; the dollar value of exports declined by 16 percent due to falling oil prices, and gross agricultural production fell by almost 20 percent. This led to a 1.9 percent contraction of gross domestic product (GDP) in 1998. The Government used the proceeds of the second tranche release of \$100 million from the PRAL to settle all outstanding pension arrears and made adequate provision (T110 billion) in the 2000 budget for pension payments.

18. Economic slowdown translated into revenue shortfalls in the national budget. After many debates, the Government decided to increase the social tax by 5 percent in 1999. Additional revenues raised from this helped close the budget deficit. Spending was also cut below previously planned levels.

19. Although it may have some unfavorable effects, the increase in the social tax has the advantage of introducing some degree of tax financing of the transition costs involved in pension reform (Appendix 2). When a country finances all of the transition costs involved in phasing out a PAYG system by issuing additional Government debt, it runs the risk of experiencing an increase in debt service costs that offset the savings from reduced pension payments. Using higher taxes to finance a portion of the transition cost increases the probability that savings in future pension payments will translate into reductions in future Government spending.

20. Since 1996, the Government has issued dollar-denominated, 3- to 5-year Eurobonds on four separate occasions and is planning to issue a 7-year Eurobond in 2000. Past issues have included a \$130 million issue in December 1996 for 3 years, a \$350 million issue in September 1997 for 5 years, a \$300 million issue in September 1999 for 5 years, and a \$300 million issue in September-November 1999 with a 5-year maturity. The issue planned for this year would be \$250 to \$300 million, with a 7-year maturity. The ability of the Government to raise funds on international capital markets is a sign of international confidence in the long-run fiscal health of Kazakhstan's economy. These offerings have provided pension funds with attractive investment vehicles.

21. The Government has been less successful in issuing longer term domestic debt, except for 5-year, dollar-denominated bonds on one occasion. These bonds were given to pension funds that held tenge-denominated bonds at the time of the sharp devaluation of the tenge in April 1999. They were to compensate the funds for the loss of value of the tenge bonds. In March 2000, the SAF held T28.9 billion in these bonds, and the private pension funds held a total of T1.5 billion.

22. NBK is taking the necessary steps to develop the insurance industry. First, it is developing a legislative framework for the life insurance industry. The draft legislation was submitted to the Government for possible enactment by the end of 2000. Second, it is drafting accounting rules in line with international standards for the industry. Third, it is developing a professional training program for actuaries and a more permanent training arrangement to assure a steady supply of trained actuaries to the insurance industry.

23. Currently, foreign participation in the insurance industry is limited to 25 percent of the authorized paid-up capital of the industry. The legislation now being formulated will allow any one concern to own up to 25 percent of the domestic insurer, and allow foreign concerns together to own up to 50 percent of a local insurance company. Currently, foreign capital accounts for only about 14 percent of the industry total.

24. Development of the insurance industry is important for several aspects of pension reform. These include reform of survivor and disability benefits, and the development of policies to support the role of annuities in the draw down of accumulated balances.

5. Ensure Social Sustainability

25. The Program emphasized the need to protect pension entitlements of existing pensioners and those with accumulated pensionable service in the former system, while phasing in the fully funded, defined-contribution system. As part of pension reform, pensioners with full years of service are eligible to receive a minimum pension if their combined public and accumulation plan pensions fall below a minimum consumption basket.

26. The Government has raised minimum pension payments for persons reaching retirement age: at least 25 years of service for men and 20 years of service for women. As of February 2000, this minimum pension was set at T3,500 a month, which is 32 percent of the average male wage in Kazakhstan and 90 percent of the minimum subsistence standard. Under the current law, the minimum is to be adjusted annually to reflect changes in consumer prices. However, it is necessary to examine the likely impact of the minimum pension in the context of the projected distribution of benefits under the new system. The minimum pension may become a fiscal burden if a substantial number of workers find that the minimum is more than they would otherwise receive under the new system.

B. Implementation Arrangements

27. The Ministry of Finance (MOF) was the Executing Agency for the Program. It had overall responsibility for the effective administration and disbursement of loan proceeds and the proper maintenance of records. MLSP, NBK, and NSC were the Implementing Agencies. A steering committee was established to oversee program implementation, chaired by the first deputy prime minister and comprising representatives from MOF, MLSP, NBK, and NSC.

C. Program Schedule

28. The program loan was approved on 15 December 1997 for \$100 million and the loan became effective 23 March 1998. The first tranche of \$50 million was released on 31 March 1998 based on import documentation submitted to ADB. The second tranche of \$50 million was disbursed in December 1998 after fulfillment of all the conditions for the release of the second tranche.

D. Conditions and Covenants

29. The loan comprised 41 policy conditions: 18 for loan effectiveness and first tranche release, 7 conditions for the second tranche release, and 16 actions to be taken during the program period. Appendix 1 summarizes the status of compliance with these policy measures.

30. By December 1998, the authorities had substantively complied with all 7 conditions necessary for the release of the second tranche. Another 6 actions that needed to be taken prior to the release of the second tranche had been complied with as well. In addition to these, there were 10 end-of-program conditions scheduled for June 1999 to June 2000, of which 5 have been complied with. Compliance is under way for 5 conditions; these should be completed by the end of 2000.

E. Disbursements

31. Proceeds of the loan were withdrawn in accordance with ADB's standard disbursement procedures. Goods procured under the loan were those on the list of eligible items agreed upon during appraisal (Appendix 3). Release of the loan's second tranche followed ADB's *Simplification of Disbursement Procedures and Related Requirements for Program Loans* that took effect on 23 March 1998.

F. Environmental Impact

32. The Program was classified as Environment Category C, and has no direct environmental impact.

G. Performance of the Borrower and the Executing Agency

33. MOF adequately served its role as the Executing Agency. In addition, MLSP along with NSC and NBK coordinated program implementation effectively. Although there were frequent shifts in ministerial responsibilities during program implementation, the Government's overall high-level commitment to the reform process resulted in broad compliance with the implementation schedule. Despite the provision of Article IV, Section 4.05 (c) of the Loan Agreement between ADB and the Government, MOF did not prepare the required project completion report. Reminders were sent to the Government in December 1999 and February 2000. ADB's Project Completion Review Mission prepared this report utilizing an internal report on pension reform prepared by the Ministry of Economy and information gathered during review missions and the Mission's visit.

H. Performance of ADB

34. ADB's oversight of program implementation was good. Two review missions were fielded during the program period, in May and October 1998. The first mission was critical in identifying the impediments to the reform process, and recommended provision of additional advisory TA to support a public information campaign to develop awareness and understanding of pension reform (footnote 3). Close coordination was also undertaken with counterparts at the World Bank responsible for implementing the PRAL.

III. THE TECHNICAL ASSISTANCE

35. To complement the Program, ADB provided three TAs; one accompanying TA (footnote 2) and two stand-alone TAs (footnote 1 and 3). As these TAs form an integral part of the Program, a summary of their objectives, scope, impacts, and evaluation of their outputs is provided.

A. Capacity Building for Pension Reform

36. The objective of the TA (footnote 1) was to strengthen the Government's institutional capabilities in three areas critical to the successful introduction and implementation of a fully funded mandatory pension system based on individual pension accounts. The scope included (i) strengthening NPA's regulatory and monitoring capacity; (ii) formulating a strategy for the development of capital markets including a market for indexed Government bonds; and (iii) formulating a strategy for the development of an efficient, competitive insurance industry that is capable of providing different types of insurance products to support the needs of pensioners under the new pension system.

