

ASIAN DEVELOPMENT BANK

PPA: KAZ 31091

PROGRAM PERFORMANCE AUDIT REPORT

ON THE

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

IN

KAZAKHSTAN

September 2003

CURRENCY EQUIVALENTS

Currency Unit – tenge (T)

| | At Appraisal (August 1997) | At Project Completion (March 2000) | At Operations Evaluation (April 2003) |
|--------|--------------------------------------|--|---|
| T1.00 | = \$0.01325 | \$0.00705 | \$0.00658 |
| \$1.00 | = T75.50 | T141.89 | T152.00 |

ABBREVIATIONS

| | | |
|--------|---|--|
| ADB | – | Asian Development Bank |
| COS | – | country operational strategy |
| CRAAPF | – | Committee for Regulation of Activity of Accumulation Pension Funds |
| GDP | – | gross domestic product |
| IBRD | – | International Bank for Reconstruction and Development |
| MLSP | – | Ministry of Labor and Social Protection |
| MOF | – | Ministry of Finance |
| NBK | – | National Bank of Kazakhstan |
| NPA | – | National Pension Authority |
| NSC | – | National Securities Commission |
| OEM | – | Operations Evaluation Mission |
| PAYGO | – | pay-as-you-go |
| PCR | – | project completion report |
| PPAR | – | program performance audit report |
| PRIL | – | Pension Reform Implementation 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) In this report, "\$" refers to US dollars.
- (ii) The fiscal year (FY) of the Government ends on 31 December. FY before a calendar year denotes the year in which the fiscal year ends.

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BASIC DATA
Pension Reform Program (Loan 1589-KAZ)

PROGRAM PREPARATION/INSTITUTION BUILDING

| TA No. | TA Name | Type | Person-Months | Amount (\$) | Approval Date |
|--------|---|------|---------------|-------------|---------------|
| 2780 | Pension Reform | PPTA | 3 | 100,000 | 16 Apr 1997 |
| 2829 | Enhancing Pension Management and Information System | ADTA | 3 | 100,000 | 23 Jul 1997 |
| 2910 | Capacity Building for Pension Reform | ADTA | 23 | 1,000,000 | 12 Nov 1997 |
| 2945 | Financial Sector Capacity Building to Support Pension Reform | ADTA | 14 | 680,000 | 15 Dec 1997 |
| 3082 | Public Information and Education in Support of Pension Reform | ADTA | 53 | 840,000 | 1 Oct 1998 |

| KEY PROGRAM DATA (\$ million) | As per ADB | |
|-------------------------------|----------------|--------|
| | Loan Documents | Actual |
| Total Program Cost | 100.0 | 100.0 |
| Foreign Exchange Cost | 100.0 | 100.0 |
| ADB Loan Amount/Utilization | 100.0 | 100.0 |

| KEY DATES | Expected | | Actual | |
|--------------------------------------|--------------|--|----------------|-------------------|
| | Fact-Finding | | | 19 May–7 Jun 1997 |
| Appraisal | | | 11–29 Aug 1997 | |
| Loan Negotiations | | | 3–7 Nov 1997 | |
| Board Approval | | | 16 Dec 1997 | |
| Loan Agreement | | | 3 Feb 1998 | |
| Loan Effectiveness | 23 Mar 1998 | | 23 Mar 1998 | |
| First Disbursement | 23 Mar 1998 | | 31 Mar 1998 | |
| Second Tranche Release | early 1999 | | 28 Dec 1998 | |
| Program Completion | Jun 2000 | | Dec 2000 | |
| Loan Closing | 30 Jun 1999 | | 30 Jun 1999 | |
| Months (effectiveness to completion) | 27 | | 33 | |

| | |
|------------------------------|--|
| BORROWER | Kazakhstan |
| EXECUTING AGENCY | Ministry of Finance |
| IMPLEMENTING AGENCIES | Ministry of Labor and Social Protection, National Bank of Kazakhstan, and National Securities Commission |

MISSION DATA

| Type of Mission | No. of Missions | Person-Days |
|------------------------------------|-----------------|-------------|
| Reconnaissance | 1 | 10 |
| Fact-Finding | 1 | 75 |
| Appraisal | 1 | 139 |
| Country Consultation | 1 | 24 |
| Program Administration | | |
| Review ¹ | 2 | 23 |
| Program Completion | 1 | 11 |
| Operations Evaluation ² | 1 | 19 |

ADB = Asian Development Bank, ADTA = advisory technical assistance, PPTA = program preparatory technical assistance, TA = technical assistance.

¹ One review mission was conducted in conjunction with the Fact-Finding Mission for TA 3082-KAZ: *Public Information and Education Support of Pension Reform*.

² The Operations Evaluation Mission comprised Naomi Chakwin (Principal Evaluation Specialist/Mission Leader) and Christopher Bender (International Consultant).

EXECUTIVE SUMMARY

On 16 December 1997, the Asian Development Bank (ADB) approved the extension of the Pension Reform Program Loan to the Republic of Kazakhstan. Valued at \$100 million, the loan was funded through ADB's ordinary capital resources. The stated objective of the Program was to support the transition from the existing pay-as-you-go (PAYGO) public pension system to a pension system based on fully funded, individual defined contribution accounts. In doing so, the Program was intended to promote private savings, improve labor mobility, reduce labor market distortions, and provide effective long-term social protection to the working population.

The Program focused primarily on issues related to the implementation of the Government's pension reform program, rather than those related to its design. The logical framework reflects this fact by incorporating the output of the reform—the establishment of a fully funded, defined contribution pension system in Kazakhstan—as the Program's sole objective. This objective, it was presumed, would lead to the satisfaction of two goals: (i) a sustained economic recovery—by increasing private savings, improving labor mobility, and reducing labor market distortions—and (ii) assured sufficient pension income for retirees.

The primary objective of the Program was to support the transition from the existing PAYGO system to a pension system based on fully funded, individual defined contribution accounts. The measures applied in support of this objective were clearly relevant and fully consistent with the attainment of this objective. The only concern was the weak link between the social protection priorities identified in the country operational strategy and the Program's design. The Program is assessed as relevant.

Based on the Operations Evaluation Mission's (OEM) assessment, the overall rating of the Program is successful, which upgrades the program completion report rating of partly successful. The Program is a long-term effort, as noted in the report and recommendation of the President. The Government has indicated an awareness of and commitment to pursuing four end-of-program policy actions that are needed for the long-term social sustainability of this pension reform, and progress is under way. Indeed, the Government has taken the initiative and continues to pursue reforms to the Pension Law and the financial sector regulatory structure (including the supervision of pension funds). As these four policy actions are not critical to the immediate success of the reform, and the scope and objectives of the Program have been largely accomplished, the OEM views the Program as successful.

The Program was broadly successful in meeting most of the performance targets of its logical framework. Key accomplishments include (i) the successful creation of the legal, regulatory, and institutional framework required for the new pension system to operate effectively; (ii) reasonable public understanding of the reform; (iii) adequate capacity on the parts of the State Pension Payment Center (SPPC) and the regulatory authorities to administer and oversee, respectively, the new system; (iv) settlement of all outstanding pension arrears and the continued timely payment of benefits under the old PAYGO system; and (v) strong progress in promoting the development of the capital markets.