37. The TA was implemented successfully. Performance of the consultants, engaged for 20 person-months, was satisfactory. The TA contributed to (i) strengthening the MIS of NPA to compile accurate work history and pension contribution data; (ii) procuring state-of-the art hardware and design; and (iii) improving accounting, auditing, and reporting systems and procedures. An in-depth analysis of the capital markets and assistance in developing the necessary regulatory framework was also provided. In addition, extensive training of the

Department of Insurance Supervision staff on insurance companies' operations was undertaken, and a framework for development of the insurance industry prepared.

B. Financial Sector Capacity Building for Pension Reform

38. The objective of the TA (footnote 2) was to support the Government's pension reform program by enhancing the efficiency of private asset management and insurance companies through training to strengthen their capacity in financial management and in the development of services to support their operations. The TA had two components. First, it helped develop and strengthen asset management skills in appraising risk and return combinations, and portfolio design and management through training in Kazakhstan and internationally. Participants were drawn from the private sector and Government regulatory agencies. The second component was to develop and strengthen professional skills required to establish a modern insurance industry through in-country training for participants from the private insurance industry.

39. The consultants, engaged for 13.5 person-months, completed their assignments in a satisfactory manner. The consultants organized a series of seminars on asset management, general insurance, life insurance, and actuarial analysis, which were well attended by regulators and industry participants, and received favorable coverage in the local press. The course examinations demonstrated that high-level course content was effectively conveyed to the majority of the seminar participants. The overseas study tour to Hong Kong, China and Singapore⁷ was completed successfully. The study tour participants were able to establish contacts that should be useful from a learning perspective, and as initial steps in integrating Kazakhstan into international markets.

C. Public Information and Education in Support of Pension Reform

40. The objective of the TA (footnote 3) was to develop a comprehensive and targeted public education and information campaign to ensure effective implementation of the new pension system supported by ADB and other aid agencies.

41. The consultants, engaged for 53 person-months, performed satisfactorily. The TA contributed successfully to (i) furthering the general understanding of Kazakhstan's new pension system by the public and selected target groups, (ii) increasing compliance with the new system, (iii) reducing filing errors with the assignment of SICs, and (iv) ensuring the establishment of a sustainable information network throughout the country.

IV. EVALUATION OF INITIAL PERFORMANCE AND BENEFITS

A. Economic Performance

42. In the beginning of the transition, the Kazakh economy contracted significantly with the disruption of trade flows, cessation of budgetary transfers from Moscow, and the need to develop an economic system for the newly independent Kazakhstan. Between 1992 and 1995, the cumulative GDP contraction amounted to 31 percent. A very gradual recovery began in 1996, and was sustained in 1997. However, in 1997 the situation had become critical for the PAYG system with arrears amounting to T26 billion and another T10 billion projected to be accumulated during the year. The Government decided to eliminate arrears by raising the deficit

⁷ The study tour was conducted from 10 August to 10 September 1999.

ceiling and initiated discussions on pension reform with ADB, which led to the Program, and subsequently the PRAL.

43. The fragile economic recovery that started in 1996 was brought to an abrupt halt in 1998 due to the impact of the financial crises in Asia and the Russian Federation, falling oil prices and a severe drought. GDP contracted again in 1998 and in the first half of 1999, and as a result pension arrears accumulated again. Proceeds from the Program and PRAL were partly used to clear these arrears, while adequate provisions were made for the 2000 budget to keep payments under the PAYG system current.

44. In the second half of 1999, an economic recovery began which gained momentum in the beginning of 2000. Real GDP grew by 9.8 percent in the first half of 2000 compared to the same period in 1999. Rising oil prices, improved weather conditions, recovery in Asia, and sustained growth and strong demand in the United States and Europe have contributed to the Kazakh recovery. With expected strong GDP growth in 2000 and 2001 supported by strong external demand and high oil prices, Government finances should improve. The economic environment is also becoming more conducive to resumption of privatization and capital market development, which will provide pension funds with a wider range of investment opportunities that can generate higher returns.

B. Attainment of Benefits

1. Program Benefits

45. Prior to 1998, public pensions were provided on the basis of a PAYG scheme, with current benefits financed from current contributions. The scheme was financed with payroll contributions from employers at a rate of 25.5 percent. The system was characterized by early retirement provisions, high replacement rates,⁸ and declining old-age support ratios⁹. The combination of ineffective pension collection mechanisms coupled with overly generous benefits, declining state employment, and weak public finances led to a buildup of pension arrears. As the number of employees covered by the pension system increased, the efficiency of the collection system deteriorated further. In 1980, there were about 30 pensioners for each 100 workers. Declining state sector employment and rising pension rolls raised the ratio of pensioners to workers to 77 in 1997 and to 83 in 1998. By 1 January 1997, accumulated debt (i.e., pension payment arrears) had grown to T40 billion (\$300 million), or roughly 50 percent of the annual benefit payment liability.

46. In view of growing fiscal constraints and the difficulty of managing and financing the old pension scheme, the Government introduced pension reforms with the support of ADB and other aid agencies. First, the benefit structure was rationalized. From 1997 through 2002, the retirement age is being increased from 60 to 63 for men, and from 55 to 58 for women. Early retirement privileges were canceled. A preliminary analysis of the fiscal impact of the reform financed jointly by USAID and the World Bank found that the initial steps of pension reform—raising the retirement age and canceling early retirement privileges—would have a major impact for future pension outlays. The analysis showed that the pension reform would reduce aggregate Government spending on pensions by 5 percent of the total wage bill by 2030, and 18 percent by 2050. However, the analysis did not include the future cost of paying minimum

⁸ The replacement rate indicates to what extent the pension replaces the wage on which it is based. A high replacement rate means that the pension received is close to the wage paid.

⁹ This refers to the number of workers per pensioner. In this case, fewer workers had to support more pensioners.

pensions or the social minimum, nor could it quantify the ongoing costs of the Government to finance the transition from PAYG to the new pension system. As a second step, a new pension system based on fully funded, defined-contribution accounts was introduced for current workers. Effective 1 January 1998, workers began to contribute to the new system and ceased to accrue additional service credits under the old system.

47. Following the introduction of the new scheme, financial distress of current pensioners has eased. Pension payments are current, although keeping them current has been a continual challenge. The Government established a more adequate minimum pension, which in early 2000 was equal to about 90 percent of minimum subsistence. Under law, this minimum is to be indexed each year to the change in consumer prices.

48. In addition to the structural change in the pension program, the reform package also included steps to improve capital markets, create needed administrative and regulatory institutions, guarantee prompt payment of current pension obligations, and ensure an adequate level and distribution of future pension entitlements. Furthermore, to finance the cost of moving to the new pension system, the Government's privatization program has been accelerated so that two thirds of the revenues expected from the privatization process are realized before the end of the decade.

49. New institutions responsible for paying current pensioners and transferring new pension contributions to pension accumulation funds have been created. All formal sector workers have been registered with the pension system. Sixteen pension funds have been created, including the SAF and 15 new, privately owned and operated funds. Seven new asset management companies actually manage pension assets, and six commercial banks are currently operating as custodians of the assets. At the end of February 2000, pension funds managed assets worth T70.4 billion (\$0.5 billion and 3.6 percent of the 1999 GDP). Half of these funds were managed by the SAF, and the other half by private pension funds. Both the SAF and private pension funds hold most of their assets in dollar-denominated Government bonds (Appendix 4).

50. SPPC has completed the automation of pension payment records in each of its local offices, and is scheduled to have a nationally integrated database of current pensioners operational in October 2000. This new database will allow centralized management of pension delivery and provide the information needed to improve projections of future program costs.

51. Progress has also been made in developing the capital markets, although the financial crises in Asia and the Russian Federation in 1997 and 1998 resulted in macroeconomic reversals and slowing of progress. The number of firms listing equities on the KSE increased over the life of the Program, meeting the target set at the time the Program was approved. Nine firms have now been classified as "Class A" firms with equities listed on the KSE (Appendix 5). Eight new issues of corporate bonds were concluded in 1999, and more are expected in 2000. The Government issued a series of five-year debt instruments to the SAF; these are now being traded locally.

2. Impact of Policy Reforms

a. Create a Legal, Regulatory, and Institutional Framework

52. The foundation for a modern pension system has been successfully laid through the Program's assistance in creating an enabling legal, regulatory, and institutional framework. The Law on Pension Provisions was enacted in 1997, and amendments to other laws to regulate

pensions and capital markets have been drafted. An elaborate supportive institutional and regulatory framework has been established to support the new pension scheme (paras. 6 to 8).

53. Fifteen new private pension funds were formed in the first two years of reform, and they are steadily increasing their share of the asset management business. In October 1998, private pension funds accounted for less than 20 percent of the assets in the new system. However, by February 2000, their share had risen to about 50 percent of total assets, and is expected to account for at least 70 percent of total assets by the end of 2001, if not sooner.

b. Increase Public Awareness of Pension Reform

54. The comprehensive and targeted public education and information campaign contributed successfully to effective implementation of the new pension system by (i) furthering the general understanding of Kazakhstan's new pension system by the public and selected target groups; (ii) increasing compliance with the new system; (iii) reducing filing errors with the assignment of the SICs; and (iv) ensuring the establishment of a sustainable information network throughout the country.

c. Enhance the Administration and Management Capacity of the Pension System

55. In line with the Program, the administrative and management capacity of the pension system has been enhanced through training, computerization, and staffing for monitoring and supervision functions. These steps have facilitated increased compliance and enrollment in the new system. Reporting mechanisms were improved to ensure adequate transparency and disclosure under the new system, and to monitor the financial stability of the various pension institutions.

d. Ensure Financial Sustainability of the Pension System

56. The Program contributed to establishing a sound basis for the pension system. In line with the Program, the Government prepared a fiscal adjustment plan to finance deficits in the pension system. Key investment instruments and market institutions in support of the new pension system were developed. Government domestic debt instruments with maturities of more than two years have been issued; a proposal for the introduction of indexed Government domestic debt instruments has been formulated; accounting rules for the insurance industry in line with international standards are being drafted, and legislation to allow greater participation by foreign insurance companies is being drafted.

57. Despite steps taken by the Government to develop domestic capital markets, growth of both the equity and debt market has been slow because of the backslide in economic performance in the last few years. Other barriers to capital market development include (i) lack of transparent accounting and governance arrangements among potential private security issuers, (ii) weaknesses of the regulatory capacity to enforce proper accounting and minority shareholder rights, and (iii) strong preference of private pension funds for Government debt denominated in dollars rather than tenge. As a result, the Government has issued most of its medium-term debt in the Eurobond market rather than in the domestic market.

e. Ensure Social Sustainability

58. With the implementation of the minimum benefit guarantee scheme together with annual indexing of the minimum pension to changes in consumer prices, social sustainability of the new system has been enhanced to a large extent. Pensioners with 25 years of service will be eligible for this minimum pension if their combined public and accumulation pension falls below a minimum consumption standard. Those who do not qualify for the minimum pension will receive old age allowances. The minimum pensions and old age allowances will be funded by budgetary transfers. Entitlements of existing pensioners and those with accumulated pensionable service in the former system have been protected as well.

59. However, a labor market information database, including data on participants in the pension system and analyses of the adequacy of replacement rates and social benefits by gender, age, and working life, has not been completed as envisaged in the Program. The Government is still working on fiscal and distributional analyses of the new pension system.

V. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

60. Pension reform was necessary in Kazakhstan to (i) deal with the structural weaknesses of the pension system inherited from the former Soviet Union and the fiscal crisis that had prevented the timely payment of pension benefits; and (ii) prepare the system for demographic change. In designing pension reform, the Government has implemented necessary changes in the PAYG system, and introduced a new system of advance-funded, individual accounts. Workers under the new system make contributions to their individual pension accounts. This sets the pension system on a more fiscally affordable track for the long term.

61. Overall, the Program is rated partly successful. Pension reform initially experienced a number of start-up difficulties because of the low level of compliance with contributions and inadequate infrastructure. The Program facilitated the transition and started the development of a financially and socially sustainable system. Major benefits of the Program include: (i) establishment of an enabling regulatory and institutional framework for the pension system, (ii) enhanced MIS and regulatory capacity of supervising authorities, (iii) increased public awareness of the new pension system, (iv) settlement of all pension arrears, and (v) adequate budgetary provision for clearing arrears. Now pension payments are current and a minimum pension guarantees full career workers a retirement income that approximates the minimum consumption standard. This minimum pension is adjusted automatically to reflect changes in price levels.

62. The Program also provided the scope for an increase in the supply of contractual savings through both the pension funds themselves and the life insurance industry that must grow in connection with the reform. When these savings are invested in efficiently functioning capital markets, they will both increase the supply of capital to the economy and assure its efficient allocation among competing uses. After only two years, pension funds managed a portfolio totaling T70.4 billion (\$0.5 million), equivalent to 3.6 percent of GDP.

63. Pension reform has also helped establish the framework for development of modern capital markets. Major initiatives undertaken by the Government include the development of the legislative framework for capital market institutions, establishment of regulatory agencies for pension reform, and development of technical expertise among market participants. Continuing

efforts will lead to further growth and development of the life insurance industry, which should become an integral part of the new pension system.

64. While the Program has successfully supported the shift from the PAYG pension system to a fully funded, defined-contribution system, five conditions that are important for the effective operationalization of the new pension system have not been fully implemented. These conditions include (i) ensuring adequate replacement rates;¹⁰ (ii) expanding the MIS to cover the entire population; (iii) developing a labor market information database; (iv) conducting distributional analysis of pension reforms; and (v) implementing the insurance strategy, including the development of insurance annuities.

B. Lessons Learned

65. Lessons to be drawn from the implementation of the Program are as follows:

- (i) The Program assumed that pension reform would be implemented as soon as the necessary legislation was enacted. However, effective implementation of pension reform requires an adequate institutional and administrative framework to improve the management, administration, and funding of the pension system, and the population's understanding. Subsequently, these problems were successfully addressed with TA support from ADB and other aid agencies, and the administrators' commitment to the new pension system.
- (ii) Shifting from a PAYG to an accumulation-based pension system has a positive effect on capital market development. In particular, there is greater incentive to quickly develop the regulatory framework needed for modern capital markets when linked closely to the future retirement security of the population.
- (iii) Additional steps need to be taken to assure that the potential for capital market growth is fully realized. In particular, efforts should continue to reduce the portion of pension assets invested in Government securities. Furthermore, the private pension fund industry needs to be consolidated; at present, it appears to have more pension fund managers than can be supported in Kazakhstan's market.
- (iv) The Government needs to move aggressively to promote the use of annuities to help draw down accumulated balances of pension. Of particular concern are such issues as (i) making annuities mandatory, (ii) indexation of annuities to ensure that payments are adjusted to inflation, and (iii) introduction of joint and survivor annuities will be required to protect aged widows and widowers.