The Program helped support the implementation of a reform that is unlikely to be reversed. Moreover, the Program's contributions to institutional and capital market development are likely to endure. Concerns regarding the adequacy of benefits, the extent to which the system reaches people working outside the formal economy, and the relative benefits of women and men, however, will likely require the Government to revisit the original design of the pension system and institute a second phase of reforms. For this reason, program sustainability is

assessed as likely, subject to the caveat that further reforms are still needed and merit the Government's support.

The Program had a clear and strong positive impact on the strengthening of financial market oversight and the development of the nonbanking financial sector. In addition, the Program made a direct and lasting contribution to the establishment of SPPC, which is integral to the functioning of the new pension system. The Program's contribution to institutional development is assessed as substantial.

Key Lessons Learned

Key lessons learned from the Program include the following:

- (i) The implementation of a funded pension system requires a substantial commitment of time and resources to adequately develop the institutional, administrative, and regulatory framework on which the system depends.
- (ii) Shifting from a PAYGO pension system to a partially or fully funded system contributes to capital market development in early-stage transition economies and creates institutional pressure to strengthen financial market regulation and oversight.
- (iii) Shifting from a PAYGO pension system to a partially or fully funded system also deprives the Government of resources for addressing social issues and should only be pursued if additional resources can be obtained to ease the cost of the transition.
- (iv) The success of a funded pension system in providing adequate income replacement depends upon the capacity of the capital markets to absorb substantial inflows of investment capital and generate adequate returns to fund participants. In countries with nascent capital markets, the inflow of capital may exceed the absorption capacity of the markets and could expose invested assets to inappropriate risks.
- (v) The introduction of a funded pension system, in the absence of other mechanisms to assure a minimum level of benefit adequacy and effect a reasonable degree of income redistribution from the comparatively well-off to the less fortunate, may not provide effective long-term social insurance to the working population.

Taking into account the context in which the pension reform was enacted, the reform was not only tremendously ambitious, it was designed and implemented more rapidly than virtually any other reform in the former Soviet Union. The scope of the reform is particularly impressive when juxtaposed against Kazakhstan's nascent capital markets and the inadequacy of the infrastructure that had supported the administration of the old PAYGO system. The reform was complex to design and challenging to implement. It necessitated writing new laws and promulgating regulations to address issues that had never before been faced in Kazakhstan. Moreover, it was logistically demanding, as the administration of the new system required the issuance of social identification codes to millions of people and the computerization of existing social insurance records, which, itself, was a massive undertaking. It also required creating, staffing, organizing, and outfitting entirely new institutions—including SPPC, National Pension Authority, and departments within National Securities Commission and National Bank of

Kazakhstan—to oversee and administer the scheme. And, last, it depended upon the emergence of private pension funds and asset management companies (and the training of professionals to run them) that, until the reform, had not existed in any meaningful sense.

Equally important, the success of the Government's pension reform depended not only on the creation of its components—laws and regulations; administrative and regulatory bodies; market actors, such as private pension funds and asset managers; administrative and regulatory procedures; and infrastructure (computer networks, databases, and so forth)—but also on the ability of the Government to explain and justify the reform to a public that had lived most of its life under a system of central economic planning. When measured against this yardstick, the Government and the Program clearly accomplished a great deal within a remarkably short period of time.

Follow-Up Actions

The reform stretched institutional capacity and a second phase of reform is now needed to address the weaknesses of the new pension system. The most important issues facing the system for the future include the (i) capacity of the capital markets to absorb all funds flowing into the State Accumulation Fund and private pension funds; (ii) adequacy of benefits that will be provided, percent of the working population that will actually be covered, and issues of equity and fairness under the new scheme; and (iii) problems with governance.

The pension reform effort thus far has devoted far more attention to financial market development than to retirement income security issues. This is understandable, in some respects, given the immensity of the institution building that has been needed to make the reform a success. Nevertheless, 5 years after implementation, there is still no reliable analysis of the reform's likely impact on the average income of future retirees or its likely differential impact on low-wage or low-skilled workers, workers suffering unusually long bouts of unemployment, and women. Preliminary analyses raise questions about the adequacy of the benefits that will be produced under the present structure of the new pension system. In light of this, the Government is encouraged to conduct a formal distributional analysis of the reform as soon as possible and address any concerns this analysis raises.

Further, the success of the pension reform ultimately depends on the ability of Kazakhstan's capital markets to use contributed capital efficiently and generate reasonable returns at reasonable risk to fund participants. With this in mind, the Government is encouraged to (i) issue medium- and long-term debt, as necessary, to soak up excess liquidity in the capital markets; (ii) promote the further development of the capital markets, particularly in nonenergy segments of the economy; (iii) work to improve the investment climate, particularly by strengthening corporate governance and increasing transparency within medium- and large-sized enterprises; and (iv) privatize remaining medium- and large-sized state-owned enterprises. Extending, at the earliest possible date, technical assistance (TA) to Kazakhstan to support these activities, as well as the benefit adequacy, coverage, and distributional concerns mentioned, would help address some of the potential shortcomings of the Program. In addition, the Government would benefit from a TA undertaking designed to draw on internal expertise in the establishment of the consolidated financial regulator. ADB has already been quite successful in providing similar TA to Indonesia.

I. BACKGROUND

A. Rationale

1. On 16 December 1997, the Asian Development Bank (ADB) approved the extension of the Pension Reform Program Loan to the Republic of Kazakhstan. Valued at \$100 million, the loan was funded through ADB's ordinary capital resources. The stated objective of the Program was to support the transition from the existing pay-as-you-go (PAYGO) public pension system to a pension system based on fully funded, individual defined contribution accounts. In doing so, the Program was intended to promote private savings, improve labor mobility, reduce labor market distortions, and provide effective long-term social protection to the working population.

2. The PAYGO system then in existence was largely unchanged from the Soviet era and was sustainable only under the sorts of conditions that existed under central planning, where employment was artificially full, the distribution of wages was very flat, and there was little informal economic activity. With the abandonment of central planning, the system suffered from three key weaknesses that necessitated reform. First, benefits were excessively generous; wage replacement rates were too high, particularly for short-service workers; retirement ages were too low; and special privileges were awarded to people working in hazardous environments and favored occupations. Second, payroll tax rates were excessively burdensome, totaling 25.5% of the wage bill. This discouraged job creation in the formal sector and created incentives for noncompliance with tax obligations. Third, the system was vulnerable to a rapidly declining revenue base, as a result of economic contraction; the emergence of a large informal economy; and the widespread underreporting of income within the formal economy.