C. Recommendations

1. Program-Related

66. **Future Monitoring.** Two years after the reform was introduced, there is still no comprehensive distributional analysis of its likely impact on the average income of future retirees or of its likely differential impact on low-wage or low-skill workers, workers suffering unusually long periods of unemployment and, in particular, women. In the division of

¹⁰ The Government estimated that a 10 percent contribution would provide a replacement rate of over 60 percent for workers with 35 years of service, which is higher than the basic pension under the PAYG system.

responsibility between ADB and the World Bank, a preliminary assessment was to be undertaken by the World Bank jointly with USAID. However, an in-depth distributional analysis is needed to understand what kind of replacement rates the new accumulation system is likely to generate for future retirees; how these rates will vary among retirement cohorts and within each cohort; and how these will vary between genders, and among persons of different earning level and labor force tenure. Preliminary results of the World Bank study suggest a replacement rate under the accumulation system of only 23 percent for women earning average female wages and just over 40 percent for men earning average male wages. Such replacement rates indicate that a majority of the women and a large percentage of the men in the labor force would qualify for the minimum pension. These results have serious implications both for the adequacy of the retirement income produced by the new system and for the fiscal burden that the minimum pension guarantee may present in the future.

67. **Further Action.** The Government has pledged to support future retirees through minimum pensions and social pensions. It now needs to examine more thoroughly the contingent liabilities that are associated with this commitment. Furthermore, the Government needs to gradually adopt a tighter fiscal stance to assure that the new resources generated by the pension accumulation system are not directed exclusively at financing additional Government debt, thus impeding effective development of capital markets.

68. **Additional Assistance.** The pension reform needs to be complemented by strengthening accounting standards and requirements, shareholder rights, and other elements of corporate governance in Kazakhstan. Generating assets that could be invested in private securities will not create a demand for the private securities market in the absence of corporate governance reforms. ADB should consider providing TA to support such reforms.

2. General

69. **Covenants.** The covenants in the loan agreement were adequate and should be maintained for this type of program loans.

70. **Program Design.** In designing pension reforms for transition economies that are shifting from a PAYG system to defined contribution system, it is critical to develop a comprehensive and integrated package of policy measures that (i) lays down the appropriate legal, regulatory and administrative framework, (ii) provides for the required MIS infrastructure, and (iii) disseminates public information on features of the new pension scheme. To effectively manage the accumulation of capital generated from contributions, the reforms should actively pursue the opening up of private funds and asset management companies. Besides managing investments, this helps the capital market development.

71. **Prudent Public Finance Management.** Effective implementation of pension reforms requires prudent management of public finance supported by additional revenues and prioritization of expenditures or raising of debt at competitive rates to fund the implicit pension liabilities of the retirees who are covered by the old system.

APPENDIXES

| Number | Title | Page | Cited on (page, para.) |
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| 5 | Class A Securities Listed on the Kazakhstan Stock Exchange | 33 | 10, 51 |

STATUS OF REFORMS

| Policy Action | Status of Compliance October 1999 | Current Status of Reforms April 2000 | Relevant Benchmark |
|--|--|---|---|
| I. Create an Enabling Legal, Regulatory, and Institutional Environment | | | |
| 1. Enact legislation for pension reform. | <i>Completed.</i> The basic legislation establishing the pension reform was enacted in July 1997. Changes in April 1999 established a maximum pension under the pay-as-you-go (PAYG) system, introduced regular indexing of all benefits under the PAYG system, and made minor technical changes covering reporting requirements for the new system. | Further changes in November 1999 restricted automatic indexing under the PAYG system to the minimum pension, and made contributions to the new system voluntary for those working past the statutory retirement age. | |
| 2. Develop detailed regulations for the State Accumulation Fund (SAF), private pension funds, asset management companies, and custodian banks, (i) to establish adequate guidelines and standards, particularly for license fees, commission structure, reporting and disclosure requirements, accounting and auditing, methods for transferring assets among funds, prudential norms, minimum capital and requirements in accordance with standard international practice, and (ii) to establish sound investment criteria. | <i>Completed.</i> The initial regulations, guidelines, and standards were established in October 1997. | Effective August 2000, the minimum capital requirements for pension funds open to all participants will be increased from T90 million to T180 million, and the minimum capital requirements for closed funds will be increased from T20 million to T50 million. | On 1 March 2000, there were 16 pension funds, of which 15 are private pension funds. Fourteen of the 15 private pension funds are open to all workers and one is an employer-sponsored, closed fund. There were also 7 asset management companies and 6 private banks serving as asset custodians. As of 1 March 2000, the pension funds held a combined total of T70.4 billion in assets. At that time, the SAF held 50 percent of the total assets. It is projected, however, that the SAF share of the total will fall to as little as 30 percent by 2001. |

| Policy Action | Status of Compliance October 1999 | Current Status of Reforms April 2000 | Relevant Benchmark |
|---|--|--|---|
| 3. Develop prototype pension contract and custodial agreement for the SAF, as well as prototype pension contract, asset management contract and custodial agreement for private pension funds. | <i>Completed.</i> Prototype pension contracts, custodial agreements, and asset management contracts were developed by October 1997. | The Government is now developing legislation that would eliminate the SAF as the default fund for those not signing pension contracts. Instead, workers will be required to sign a contract as a condition of employment. | |
| 4. Formulate and commence implementation of a policy to review investment guidelines for asset management companies in order to make appropriate adjustments in line with capital market developments in both domestic and foreign markets. | <i>Completed.</i> Initial guidelines for investment management companies have been reviewed and revised. In August 1998, Government-issued Eurobonds were included in the definition of Government bonds (subject to a 50 percent minimum), and for private funds, the maximum investment in Class A enterprises listed on the Kazakhstan Stock Exchange was raised from 20 percent to 30 percent. (The SAF is currently not allowed to invest in private shares.) | Guidelines continue to be updated. Most recent revision allows up to 5 percent of assets to be in foreign corporate bonds rated AA or better. | As of 1 March 2000, 95 percent of the assets of the pension funds were invested in Government securities, and 91 percent of the total assets were in dollar-denominated Government securities. Two percent of total assets were in bank deposits, 2 percent were in enterprise bonds, and 1 percent in enterprise stocks. |
| 5. Establish, with clearly defined responsibilities, the State Pensions Payment Center (SPPC), National Pension Agency (NPA), and SAF. | <i>Completed.</i> All three agencies were established by October 1997, and all continue to function as originally envisioned. | NPA's name was changed to the Committee for Regulation of Activity of Accumulation Pension Funds (CRAAPF). This was to conform to a new set of conventions governing naming of Government agencies and did not signify a change in its status, function or organization. | |

| Policy Action | Status of Compliance October 1999 | Current Status of Reforms April 2000 | Relevant Benchmark |
|--|--|--|---|
| 6. Establish a unit within the National Securities Commission (NSC), and make appropriate adjustments in the structure and staffing of the Banking Supervision Department of the National Bank of Kazakhstan (NBK) to perform supervisory responsibilities under the pension system. | <i>Completed.</i> The actions were fully implemented by October 1997. | The Government is now considering centralizing responsibility for supervision of the pension industry under the NSC. This is seen as a mechanism for streamlining the regulatory process by eliminating overlap and duplication. | |
| II. Increase Public Awareness of the Pension Reform | | | |
| 1. Establish an adequately staffed and funded public awareness unit in the Ministry of Labor and Social Protection (MLSP) headed by a senior official responsible for the development of a public information campaign and the preparation of campaign materials. | <i>Completed.</i> The unit was established in May 1997 and continues to function within MLSP. | | |
| 2. Undertake a public information campaign to inform citizens about all aspects of the reform program including benefits and risks. | <i>Completed.</i> The Government has undertaken a public information campaign including (i) general media publicity about the nature of the reform, (ii) the distribution of pamphlets and brochures that provide a blueprint of the new pension scheme and the contribution and enrollment procedures, and (iii) training and education directed at market participants. These efforts were | The ADB TA was successfully concluded in early 2000. Additional TA for public information is being arranged under the Pension Reform Implementation Loan (PRIL) of the World Bank. | A survey conducted at the end of the Asian Development Bank's (ADB) TA showed a 50 percent increase in the number of people who felt they received adequate information about the reform, a 15 percent decrease in the number who believe that the Government should be responsible for their retirement, and a 20 percent increase in the number who know they can |

| Policy Action | Status of Compliance October 1999 | Current Status of Reforms April 2000 | Relevant Benchmark |
|--|--|---|---|
| | supported by assistance from the United States Agency for International Development (USAID) and a TA grant from ADB. ¹ | | choose their own pension fund. |
| III. Enhance the Administration and Management Capacity of the Pension System. | | | |
| 1. Develop an organizational structure, and adequately staff and fund SPPC, as well as the regulatory authorities of the pension system. | <i>Completed.</i> The agencies were established and staffed by October 1997. | SPCC is fully operational and appears adequately staffed. It is currently addressing several problems with the social identification code (SIC). Although the NSC is an independent agency of the Government, its salaries are paid from the budget of NBK, and it has been adequately staffed and funded. The CRAAPF is a part of the MLSP and has had more difficulty in getting adequate staffing. | Currently, CRAAPF has only 30 employees to regulate the activities of the 15 private pension funds, a ratio of 2 employees per fund. In contrast, the typical pension fund regulator in Latin America has roughly 10 employees per pension fund. The number of staff will need to increase as the private pension funds grow. |
| 2. Centralize collections under the Tax Inspectorate | <i>Completed.</i> Responsibility for enforcing collections rules has rested with the Tax Inspectorate since July 1997. Pension contributions for the new system are routed through SPPC to the individual funds selected by each individual. | | |
| 3. Assign responsibility for the maintenance of the contribution records, and payment, and clearing functions to SPPC. | <i>Completed.</i> Implemented in July 1997. | | |

¹ TA 3082-KAZ: *Public Information and Education in Support of Pension Reform*, for \$840,000, approved on 1 October 1998.

| Policy Action | Status of Compliance October 1999 | Current Status of Reforms April 2000 | Relevant Benchmark |
|---|--|--|---|
| 4. Prepare a detailed design and cost estimates for a centralized computer-based information system for SPPC to record pension contributions, and to facilitate payment and clearing functions. | <i>Completed.</i> The design was completed in June of 1997. The system is now operating. | | |
| 5. Establish a computerized beneficiary earning and contribution records system that assigns individual identification numbers for those employed in the formal sector. | <i>Completed.</i> System for assigning SICs established by November 1997. | | |
| 6. Enroll at least 60 percent of those employed in the formal sector in accumulation component of the new pension system. | <i>Completed.</i> The target of 60 percent enrollment was a second tranche condition and was met in April 1998. By the end of 1999, all formal sector workers were enrolled in the accumulation component of the new pension system. | | By 1 March 2000, approximately 3.5 million SICs had been assigned, although as many as 0.5 million may be duplicates, as there were just over 3.0 million contributors to the pension funds on that date. |
| 7. Complete computerization of records of existing pensioners. | <i>Completed.</i> Records of 2.3 million pensioners have been computerized at the 216 raion offices of SPPC. | A new single database is being set up in Almaty and is scheduled to be operational in September 2000. The database will have aggregate data of individual centers and will include more comprehensive information on pensioners and their liabilities. | |

| Policy Action | Status of Compliance October 1999 | Current Status of Reforms April 2000 | Relevant Benchmark |
|--|---|---|--------------------|
| 8. Expand the information system and accomplish coverage of the entire population. | <i>Not Completed.</i> SICs have been issued to all persons who need them for purposes of implementing the pension reform, but have not yet been assigned to the rest of the population. SICs are scheduled to be assigned to current pensioners in September 2000. The target completion date for this activity had been June 2000. | Plans are now being developed jointly by the MLSP, the Tax Inspectorate, and the Ministry of Interior to use the SIC as a common identification number for taxes and internal passports. If this initiative goes forward, SICs will be assigned at birth in the future. | |
| 9. Prepare a capacity building and training program for the regulatory agencies, SPPC, and capital market institutions, and ensure its adequate financing. | <i>Completed.</i> The capacity building and training program was completed in the fall of 1997 and has been implemented. | | |
| 10. Implement the capacity building and training program. | <i>Completed.</i> A number of TAs were provided to build capacity and train officials of relevant institutions. These include (i) two ADB TAs to assist key regulatory agencies including the NPA, NSC, and Insurance Supervision Department under NBK in strengthening regulatory and supervision capabilities, setting up management information systems (MIS), and training asset managers and insurance industry personnel; (ii) the World Bank's PRIL, which includes capacity building components for SPPC and MLSP; (iii) TA from USAID, which includes legal expertise in actuarial and tax compliance areas; and (iv) TA from other bilateral sources, including the Japanese Government, which funded | Current USAID TA includes preparing actuarial report; developing plans to unify the three regulatory agencies, a strategy for issuance of SICs to the informal sector, and additional investment products; establishing a life insurance industry; and increasing training and educational activities. The World Bank's PRIL, which has faced implementation delays, is expected to continue its support to some of these activities when the USAID financing scales down in late 2000. | |

| Policy Action | Status of Compliance October 1999 | Current Status of Reforms April 2000 | Relevant Benchmark |
|---|---|---|---|
| | a study tour to Chile of key Government officials from MLSP, SPPC, and SAF in September 1998. | | |
| 11. Enable foreign companies to participate in asset management and custodian activities either directly or through joint ventures with local financial institutions. | <i>Completed.</i> There are no restrictions on foreign participation in asset management and custodial activities. Of the first four asset management companies established, three were set up as joint ventures with partners such as ABN-AMRO, Amitana International Trading Company, and Zhetisu. Two of the six custodial banks have foreign partners, ABN-AMRO and Kazcommertzbank. | | |
| 12. Identify key indicators, and establish standardized reporting systems for SPPC, SAF, and nonstate pension funds. | <i>Completed.</i> In 1998, the Government established an MIS system that compiles operational and financial statistics of SAF and the private pension funds on their investment activities on a regular basis. Performance reports are produced quarterly, semiannually and annually. Administrative capacity for licensing and supervising the private pension funds was strengthened through ADB TAs. | Under ADB TA, support was provided to improve information system infrastructure of the CRAAPF and to assist in improving accounting and reporting methodologies. A state-of-the-art computer network was installed and software developed to interface with the database and manage all reporting from the accumulated pension funds. | |
| IV. Ensure Financial Sustainability | | | |
| 1. Adopt measures to strengthen nationwide collection enforcement efforts. | <i>Completed.</i> As of May 1997, responsibility for enforcing the social taxes and pension contribution rules was shifted to the Tax Inspectorate. Responsibility for collecting the 15 percent solidarity contribution was shifted to the Tax Inspectorate effective January 1999. | Legal changes introduced in November 1999 will strengthen collection enforcement by requiring a certification from the pension funds that all contributions have been paid on any wages used to compute benefits under the solidarity program. | Compliance is estimated to be between 50 and 60 percent of the total, with fairly good compliance among formal sector firms and poorer compliance in the informal sector. |