3. The Pension Law, which provided the basis for the reform, was passed by Parliament in July 1997 and came into effect on 1 January 1998. This law led to the replacement of the PAYGO system with a new pension system based on individual investment accounts to be maintained either with the newly established State Accumulation Fund (SAF) or with nonstate (privately owned) pension funds. Privately owned asset management companies were soon formed to invest pension assets, subject to guidelines established by regulatory authorities. To fund these accounts, a contribution rate of 10% was levied against employee wages. Employers do not contribute to the new scheme, although they were required to pay a 15% wage tax to fund benefits awarded under the old scheme. The expectation was that the tax rate would be reduced over time, as the liabilities of the old system are eventually expunged. Unlike reforms in other transition countries, the new system covers workers of all ages. Workers who had accrued benefits under the old system maintained their entitlements. Their pensions will be paid in part from the old system and in part from the new system, until the old system has been fully phased out.

4. While the Program was not inconsistent with ADB's country operational strategy (COS), published in December 1996,¹ the Program did not follow from it. The COS identified the weakening of Kazakhstan's social safety net—resulting from meager benefit provisions and a lack of funds to pay promised benefits—as an area of concern, but the strategic framework for human development focused instead on other issues, particularly education. Planned steps to reform the social safety net were limited to supporting local governments to (i) rationalize the provision of social services, (ii) decentralize planning and finance, and (iii) increase the participation of the private sector and nongovernment organizations in social policy. The fact that the COS did not identify pension reform as a strategic priority is consistent with the

¹ ADB. 1996. *Country Operational Strategy: Kazakhstan*. Manila.

observation that the reform was largely driven by the Government as part of its three-pronged strategy for financial sector development—which also included privatization and the promotion of Kazakhstan’s financial markets—that emerged rapidly and, seemingly, without substantial consultation with ADB or other aid institutions, in early 1997.

5. To the extent that the Program was intended to support a reform that would likely have gone forward without ADB’s involvement, ADB approved the Program to (i) increase the probability of the reform succeeding, (ii) have a demonstration effect on similar economies, (iii) help promote the development of Kazakhstan’s capital markets, (iv) enhance labor mobility, and (v) increase savings. As such, the Program’s policy matrix focused primarily on issues related to the implementation, rather than the design, of the reform. Although the Program did require the Government to clear outstanding arrears in pension payments, implement a minimum pension guarantee scheme, and undertake an analysis of the distributional issues of the reform (which, as will be discussed in para. 21, was never done), the aim of providing effective long-term social protection to the working population was otherwise simply assumed to follow from the Government’s reform agenda.

B. Formulation

6. In response to the Government’s rapid timetable for the implementation of the pension reform, the Program’s loan was processed quickly. Background work had been started with technical assistance (TA). More specifically, TA 2420-KAZ: *Financial Sector Advisory*² financed studies and initial training on pension issues, including conceptual, organizational, and structural concerns.

7. A reconnaissance mission was fielded in March 1997, and a fact-finding mission was fielded in late May 1997. A management review meeting was held on 3 July 1997. During this meeting, loan appraisal was approved, but a stronger justification for ADB’s involvement, to be included in the report and recommendation of the President, was requested. An appraisal mission was fielded in August 1997, after the Pension Law had been passed by Parliament. A staff review committee meeting, held on 19 September 1997, recommended (i) changing the Program’s secondary objective from poverty reduction to human development (the primary objective remained economic growth); (ii) dropping the investment component³ of the then proposed sector development program in favor of a program loan (this was done at the request of the Government); (iii) replacing a \$3 million TA loan with a TA grant worth \$680,000; and (iv) changing the sequencing of some policy objectives. These recommendations were endorsed during a loan and TA coordination committee meeting held on 29 September 1997.

8. The Board of Directors approved the Program on 16 December 1997. Among the concerns raised at the Board meeting were (i) the importance of privatizing and subsequently listing state-owned enterprises on the stock exchange, to give pension funds something to buy; (ii) the need for a strong public information campaign to promote public understanding and support for the reform; (iii) the need for a thorough analysis of the impact of the reform on women and for measures to address any program deficiencies uncovered by this analysis; and (iv) the importance of coordinating with other external agencies.

C. Purpose and Outputs

9. The Program focused primarily on issues related to the implementation of the Government’s pension reform program, rather than its design. The logical framework reflects

² For \$600,000 and approved on 11 October 1995.

³ Initially, a mission considered the possibility of investing in the establishment of the State Pension Payment Center.

this fact by incorporating the output of the reform—the establishment of a fully funded, defined contribution pension system in Kazakhstan—as the Program’s sole purpose. This objective, it was presumed, would lead to the satisfaction of two goals: (i) a sustained economic recovery—by increasing private savings, improving labor mobility, and reducing labor market distortions—and (ii) assured sufficient pension income for retirees.

10. The Program’s policy matrix is consistent with this objective and contains 41 policy measures under five broad areas. These include (i) creating an enabling legal, regulatory, and institutional environment (six conditions); (ii) increasing public awareness of the pension reform (two conditions); (iii) building capacity in the organization responsible for maintaining contribution records, routing contributions to pension funds, and paying pensions in those organizations involved in regulating the new system (12 conditions); (iv) ensuring financial stability (16 conditions primarily concerned with financial market development and the issuance of government debt); and (v) ensuring social sustainability (5 conditions, including a requirement stating that the Government must establish a minimum pension, evaluate the distributional implications of the reform, and take steps to address inadequacies in benefits and other social issues).

11. To complement its policy-based lending, ADB provided three TA grants to the Government to (i) strengthen the institutional capabilities of the pension regulator, formulate a strategy for capital market development, and formulate a strategy for the development of the insurance industry;⁴ (ii) provide training for people working in the asset management and insurance industries;⁵ and (iii) conduct public education activities in support of the reform.⁶

D. Cost, Financing, and Executing Arrangements

12. The Program loan, in the amount of \$100 million, was made effective on 23 March 1998. The first tranche, amounting to \$50 million, was disbursed on 31 March 1998, consistent with the provision that funds were to be disbursed upon loan effectiveness. The second tranche, also amounting to \$50 million, was disbursed on 28 December 1998, upon satisfaction of the second tranche release conditions established in the Loan Agreement. The Ministry of Finance (MOF) was the Executing Agency for the Program and had overall responsibility for the administration and disbursement of the proceeds and the maintenance of records. Implementing agencies included the Ministry of Labor and Social Protection (MLSP), the National Bank of Kazakhstan (NBK), and the National Securities Commission (NSC), which has since been incorporated into NBK.

E. Completion and Self-Evaluation

13. The Program loan closed on 30 June 1999. A program completion report (PCR), prepared by ADB’s Infrastructure, Energy, and Financial Sectors Department (East), was circulated to the Board of Directors in September 2000.

14. The PCR rated the Program partly successful under a three-category rating system (ADB now uses a four-category rating system).⁷ Initially, the PCR stated the reform experienced a number of start-up difficulties attributable to inadequate computer infrastructure and a lack of procedures for maintaining contributor records and monitoring contributions. However, the

⁴ TA 2910-KAZ: *Capacity Building for Pension Reform*, for \$1 million, approved on 12 November 1997.

⁵ TA 2945-KAZ: *Financial Sector Capacity Building to Support Pension Reform*, for \$680,000, approved on 15 December 1997 and attached to the Program.

⁶ TA 3082-KAZ: *Public Information and Education in Support of Pension Reform*, for \$840,000, approved on 1 October 1998.

⁷ ADB. 2000. *Guidelines for the Preparation of Project Performance Audit Reports*. Manila.