| Policy Action | Status of Compliance October 1999 | Current Status of Reforms April 2000 | Relevant Benchmark |
|--|---|---|--|
| 2. Settle T20.6 billion of outstanding pension arrears. | <i>Completed.</i> Outstanding arrears settled in September 1997. | | |
| 3. Settle pension arrears as of 1 June 1997 of T 5.2 billion. | <i>Completed.</i> Outstanding arrears settled in November 1997. | | |
| 4. Settle pension arrears accumulated since 1 June 1997 of T10.2 billion. | <i>Completed.</i> Outstanding arrears settled in December 1997. | | |
| 5. Prepare a fiscal adjustment plan to finance deficits in the pension system. | <i>Completed.</i> A plan to finance the fiscal deficits in the pension system was prepared in October 1997. | No new estimates of the transition costs have been released since the reform began. | |
| 6. Allocate adequate provisions in the annual budget for 1998 submitted to Parliament to meet the financing requirements of the PAYG component of the new pension system. | <i>Completed.</i> The 1998 budget contained sufficient financing to cover all deficits in the PAYG component of the new system. | | |
| 7. Allocate adequate provisions in the annual budget for 1999 submitted to Parliament to meet the financing requirements of the PAYG component of the new pension system. | <i>Complied With.</i> The 1999 budget submission allocated sufficient resources to cover all 1999 pension liabilities. | As a result of the Asian and Russian Federation's financial crises, actual 1999 Government revenues fell substantially below the amount budgeted and pension arrears again appeared in 1999. These were cleared early in 2000, in part from the proceeds of a World Bank Pension Reform Adjustment Loan, and in part by increasing the social tax by 5 percentage points. | |
| 8. Allocate adequate provisions in the subsequent annual budgets submitted to Parliament to meet the financing requirements of the PAYG component of the new pension system. | <i>Complied With.</i> The year 2000 budget contains sufficient revenues to cover projected pension liabilities. The budget continues the 5 percent supplemental social tax. | | The year 2000 budget allocates T110 billion for pension payments, estimated as the full amount needed to cover this liability. |

| Policy Action | Status of Compliance October 1999 | Current Status of Reforms April 2000 | Relevant Benchmark |
|---|--|---|---|
| 9. Ensure timely pension payments (after 1 April, 1998) under the PAYG component of the new pension system. | <i>Complied With.</i> Most pensioners are receiving their pensions on time. Some pensioners residing in rural or remote areas continue to receive their pensions late due to technical factors. | When the new central pensioner database is implemented, now scheduled for September 2000, all pensioners will have the option of receiving payments through bank accounts, checks, or cash. Banks will be obliged to offer pensioners accounts free of charge if used only for transferring pension payments. | |
| 10. Issue Government domestic debt instruments with a maturity of more than two years. | <i>Complied With.</i> The Government has issued T36 billion in special Treasury bills with 10-year maturity | | |
| 11. Formulate a proposal satisfactory to ADB for the introduction of indexed bonds. | <i>Complied With.</i> The Ministry of Finance has prepared a proposal for the introduction of indexed Government debt instruments. The proposed system would adjust the nominal returns to the inflation rate, as measured by the consumer price index in the preceding six months. | The Government does not plan to implement the proposal in the near future. Instead, it is regularly issuing dollar denominated eurobonds, which have proven to be a popular investment for the private pension funds. These bonds now comprise some 75 percent of the portfolio of the private funds. | On 1 March, 2000, pension funds held 82 percent of their assets in dollar-denominated, medium- and long-term Government debt. |
| 12. Develop a strategy to strengthen and modernize the insurance industry. | <i>Complied With.</i> NBK's Insurance Supervision Department, with the assistance of ADB TA, has prepared a draft strategy to strengthen and modernize the insurance industry. The main elements of the strategy include (i) establish the legal basis for the insurance industry, including provisions for licensing, regulating, and reporting systems; (ii) develop effective insurance supervision; (iii) provide financial and institutional strengthening of insurance | | |

| Policy Action | Status of Compliance October 1999 | Current Status of Reforms April 2000 | Relevant Benchmark |
|--|---|--|--------------------|
| | companies; and (iv) develop the market infrastructure including training of specialists. | | |
| 13. Implement the insurance strategy, including the development of insurance annuity products to facilitate options linked to realization of pension benefits as well as mandatory disability and survivors insurance. | <i>In Process.</i> Staff and NBK are developing the legislation necessary for reform and growth of the insurance industry. | The legislation is scheduled to be ready for submission to the Parliament in June. It is expected that the legislation will be enacted by the end of 2000. | |
| 14. Prepare draft amendments to existing legislation to establish greater participation by foreign insurance companies. | <i>Complied With.</i> The Law on Insurance Organization and Insurance Activities of 1998 has been amended to allow greater foreign participation in the insurance industry. The new law allows foreigners to own up to 50 percent of the equity of a life insurance company. Total foreign ownership can amount to 25 percent of the authorized capital of the industry. The National Bank is also empowered to waive these restrictions. Currently, foreign companies have about a 14 percent share in the insurance industry. | | |
| 15. List at least 15 companies, of which at least five are Class A, on the Kazakhstan Stock Exchange. | <i>Complied With.</i> At the end of 1999, eight class A firms had shares listed on the Kazakhstan Stock Exchange. At least five of these firms listed both common and preferred shares. | One new listing was added in the first two months of 2000. Nonetheless, new stock issues have proceeded more slowly than previously planned, in part because of the impact of the Asian and Russian Federation's financial crises. It may also be necessary to implement further reforms in corporate governance and | |

| Policy Action | Status of Compliance October 1999 | Current Status of Reforms April 2000 | Relevant Benchmark |
|--|--|--|---|
| | | reporting standards before significant progress can be made in the "blue chip" program of stock issuance. In the meantime, there were eight issues of corporate bonds last year and more are expected this year. | |
| 16. Continue periodical review of developments in the capital market and its regulatory and institutional framework for improved pension fund investments. | <i>Complied With.</i> A special unit within the NSC is responsible for, among other things, reviewing the guidelines for pension fund investments on a quarterly basis. The most recent modification has been the liberalization that allows up to 5 percent of assets to be held in foreign corporate bonds rated AA or better. | | As of 1 January 2000, the volume of pension assets in the accumulation funds made up 3.4 percent of gross domestic product, up from 1.4 percent from a year ago. While current pension fund portfolios are concentrated in Government securities, further diversification is expected with the development of the capital market. |
| V. Ensure Social Sustainability | | | |
| 1. Formulate and adopt a method of periodic retrospective indexing to consumer prices index of minimum pensions. | <i>Completed.</i> Amendments of the pension law adopted in April and November 1999 provide for annual indexing of the minimum pension to changes in consumer prices. | | |
| 2. Implement a minimum benefit guarantee scheme that relates to years covered in employment and to income adequacy. | <i>Completed.</i> Pensioners with full years of service (25 years for men and 20 years for women) are eligible to receive a minimum pension if their combined public and accumulation plan pensions fall below a minimum consumption basket. | | For 2000, the minimum pension is set at T3,500 per month, which is 32 percent of the average male wage and 90 percent of the minimum subsistence level. |

| Policy Action | Status of Compliance October 1999 | Current Status of Reforms April 2000 | Relevant Benchmark |
|---|---|--|---|
| 3. Develop a labor market information database, including data on participants in the pension system. | <i>Not Implemented.</i> This database was to have been completed by September 1999. The SPPC has begun to develop information on the formal sector workforce in connection with its contribution collection activities. | Financing for the additional actions needed to complete this activity was included in the PRIL, but no arrangements have been made yet to implement them. The World Bank has also offered to finance a household labor force survey. | |
| 4. Develop an analytical framework and undertake analysis of distributional issues, including pension and social benefits by gender, age, and working life on an ongoing basis. | <i>Not Implemented.</i> These analyses were to be completed by September 1999. Although financing for these activities was included in the PRIL, no arrangements have been made yet to implement them. | A preliminary actuarial analysis was prepared with financing from USAID and a World Bank grant. This analysis compares Government pension spending with and without the reform. Work was also started on distributional analysis, but was suspended when the available funds were exhausted. Only very preliminary distributional results are available. | Preliminary analysis of the fiscal impact of the reform finds that the reform will produce savings amounting to 5 percent of the national wage bill in 2030 and 18 percent of the national wage bill by 2050. The analysis does not include expenditures associated with the minimum pension, other social pensions, or financing of the transition costs. Very preliminary analysis of replacement rates under the accumulation system finds a rate of about 23 percent for the average woman and just over 40 percent for the average man. With replacement rates at this level, a majority of women and a substantial minority of men would qualify for the minimum pension. |
| 5. Implement measures in consultation with ADB, to address inadequacies in replacement rates, other pension issues, and social benefits, by gender, age, and working life. | <i>Not Implemented.</i> The analyses necessary to identify these inadequacies have not been performed yet, and no remedial measures have been adopted. This objective was to have been met by January 2000. | | |