Program did facilitate the introduction of the new pension system and was credited with (i) helping to establish the regulatory and institutional framework for the reform, (ii) enhancing management information systems and the capacity of regulatory authorities, (iii) increasing public awareness, and (iv) supporting the payment of pension arrears. The PCR also rightly credits the Program with helping to establish the framework for the development of modern capital markets in Kazakhstan.

15. The PCR was comprehensive in its assessment and reported that out of 10 end-of-program conditions scheduled to be met between June 1999 and June 2000, five remained outstanding. These included (i) expanding the management information system to cover the entire population; (ii) implementing the Government's strategy to strengthen and modernize the insurance industry, to promote the emergence of annuity products that will facilitate the payment of pension benefits upon retirement; (iii) developing a labor market database; (iv) conducting a distributional analysis of the pension reform; and (v) implementing measures to assure the adequacy of benefits paid under the reform.

F. Operations Evaluation

16. The Operations Evaluation Mission (OEM) visited Kazakhstan in April 2003 to evaluate the performance of the Program. The OEM held discussions with representatives of all relevant government agencies, including MOF, MLSP, NBK, and Ministry of Economy; SAF and private pension funds; asset management companies; commercial banks; custodian banks; professional associations (for nonstate pension funds and financial professionals); World Bank (International Bank for Reconstruction and Development [IBRD]); United States Agency for International Development (USAID); and International Monetary Fund.

17. This program performance audit report (PPAR) was based on these interviews, program loan documents and reports, and other documents and materials obtained. The PPAR focused on two issues: (i) the degree to which the Program successfully supported the implementation of the Government's pension reform program (the question of whether the Program's objective was met) and (ii) social risks created by the Government's failure to implement measures to assure the adequacy of benefits that will be paid under the reform. Copies of the draft PPAR were submitted for review to the Government of Kazakhstan and concerned ADB staff. Comments received were considered before finalizing the evaluation report.

II. PLANNING AND IMPLEMENTATION PERFORMANCE

A. Formulation and Design

18. Given the (i) Program's focus on supporting the implementation of the Government's preestablished reform agenda, (ii) reform's tight implementation schedule, and (iii) Program's primary objective of promoting economic growth (followed by the promotion of human development), the conditions established in the policy matrix and the Program's overall design were appropriate. As noted in para. 6, ADB's TA was effectively used to establish some basic guidelines for pension fund development and the establishment of institutions needed to support successful reform. The TA was also used to support training for senior policy makers and cabinet ministers.

19. The \$100 million loan was used to support the adjustment costs of the Program. The intent was to compensate the Government for the fiscal costs of the reform from 1997 to 2002, estimated in present value terms to be \$3.5 billion in 1997 (\$580 million annually). Additional expenses were anticipated to arise from the establishment of the regulatory agencies and the

State Pension Payment Center (SPPC)⁸ and from the creation of a computerized information system that would be used to manage and track contributor records and facilitate the payment and clearing of benefits. USAID provided considerable resources for TA to support the pension reform. IBRD assistance complemented the Program. Approved after the Program, IBRD's assistance helped bridge the fiscal deficit resulting from initial reforms of the system.⁹

20. The key risks to the success of the pension reform included (i) inadequate legal, regulatory, and institutional structures to manage and properly safeguard employee contributions and investments (which exposed pension assets to the risk of mismanagement, undue investment risk, and misappropriation); (ii) insufficient public understanding and, thus, support for the reform (which risked engendering incentives for noncompliance and political opposition to the overall design of the reform); (iii) inadequate informational and administrative capacity to process contributor records and manage the transfer of funds (which threatened the integrity of the system and created opportunities for misappropriation); and (iv) inadequate investment opportunities in Kazakhstan's nascent capital markets to effectively absorb the investment capital generated by the new pension system. These risks were addressed in the Program's design by the first four of five categories of conditions contained in the policy matrix.

21. The design of the Program was weaker, however, in meeting the last category of conditions—ensuring the social sustainability of the pension reform. The policy matrix contains conditions intended to (i) assure the minimum adequacy of pension payments under the reform and (ii) require the Government to consider the distributional implications of its reform and take appropriate steps to address any concerns resulting from this distributional analysis. These provisions were insufficiently restrictive and now necessitate a second phase of reform to address the original weaknesses of the Program. Only one of these provisions—the implementation of a policy on the indexation of the minimum pension—was included as a second tranche release condition. The remaining four were simply end-of-program conditions, of which only one—the implementation of a minimum benefit guarantee scheme—was met at the time the PCR was written. Of the three outstanding commitments, not one has since been satisfied. As a consequence, although the pension reform appears to have been very successful in promoting capital market development and improving the efficiency of capital formation, the Program's goal of providing effective long-term social insurance for most of the working population in Kazakhstan has not yet been met.

B. Achievement of Policy Reform Measures

22. The OEM revisited the Government's progress in satisfying the three conditions discussed in para. 21, that had yet to be met at the time the PCR was circulated (September 2000). The OEM found that, as of April 2003, none of these conditions had been fulfilled. A table describing the steps taken by the Government and an evaluation of the Government's compliance with all 41 policy reform conditions appear in Appendix 1. A summary discussion is presented in paras. 23–27.

1. Create an Enabling Legal, Regulatory, and Institutional Framework

23. Six conditions were intended to help create the legal, regulatory, and institutional structures necessary to support the implementation of the pension reform. All have been satisfied. Key measures included the following:

⁸ Assistance was provided by TA 2829-KAZ: *Enhancing Pension Management and Information System*, for \$100,000, approved on 23 July 1997.

⁹ The Pension Reform Implementation Loan, valued at \$300 million, was approved in June 1998. The loan was closed in June 2001, having disbursed \$200 million of the intended \$300 million in loan proceeds.

- (i) **Enact legislation for pension reform.** The Pension Law was enacted by Parliament in July 1997 and subsequently revised in April and November of 1999. A thorough review of the law started in 2000, and significant amendments were enacted in September 2002. At the time of the OEM, the impact of these amendments had just begun. The new amendments to the law will address some of the regulatory concerns and contribute to greater efficiency in the sector.
- (ii) **Promulgate regulations, investment guidelines, and prototype contracts.** In October 1997, regulatory agencies (a) adopted norms consistent with international practices, covering such issues as license fees, commission structures, reporting and disclosure requirements, accounting and auditing requirements, minimum capital requirements, and prudential norms; (b) issued investment guidelines establishing permitted asset classes and limits on investment in any one class, to limit investment risk; and (c) developed model pension contracts and custodial agreements for use by SAF and private pension funds. These contracts and agreements appear to be in use and regulations enforced.
- (iii) **Establish the necessary government agencies.** In October 1997, the Government established (a) SPPC, which is responsible for managing contributor records, routing contributions to pension funds, and paying benefits (Appendix 2 details the flow of funds into and out of SPPC); (b) National Pension Agency (NPA), which is responsible for licensing and regulating private pension funds (NPA was later renamed the Committee for Regulation of Activity of Accumulation Pension Funds and subsequently incorporated into NBK); (c) a unit within NSC to regulate the activities of asset management companies (this unit, along with the entirety of NSC, has since also been incorporated into NBK); and (d) SAF.