**TRANSITION COSTS
(T billion)**

| Item | 1998 Actual | 1999 Actual | 2000 Projected |
|---|------------------------|------------------------|---------------------------|
| Expenditures for Payment of PAYG Pensions | 94.5 | 99.8 | 101.7 |
| Transfers of Pension Contributions to SPPC (payroll tax of 15 percent) | 35.7 | 49.0 | 53.5 |
| Transition Costs Financed by Budgetary Transfers (Expenditures – SPPC Transfers) | 58.8 | 50.8 | 48.2 |
| Transition Cost As Percentage of GDP (%) | 3.4 | 2.7 | 2.3 |

Source: MLSP

GDP = gross domestic product, PAYG = pay-as-you-go, SPPC = State Pension Payment Center.

SUMMARY OF PROCUREMENT BY ORIGIN

| Origin | Amount (\$ million) | Percentage (%) |
|-----------------------------|--------------------------------|---------------------------|
| Australia | 0.1 | 0.1 |
| Austria | 2.1 | 2.1 |
| Belgium | 2.0 | 2.0 |
| Canada | 1.4 | 1.4 |
| China, People's Republic of | 2.7 | 2.7 |
| Denmark | 0.6 | 0.6 |
| Finland | 3.9 | 3.9 |
| France | 3.6 | 3.6 |
| Germany | 21.3 | 21.3 |
| Hong Kong, China | 0.1 | 0.1 |
| India | 1.2 | 1.2 |
| Italy | 4.9 | 4.9 |
| Japan | 1.7 | 1.7 |
| Korea, Republic of | 7.5 | 7.5 |
| Kyrgyz Republic | 3.2 | 3.2 |
| Malaysia | 0.1 | 0.1 |
| Mongolia | 0.2 | 0.2 |
| Netherlands | 4.1 | 4.1 |
| Singapore | 0.3 | 0.3 |
| Spain | 0.5 | 0.5 |
| Sri Lanka | 0.1 | 0.1 |
| Sweden | 0.8 | 0.8 |
| Switzerland | 3.1 | 3.1 |
| Taipei, China | 0.1 | 0.1 |
| Tajikistan | 0.4 | 0.4 |
| Turkey | 10.3 | 10.3 |
| United Kingdom | 8.2 | 8.2 |
| United States | 11.7 | 11.7 |
| Uzbekistan | 3.8 | 3.8 |
| Total | 100.0 | 100.0 |

PENSION FUND ASSETS

**Table A4.1: Asset Holdings of Pension Funds, 1 March 2000
(T billion)**

| Holding | Nonstate Funds | | | SAF | | | Total by Currency | | | Total by Ownership | | |
|---|----------------|------------------|--------------|-------------|------------------|--------------|-------------------|------------------|--------------|--------------------|--------------|--------------|
| | Tenge | Foreign Currency | Total | Tenge | Foreign Currency | Total | Tenge | Foreign Currency | Total | Private | SAF | Total |
| Medium and Long-Term Government | | | | | | | | | | | | |
| Eurobonds | 0 | 26.65 | 26.65 | 0 | 0.84 | 0.84 | 0 | 27.48 | 27.48 | 26.65 | 0.84 | 27.48 |
| Special Currency State Bonds | 0 | 1.52 | 1.52 | 0 | 28.95 | 28.95 | 0 | 30.47 | 30.47 | 1.52 | 28.95 | 30.47 |
| Subtotal, Medium and Long Term | 0 | 28.17 | 28.17 | 0 | 29.79 | 29.79 | 0 | 57.95 | 57.95 | 28.17 | 29.79 | 57.95 |
| Short-Term Government | | | | | | | | | | | | |
| State Treasury Bonds | 1.48 | 0.00 | 1.48 | 0.72 | 0.00 | 0.72 | 2.20 | 0.00 | 2.20 | 1.48 | 0.72 | 2.20 |
| Special Currency State Bonds | 0.00 | 1.45 | 1.45 | 0.00 | 3.95 | 3.95 | 0.00 | 5.41 | 5.41 | 1.45 | 3.95 | 5.41 |
| Subtotal, Short Term | 1.48 | 1.45 | 2.94 | 0.72 | 3.95 | 4.67 | 2.20 | 5.41 | 7.61 | 2.94 | 4.67 | 7.61 |
| Subtotal, MOF Securities | 1.48 | 29.62 | 31.10 | 0.72 | 33.74 | 34.46 | 2.20 | 63.36 | 65.56 | 31.10 | 34.46 | 65.56 |
| Notes of National Bank of Kazakhstan | 0.59 | 0.00 | 0.59 | 0.12 | 0.00 | 0.12 | 0.71 | 0.00 | 0.71 | 0.59 | 0.12 | 0.71 |
| Securities of Local Governments | 0.00 | 0.15 | 0.15 | 0.00 | 0.19 | 0.19 | 0.00 | 0.34 | 0.34 | 0.15 | 0.19 | 0.34 |
| Subtotal, Government Debt | 2.07 | 29.77 | 31.85 | 0.84 | 33.92 | 34.77 | 2.92 | 63.70 | 66.61 | 31.85 | 34.77 | 66.61 |
| Bank Deposits | 0.24 | 0.57 | 0.81 | 0.52 | 0.00 | 0.52 | 0.76 | 0.57 | 1.32 | 0.81 | 0.52 | 1.32 |
| Subtotal, Bank and Government Debt | 2.31 | 30.34 | 32.65 | 1.36 | 33.92 | 35.28 | 3.67 | 64.26 | 67.94 | 32.65 | 35.28 | 67.94 |
| Shares | 0.23 | 0.20 | 0.44 | 0.00 | 0.00 | 0.00 | 0.23 | 0.20 | 0.44 | 0.44 | 0.00 | 0.44 |
| Bonds | 0.00 | 1.73 | 1.73 | 0.00 | 0.00 | 0.00 | 0.00 | 1.73 | 1.73 | 1.73 | 0.00 | 1.73 |
| Subtotal, Nonstate Securities | 0.23 | 1.93 | 2.17 | 0.00 | 0.00 | 0.00 | 0.23 | 1.93 | 2.17 | 2.17 | 0.00 | 2.17 |
| Other Assets | 0.32 | 0.00 | 0.32 | 0.02 | 0.00 | 0.02 | 0.34 | 0.00 | 0.00 | 0.32 | 0.02 | 0.34 |
| Total Assets | 2.87 | 32.27 | 35.14 | 1.38 | 33.92 | 35.30 | 4.25 | 66.20 | 70.10 | 35.14 | 35.30 | 70.45 |

MOF = Ministry of Finance, SAF = State Accumulation Fund.

Source: National Securities Commission.

**Table A4.2: Asset Holdings of Pension Funds, 1 March 2000
(percent distribution)**

| Holdings | Nonstate Funds | | | SAF | | | Total by Currency | | | Total by Ownership | | |
|---|----------------|------------------|--------------|------------|------------------|--------------|-------------------|------------------|--------------|--------------------|-------------|--------------|
| | Tenge | Foreign Currency | Total | Tenge | Foreign Currency | Total | Tenge | Foreign Currency | Total | Private | SAF | Total |
| Medium and Long-Term Government | | | | | | | | | | | | |
| Eurobonds | 0.0 | 75.8 | 75.8 | 0.0 | 2.4 | 2.4 | 0.0 | 39.2 | 39.2 | 37.8 | 1.2 | 39.0 |
| Special Currency State Bonds | 0.0 | 4.3 | 4.3 | 0.0 | 82.0 | 82.0 | 0.0 | 43.5 | 43.5 | 2.2 | 41.1 | 43.3 |
| Subtotal, Medium and Long Term | 0.0 | 80.1 | 80.1 | 0.0 | 84.4 | 84.4 | 0.0 | 82.7 | 82.7 | 40.0 | 42.3 | 82.3 |
| Short Term Government | | | | | | | | | | | | |
| State Treasury Bonds | 4.2 | 0.0 | 4.2 | 2.0 | 0.0 | 2.0 | 3.1 | 0.0 | 3.1 | 2.1 | 1.0 | 3.1 |
| Special Currency State Bonds | 0.0 | 4.1 | 4.1 | 0.0 | 11.2 | 11.2 | 0.0 | 7.7 | 7.7 | 2.1 | 5.6 | 7.7 |
| Subtotal, Short Term | 4.2 | 4.1 | 8.4 | 2.0 | 11.2 | 13.2 | 3.1 | 7.7 | 10.9 | 4.2 | 6.6 | 10.8 |
| Subtotal, MOF Securities | 4.2 | 84.3 | 88.5 | 2.0 | 95.6 | 97.6 | 3.1 | 90.4 | 93.5 | 44.2 | 48.9 | 93.1 |
| Notes of National Bank of Kazakhstan | 1.7 | 0.0 | 1.7 | 0.3 | 0.0 | 0.3 | 1.0 | 0.0 | 1.0 | 0.8 | 0.2 | 1.0 |
| Securities of Local Governments | 0.0 | 0.4 | 0.4 | 0.0 | 0.5 | 0.5 | 0.0 | 0.5 | 0.5 | 0.2 | 0.3 | 0.5 |
| Subtotal, Government Debt | 5.9 | 84.7 | 90.6 | 2.4 | 96.1 | 98.5 | 4.2 | 90.9 | 95.0 | 45.2 | 49.4 | 94.6 |
| Bank Deposits | 0.7 | 1.6 | 2.3 | 1.5 | 0.0 | 1.5 | 1.1 | 0.8 | 1.9 | 1.1 | 0.7 | 1.9 |
| Subtotal, Bank and Government Debt | 6.6 | 86.3 | 92.9 | 3.9 | 96.1 | 99.9 | 5.2 | 91.7 | 96.9 | 46.4 | 50.1 | 96.4 |
| Shares | 0.7 | 0.6 | 1.2 | 0.0 | 0.0 | 0.0 | 0.3 | 0.3 | 0.6 | 0.6 | 0.0 | 0.6 |
| Bonds | 0.0 | 4.9 | 4.9 | 0.0 | 0.0 | 0.0 | 0.0 | 2.5 | 2.5 | 2.5 | 0.0 | 2.5 |
| Subtotal, Nonstate Securities | 0.7 | 5.5 | 6.2 | 0.0 | 0.0 | 0.0 | 0.3 | 2.8 | 3.1 | 3.1 | 0.0 | 3.1 |
| Other Assets | 0.9 | 0.0 | 0.9 | 0.1 | 0.0 | 0.1 | 0.5 | 0.0 | 0.0 | 0.5 | 0.0 | 0.5 |
| Total Assets | 8.2 | 91.8 | 100.0 | 3.9 | 96.1 | 100.0 | 6.1 | 94.4 | 100.0 | 49.9 | 50.1 | 100.0 |

MOF = Ministry of Finance, SAF = State Accumulation Fund.
Source: National Securities Commission.

Table A4.3: Net Pension Assets, Returns, and Contributors, Pension Funds in Kazakhstan

| Pension Fund | Net Pensions Assets (1 March 2000) | | | Investment Returns | Affiliated Contributors | | |
|----------------------------|---------------------------------------|--------------------------------|--------------------------|-----------------------------------|---------------------------|--------------------------------|--------------------------|
| | Net Assets (T millions) | Share Among Non-State Funds | Share Among All Funds | Annualize Return Jan-Feb, 2000 | Contributors (x 1,000) | Share Among Non-State Funds | Share Among All Funds |
| Narodny Bank of Kazakhstan | 11,842 | 34% | 17% | 18.3% | 475 | 35% | 15% |
| Ular | 4,688 | 13 | 7 | 17.0 | 188 | 14 | 6 |
| AAPF Umit | 4,242 | 12 | 6 | 22.7 | 187 | 14 | 6 |
| SENIM | 2,837 | 8 | 4 | 15.9 | 64 | 5 | 2 |
| Kazakhmys ^a | 2,687 | 8 | 4 | 17.6 | 70 | 5 | 2 |
| ABN AMRO | 1,985 | 6 | 3 | 16.7 | 20 | 1 | 1 |
| Kazakhstan | 1,486 | 4 | 2 | 17.5 | 35 | 3 | 1 |
| NefteGaz - DEM | 1,309 | 4 | 2 | 17.0 | 43 | 3 | 1 |
| Narodny Pension Fund | 1,023 | 3 | 1 | 17.2 | 87 | 6 | 3 |
| KaspyMunayGaz | 993 | 3 | 1 | 17.0 | 32 | 2 | 1 |
| Fund Valut-Transit | 840 | 2 | 1 | 13.1 | 74 | 6 | 2 |
| Kurment | 769 | 2 | 1 | 18.1 | 36 | 3 | 1 |
| Kunaev | 246 | 1 | 0 | 15.8 | 20 | 1 | 1 |
| Trade Union Federation | 174 | 0 | 0 | 16.4 | 13 | 1 | 0 |
| Korgau | 22 | 0 | 0 | 12.3 | 2 | 0 | 0 |
| Subtotal, Nonstate | 35,144 | 100 | 50 | | 1,346 | 100 | 44 |
| State Accumulation Fund | 35,302 | | 50 | 11.6 | 1,738 | | 56 |
| Total | 70,446 | | 100 | | 3,084 | | 100 |

^a Corporate fund open only to employees. Other funds are open to any contributor.

Source: Asset distributions and investment returns from National Securities Commission of Kazakhstan; contributor distribution from Committee for Regulation of the Activity of Accumulation Pension Funds.

**CLASS A SECURITIES LISTED ON THE KAZAKHSTAN STOCK EXCHANGE
(1 March 2000)**

| Enterprise | Types of Shares Issued | |
|----------------------------|-------------------------------|------------------|
| Bank Turan Alem | Common Shares | |
| Bank Center Credit | Common Shares | |
| Peoples Bank of Kazakhstan | Common Shares | |
| Kazcommerce Bank | Common Shares | Preferred Shares |
| Komirbank | Common Shares | |
| Kazakhtelecom | Common Shares | Preferred Shares |
| Temirbank | Common Shares | Preferred Shares |
| ShNOS | Common Shares | Preferred Shares |
| UKKTMK | Common Shares | Preferred Shares |

Source: National Securities Commission