2. Increase Public Awareness of the Pension Reform

24. Two conditions were intended to promote public understanding and support for the reform. Both have been satisfied. Key measures included the following:

- (i) **Establish, staff, and fund a public awareness unit within MLSP.** The unit was established in May 1997, before loan appraisal, and continues to function.
- (ii) **Conduct a public information campaign.** With the support of ADB's public education TA, mentioned previously, and TA and financial support from USAID and IBRD's Pension Reform Implementation Loan (PRIL), the Government undertook a public information campaign involving the creation and distribution of media materials, radio and television promotions, printed brochures and pamphlets, and training and education activities directed at market participants.

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

25. Twelve conditions were intended to enhance the (i) administrative and managerial capacity of SPPC and (ii) regulatory capacity of government agencies tasked with overseeing the new pension system. All conditions but one have been satisfied. The only condition left unfulfilled—the assigning of individual social identification codes (SICs) to all members of the population—is of no immediate practical concern, as all people needing such codes to be enrolled in the pension system were assigned them. The Program should be given credit for

helping the Government successfully implement what was an ambitious and logistically difficult reform under tight deadlines. Key measures included the following:

- (i) **Centralize the collection of taxes and contributions.** The responsibility for the collection of employer taxes and pension contributions and for enforcement, in the event of noncompliance, was centralized under the State Tax Inspectorate in July 1997. Once contributions are received by SPPC, they are routed to the pension funds selected by contributors.
- (ii) **Establish and staff SPPC.** SPPC was established and staffed by October 1997 and tasked with maintaining contribution records, routing funds to the accounts of SAF and those of private pension funds, and paying benefits.
- (iii) **Implement management information and record-keeping systems for SPPC and NPA.** With the support of ADB's capacity-building TA (footnote 4) and technical support from USAID, the Government allocated resources to (a) support the purchase and development of management information and record-keeping systems and (b) provide training in the use of these systems to SPPC and NPA.
- (iv) **Build institutional capacity among regulatory agencies.** ADB's two TA activities¹⁰ helped support the strengthening of regulatory and supervisory capacity within NPA, NSC, and Insurance Supervision Department of NBK. In addition, assistance provided by other agencies helped build capacity and train officials from relevant government institutions. The development partners included (a) IBRD, which supported capacity-building activities for SPPC and MLSP through the PRIL; (b) USAID, which provided TA in actuarial modeling, enforcement of collection compliance, development of the life insurance industry, and issuance of additional investment products; and (c) the Government of Japan, which, along with development agencies, helped fund a study tour to Chile for officials from NPA, MLSP, SPPC, and SAF.
- (v) **Register formal sector employees in the new system.** SPPC met its goal of assigning SICs and registering all formal sector workers in the new pension system by mid-1999. By April 2003, SICs had been assigned to virtually all people of working age. From an estimated population of approximately 7 million economically active people, individual accounts had been established for 5.5 million people.¹¹
- (vi) **Complete computerization of records for existing pensioners.** SPPC met its goal of computerizing records for existing pensioners by the time the PCR was written. By April 2003, computerized records were being maintained for roughly 2.4 million people receiving benefits.

4. Ensure Financial Sustainability of the Pension System

26. Sixteen conditions were intended to (i) improve contribution payment compliance on the part of employers; (ii) settle outstanding arrears in the payment of benefits under the old pension system; (iii) increase the supply of securities available in the capital markets to give

¹⁰ TA 2945-KAZ (footnote 5) and TA 3082-KAZ: *Public Information and Education in Support of Pension Reform*, for \$840,000, approved on 1 October 1998.

¹¹ Some accounts are dormant as a result of duplicate accounts, retirement, or unemployment.

pension funds something to invest in; and (iv) encourage the formation of an insurance market, in particular annuities, to facilitate the payment of pension benefits upon retirement. All conditions but one—implementing a strategy for the development of the insurance market—have been satisfied. Key measures included the following:

- (i) **Strengthen collection enforcement.** Legal changes were introduced in November 1999 to strengthen the State Tax Inspectorate's enforcement authority. Despite these changes, however, the informal economy has become large in Kazakhstan, and underreporting of income within the formal economy is evident.
- (ii) **Settle outstanding arrears and remain current in the payment of benefits due under the old pension system.** Arrears were initially cleared in 1997, when the pension reform was first launched, but reemerged in 1999, following a contraction of the economy, attributable in part to spillover from the Asian and Russian financial crises. To settle these arrears, the Government used the proceeds from IBRD's PRIL second tranche and then raised the social tax levied on employers (which, at that time, was used to cover the payment of benefits under the old pension system) by 5%. Since that time, the Government's fiscal constraints have relaxed greatly, with the flow of oil and gas revenues, and there have been no delays in the payment of benefits under the PAYGO system.
- (iii) **Increase the supply of securities in the capital markets.** The Government has (a) issued domestic debt instruments with more than 2-year maturities; (b) formulated a proposal for the introduction of indexed bonds; (c) listed at least 15 companies (Appendix 3) on the Kazakhstan Stock Exchange; and (d) continued to monitor developments in the capital markets and adjusted asset allocation guidelines for private pension funds and SAF, accordingly. Despite these steps, however, the depth and breadth of the capital markets and the supply of government debt remains highly limited. The lack of securities for pension funds to buy represents the greatest threat to the success of the reform, as very high real rates of return will be needed if the current 10% contribution rate is to provide even modest income replacement for future retirees.
- (iv) **Encourage the formation of an insurance market.** The Government developed a strategy to promote the development of an insurance market that, among other things, will eventually be needed to facilitate the payment of pension benefits from individual investment accounts. However, that strategy was never implemented. The lack of a domestic market for annuities is not yet a pressing problem—current retirees are receiving most of their benefits from the old system, and the funds in their accounts are either (a) used to augment their benefits from the old system (to ensure that total benefits exceed minimum guaranteed benefits) or (b) distributed in one lump-sum payment.

5. Ensure Social Sustainability of the Pension System

27. Concerning the five social sustainability conditions (para. 21) that the Program's design was weakest in addressing, only one condition—implementing a policy on the indexation of the minimum pension—was a second tranche release condition. The remaining four were end-of-program conditions. Of these, only the implementation of a minimum benefit guarantee scheme was met at the time of the PCR Mission. Two of these unmet conditions required the Government to revisit its original design for the pension reform and take steps to deal with the

very low benefit levels that will be paid to many pensioners, particularly women, more than half of whom will receive the minimum pension and thus obtain no real benefit from the reform. These conditions are keys to meeting the goal of providing effective long-term social insurance for the working population in Kazakhstan, and they remain unmet. Measures taken included the following:

- (i) **Implement a minimum pension guarantee scheme and index the minimum to changes in the consumer price index.** Both conditions have been met. The Government established and implemented a minimum pension guarantee scheme, and the minimum has been adjusted, on an ad hoc basis, roughly in proportion to changes in the consumer price index. However, some issues remain. These concern (a) how the minimum benefit scheme will function over time—particularly as an increasing percentage of benefits are paid from the new funded system and mechanisms that are, in the absence of well developed annuity markets, inadequate to efficiently convert individual account balances to monthly pension benefits—and (b) the level of the minimum, which at T5,000 per month, is only 88% of the subsistence level.
- (ii) **Develop a labor market informational database on participants in the pension system.** This condition was intended to encourage the Government to begin to collect the basic data needed to support a meaningful dialogue on social policy issues and promote the development of analytical capacity within the Government for managing social programs. The condition has not been formally met, although SPPC is collecting substantial amounts of data on declared wages within the formal economy. This data, however, does not capture (a) the degree to which there is substantial underreporting within many sectors of the economy covered by the pension system or (b) any information regarding wages and employment in the informal economy. Regular household income and labor force surveys will greatly enrich information that can be used by policy makers to manage social programs. These surveys, therefore, merit the Government's support.
- (iii) **Conduct a distributional analysis of the new pension system and take steps to address inadequacies.** These two conditions together required the Government to revisit its original design for the pension reform and take steps to address the very low benefit levels that will be paid to many pensioners and the distributional inequalities the reform will engender. This has not been done, although there appears to be a growing recognition among senior government officials that additional reforms are necessary.

C. Program Management

28. MOF program management was satisfactory. In its role as Executing Agency, MOF, with MLSP, NSC, and NBK, coordinated program implementation effectively. The PCR states that 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.

29. **Effectiveness of TA.** To complement its policy-based lending and (i) strengthen the institutional capabilities of the pension regulator, formulate a strategy for capital market development, and formulate a strategy for the development of the insurance industry; (ii) provide training for people working in the asset management and insurance industries; and

(iii) conduct public education activities in support of the reform, ADB provided five TA grants¹² to the Government. A summary of their objectives and an evaluation of their outputs is presented below.

1. Capacity Building for Pension Reform

30. The TA was intended to strengthen the Government's institutional capabilities in three areas critical to the implementation of the reform. Its scope included (i) strengthening the regulatory and monitoring capacity of regulatory agencies; (ii) formulating a strategy for the development of capital markets, including the issuance of indexed government bonds; and (iii) formulating a strategy for the development of an insurance industry capable of providing the sorts of insurance products needed to support the needs of pensioners under the new system.

31. The TA was satisfactory. It was well implemented, and the performance of the consultants, engaged for 20 person-months, appears to have been satisfactory. TA activities ensured that (i) hardware for NPA was procured; (ii) the management information systems used by NPA and SPCC to compile and maintain wage history and pension contribution data were strengthened; and (iii) recommendations to improve accounting, auditing, and reporting systems and procedures were made. International accounting standards have been adopted for all listed companies. In addition, TA activities assisted in developing the regulatory framework for the new pension system and provided a framework for the development of the insurance industry. Finally, TA activities ensured that the staff of the Insurance Supervision Department was trained to address issues related to the operation of the insurance market.

2. Financial Sector Capacity Building for Pension Reform

32. The TA was intended to strengthen the skills of market participants and regulators by providing training on issues related to (i) financial management, including risk appraisal and portfolio design, and (ii) the development of the insurance industry. Consultants, engaged for 13.5 person-months, completed their assignments in a satisfactory manner. They organized a series of seminars on asset management, general insurance, life insurance, and actuarial analysis. These seminars were well attended by regulators and industry participants, and received favorable coverage in the local media. The course examinations suggested that the material was effectively conveyed to most seminar participants. An overseas study tour to Hong Kong, China and Singapore was conducted. The TA can be considered satisfactory.

3. Public Information and Education in Support of Pension Reform

33. The TA was extended to promote public understanding and support for the reform by designing and implementing a comprehensive public education and information campaign. The consultants, engaged for 53 person-months, performed satisfactorily, and the TA contributed to (i) furthering, on the part of the general public, a general understanding of the new pension system; (ii) increasing compliance; (iii) reducing filing errors when assigning SICs; and (iv) ensuring the establishment of a sustainable information network throughout the country. Interviews conducted by the OEM, however, suggest that while the TA was successful in meeting its objective of promoting awareness of the reform, the public's understanding of the new pension system remains limited, especially among people living in rural areas. Moreover, there was no evidence to support the conclusion that the public education campaign had a direct and lasting impact on compliance. Informal economic activity constitutes a sizeable

¹² One of these grants (TA 2420-KAZ: *Financial Sector Advisory* [footnote 2]) was important in the early formulation of the Program and is discussed in paras. 6 and 18.

portion of economic output, and the underreporting of wages within the formal economy remains widespread.

4. Enhancing Pension Management Information System

34. TA activities ensured that (i) SPPC was assisted in developing the initial design for and prioritizing its work program; (ii) recommendations were made to the Government concerning the improvement of collection procedures and the compliance rate; and (iii) the design of SPPC's proposed management information system, being prepared by the Government, was assessed. The assessment included identifying equipment, software, and consultant inputs. This TA undertaking, valued at \$100,000, was quite small in relation to the terms of reference and the needs of SPPC. Initial delays in establishing SPPC and getting the information system operating efficiently contributed to the partly satisfactory outcome of the TA.

5. Pension Reform

35. The TA scope included (i) reviewing the principles that the Government recently adopted for pension reform and providing comments that could be considered or incorporated during the preparation of a draft pension legislation to be submitted by the Government for approval by Parliament; (ii) developing a medium-term time-bound action plan to be used as a basis for an ADB pension reform sector development program; (iii) identifying further TA needs for carrying out the proposed pension reform, especially during the reform implementation stage; and (iv) proposing an approach for building local institutions' capacities to meet the requirements for establishing a properly functioning nonstate multipillar pension system. The main output of this TA was its support to the Fact-Finding Mission. The TA was satisfactory in providing essential support to ADB's first pension reform program. This was especially important, given the scope and magnitude of the anticipated reform. The pension reform was, at that time, the largest and most radical attempted in any postcommunist country.

III. ACHIEVEMENT OF PROGRAM PURPOSE

A. Operational Performance

36. Performance indicators to capture the impact of the Program were not defined or quantified at the time of appraisal. However, expected outputs included (i) phasing out the PAYGO system; (ii) establishing, regulating, and administering pension funds; (iii) creating the necessary financial institutions; and (iv) establishing transparent and accurate reporting mechanisms. Quantitative targets included enrolling 60% of the formal sector in the pension system and improving the collection rate of pension contributions by 50%. These targets were exceeded. Indicators for legal and institutional development were not specified. As this was the first attempt to establish a fully funded pension system within the former Soviet Union, outcomes were difficult to predict, especially given the existence of the policy, institutional, and social reforms being pursued concurrently across virtually all sectors of Kazakhstan's economy.

37. The major exogenous factor that impeded Kazakhstan's economic recovery in the period following the enactment of the reform was the 1998 Russian financial crisis. After the crisis, Kazakhstan's fiscal balance improved substantially. From a deficit equivalent to 4.2% of the gross domestic product (GDP) in 1998, the general government budget was essentially balanced (with a negligible surplus) in 2002. With this easing of fiscal pressure, GDP growth increased, reaching 9.8% in 2000 and 9.5% in 2002, based on preliminary estimates. The current account also improved substantially. These data reflect a strong rebound in the price of oil. Inflation rose to 13% in 2000, after 2 years in the range of 7–8%, but fell to 5.9% by 2002. The currency depreciated by 18.8% in 2000, 3.4% in 2001, and 4.5% in 2002. The lingering

effects of the Asian financial crisis, however, dampened overall investment and output demand. Low oil prices in 1998 and 1999 negatively impacted the country's balance of payments. In turn, this forced the tightening of budgetary expenditures, including those related to social issues. Given the turbulent macroeconomic environment of the last 6 years, the Government's dedication to the reform program has been impressive, and the impact of some program policy actions is notable (paras. 22–25).

B. Sustainability

38. There appears to be a great probability that the pension reform will succeed. The structures created by the reform—laws and regulations; administrative and regulatory agencies; market actors needed to implement the new pension system; and administrative, regulatory, and computer systems—are all in place and functioning. The Government's prudent approach to limiting investment risk through its investment guidelines and the absence of any episodes of misappropriation suggest that the system is running as expected and necessary to accumulate the assets needed to support the eventual payment of benefits. Public confidence in the integrity of the system appears reasonably strong.

39. With that in mind, the pension reform must not only function as it was presented to the public, it must also provide reasonable levels of retirement income to future retirees, if it is to endure. As stated in para. 21, this is unlikely to be the case without a second phase of reforms. Suggestions for these reforms are discussed in paras. 60–64. Moreover, for the reform to remain credible, the Government must also address the plight of current pensioners and workers close to retirement. Fortunately, the budgetary burden of the PAYGO system will fall over time, and the Government's greatly improved fiscal situation should offer adequate resources to address these concerns. From 1999 to 2001, the cost of the PAYGO pension system to the general budget has diminished, as is shown in the following table.

Cost of PAYGO Benefits to the General Budget
(T billion)

| Item | 1999 | 2000 | 2001 |
|--|------|-------|------|
| Cost of Benefits from PAYGO System | 99.8 | 101.5 | 80.6 |
| Revenues from Social Tax (paid by employers) | 50.3 | 70.7 | 65.4 |
| PAYGO Costs Less Social Tax Revenues | 49.5 | 30.8 | 15.2 |
| PAYGO Costs Paid from Budget (%) | 49.6 | 30.3 | 18.9 |

PAYGO = pay-as-you-go.

Source: Ministry of Finance.

40. From the perspective of sustaining economic growth, the pension reform has fostered capital formation in a way that has enabled the federal Government, as well as local governments and private firms, to issue debt to finance investment that will provide a strong and continuing impetus for maintaining or even extending the reform.

IV. ACHIEVEMENT OF OTHER DEVELOPMENT IMPACTS

A. Impact of Policies

41. The Government's decision to introduce a pension system based on fully funded individual accounts represented a major policy shift and reflected the Government's broader commitment to introducing market-based reforms. Market forces, specifically competition, were

used to support and sustain the implementation of the pension reform and develop the market institutions necessary to support it.

42. Competition among pension funds was fostered through two mechanisms: (i) pension fund contracts that give employees the right to join the pension fund of their own choosing and (ii) the fee structure used to compensate pension funds. Following the model of the Chilean pension system, workers are free to enter into contracts with individual pension funds. At least, in theory, employees would be expected to select funds that have generated the highest rates of investment return. Initially, few workers chose to switch from SAF (in which they were enrolled by default). This reflected limited understanding of the reform on the part of workers and low confidence in private pension funds (and the private sector generally). As the public's awareness and understanding of the new pension system has grown, in response to public information activities¹³ and direct marketing by the private pension funds, participation in these funds has increased from less than 20% in 1998 to almost 75% in 2003.

43. The fee structure created incentives for pension funds to compete with one another for contributors. Fees were initially based on the number of contributors and volume of assets under management. At the time the PCR was prepared, SAF held about 50% of total assets in the pension system. By May 2003, SAF assets accounted for only about 26% of total assets (Appendix 4). The incentives embodied in a fee structure based on the number of participants served as a cost-effective method for the Government to promote the pension reform. As a result, and by marketing themselves to workers, private pension funds played a major role in educating the public. Recent amendments to the Pension Law, approved in September 2002, changed the fee structure substantially, partly rewarding pension funds for returns they generated through investments. As a practical matter, the new fee structure will most likely drive consolidation within the industry, as many pension funds are marginally profitable. The new structure will also contribute to more efficient fund management.

44. This approach of using market mechanisms (incentives embodied in the fees pension funds can charge) to advance the Government's policy agenda was also taken with asset management companies. These companies contributed substantially to capital market development, by increasing the demand for all types of securities, particularly domestic nongovernmental securities (i.e., corporate bonds). Asset management companies educated corporate managers on the advantages of using the capital markets as a source of financing, rather than relying solely on bank loans. As of May 2003, the 15 private pension management companies had invested 32% of their portfolios in domestic nongovernmental securities. The ceiling on such investment is 40%. The role of asset management companies in promoting market development has been highly effective in promoting the development of a debt market but less effective in promoting the development of an equities market.¹⁴

45. Asset management companies have also invested in municipal bonds, of which there were two in 2001. The issuers were the city of Almaty and Mangistau region. The international financial firm, Fitch, has issued ratings for these two bonds.¹⁵

¹³ Two surveys, one conducted at the beginning and one conducted at the conclusion of TA 3082-KAZ: *Public Information and Education in Support of Pension Reform* (footnote 6), indicated that public awareness and understanding of the pension system had increased. The degree to which this increase is attributable to TA 3082-KAZ is hard to assess, but it clearly played a significant role.

¹⁴ Many of the most attractive enterprises are owned by strategic investors or are operationally under the effective control of management.

¹⁵ Fitch recently upgraded the city of Almaty's long-term foreign currency and local currency ratings to BB- from B+. At the same time, the agency assigned the city a B short-term foreign currency rating. For Mangistau region, Fitch assigned long-term foreign currency and local currency ratings of BB- and a short-term foreign currency rating of B.

46. A continuing concern is the lack of investment instruments for pension funds to buy. The demand for instruments continues to grow as the inflow of funds from pension funds, roughly \$40 million per month, has outstripped supply and seems likely to continue to do so for the foreseeable future (see Appendix 4 for pension fund asset holdings).

B. Institutional Impact

47. The Government's approach to pension reform was considered radical by many observers, especially because the country was still in the early stages of transition and its pension system was in fiscal crisis. Despite these concerns, the capital market institutions necessary for the success of the new pension system were established under the reform. Sixteen pension funds currently operate (including SAF), eight asset management companies have been established to manage pension fund assets, and six commercial banks are operating as custodians (Appendix 5). Private pension funds, asset management companies, and custodian banks are operating with sufficient regulations and supervision. Guidelines and standards on license fees, commission structures, reporting and disclosure requirements, accounting and auditing, minimum capital requirements, and prudential norms have been formulated and promulgated by the regulatory agencies. Model pension contracts and custodial agreements have been developed and are in use by SAF and private pension funds. ADB (through two TA activities), IBRD, USAID, and other organizations provided TA.

48. Two recent amendments to the Pension Law will impact the further development of these institutions. The new fee structure (para. 43) will most likely make it difficult for some funds to be profitable and will force a consolidation within the pension fund industry. Allowing pension funds to manage their own assets—provided they meet all of the requirements now established for asset management companies—will likely force the closure of some asset management companies. The largest private pension fund, Halyck,¹⁶ has already received approval from NBK to manage the investment of its assets. These amendments should be seen as positive developments in this next phase of reforms.

49. SPPC is now fully functional, after a difficult start. As stated in paras. 23 and 25, SPPC is responsible for the payment of pensions and allowances, the maintenance of data on contributors, and assigning SICs to citizens. NPA,¹⁷ under MLSP, initially regulated and supervised the activities of pension funds. Since November 2002, however, regulatory authority over private pension funds has been moved to a separate unit within NBK. The Government is planning to establish, in 2004, a separate unified financial sector regulator, with jurisdiction over the banking sector, capital markets, and pension and insurance industries.

C. Social Impact

50. As a practical matter, the pension reform has had little impact on pensioners who retired before or after the reform was enacted. The status of current pensioners should still be of concern, however, because many issues have eroded public satisfaction with the system and left many elderly people impoverished. In line with this, the concerns listed below are valid and merit the Government's attention.

- (i) Benefits for most pensioners are inadequate.

¹⁶ Formerly Narodny Bank.

¹⁷ As stated in para. 23, NPA was renamed the Committee for the Regulation of Activity of Accumulation Pension Funds, before being incorporated into NBK.

- (ii) Inflation and the Government's ad hoc approach to indexation have eroded the real value of pensions substantially and distorted the connection between people's wages and their benefits to the point where the system is seen as highly inequitable.
- (iii) The very low ceiling on wages used in the calculation of benefits has resulted in a very flat distribution of benefits across preretirement income levels and very low levels of income replacement for all pensioners.
- (iv) Rising real incomes are increasingly leaving the elderly comparatively poor, relative to people of working age.

51. The pension reform, it should be noted, was not intended to address the problems of current pensioners or those workers close to retirement when the reform was enacted. Its impact will only be felt over time, once the benefits that are paid from individual accounts are no longer dwarfed and masked by those paid under the old PAYGO system, for contributory service before 1998. That potential impact, like the plight of current pensioners, is also cause for serious concern and merits the Government's attention. Absent further reforms, major social problems will emerge relating to the adequacy of benefits paid, the extent to which the system reaches people working outside the formal economy, the relative benefits of women and men, and other concerns (Appendix 6). These issues will likely require the Government to revisit the original design of the pension system and institute a second phase of reforms. Addressing them is one of the key issues the Government will face in the future.

V. OVERALL ASSESSMENT

A. Relevance

52. The primary objective of the Program was to support the transition from the existing PAYGO system to a pension system based on fully funded, individual defined contribution accounts. The measures applied in support of this objective were clearly relevant and fully consistent with the attainment of this objective. The only concern was the weak link between the social protection priorities identified in the COS and the Program's design. Despite some weaknesses in its design, the Program is assessed as relevant.

B. Efficacy

53. The Program was broadly successful in meeting most of the performance targets of its logical framework. Key accomplishments include (i) creating the legal, regulatory, and institutional framework required for the new pension system to operate effectively; (ii) ensuring reasonable public understanding of the reform; (iii) guaranteeing adequate capacity on the part of SPPC and regulatory authorities, respectively, to administer and oversee the new system; (iv) settling all outstanding pension arrears and ensuring the continued timely payment of benefits under the old PAYGO system; and (v) making strong progress in promoting the development of the capital markets. As a result of these activities, the Program is assessed as efficacious.

C. Efficiency

54. No economic rate of return can reasonably be calculated for the Program since the proceeds of the loan were used for general budgetary support (primarily to offset lost payroll taxes diverted to individual investment accounts at SAF and private pension funds). Moreover, any attempt to measure the impact of the Program on current indicators of economic

performance will be distorted by the (i) impact of exogenous factors on the Kazakhstan economy, including the spillover effects of the Russian and Asian financial crises and changes in the prices of oil and gas, and (ii) absence of reliable data to assess the degree to which savings within the pension system have been offset by reductions in savings elsewhere in the economy. Nevertheless, the Program has certainly contributed to the pooling of investment capital and, by virtue of the involvement of finance professionals in the management of pension fund assets, is likely to improve the efficiency of capital allocation methods within the Kazakhstan economy. The Program is, therefore, assessed as efficient.

D. Sustainability

55. The Program helped support the implementation of a reform that is unlikely to be reversed. Moreover, the Program's contributions to institutional and capital market development are likely to endure. Concerns regarding the adequacy of benefits, the extent to which the system reaches people working outside the formal economy, and the relative benefits of women and men, however, will likely require the Government to revisit the original design of the pension system and institute a second phase of reforms. For this reason, program sustainability is assessed as likely, subject to the caveat that further reforms are still needed and merit the Government's support.

E. Institutional Development

56. The Program had a clear and strong positive impact on the strengthening of financial market oversight and the development of the nonbanking financial sector. In addition, the Program made a direct and lasting contribution to the establishment of SPPC, which is integral to the functioning of the new pension system. The Program's contribution to institutional development is, therefore, assessed as substantial.

F. Overall Program Rating

57. Based on the above assessments, the overall rating of the Program is successful. This upgrades the PCR rating of partly successful, based on the overall success of the reforms noted in paras. 52–56 and the progress the Government has made on end-of-program conditions (paras. 15; 22; 27 (i), (ii), (iii); and Appendix 1).¹⁸

G. Performance of ADB and the Executing Agency

58. ADB's oversight of the Program was satisfactory. Two review missions were conducted. The first review mission, fielded in April 1998, approximately a month after loan effectiveness, identified a number of impediments to the successful implementation of the reform—including a lack of public understanding and, thus, support for the reform—and resulted in the provision of additional advisory TA to support a public information campaign to develop awareness and generate popular support for the reform. The second review mission, fielded in November 1998, assessed the Government's progress in meeting the Program's conditionalities and recommended the release of the second tranche of the loan, which occurred on 28 December 1998. Both missions appear to have coordinated closely with other agencies, including IBRD and USAID.

¹⁸ The Program is a long-term effort, as noted in the report and recommendation of the President (see also paras. 50 and 51). The OEM's discussions with the Government indicated both an awareness of and commitment to pursuing the end-of-program policy actions needed for the social sustainability of the pension reform.

59. The Government relocated the capital from Almaty to Astana at the start of the Program (December 1997). Despite this move, which required massive logistical and organizational changes, the performance of the Government was stable and consistent throughout the program period. One issue, however, involved the preparation of a completion report for the Program, a requirement specified in a provision of Article IV, Section 4.05 (c) of the Loan Agreement between ADB and the Government. This report was never prepared, although reminders were sent to the Government in December 1999 and again in February 2000.

VI. KEY ISSUES FOR THE FUTURE

A. Absorption Capacity of the Capital Markets

60. The success of any defined contribution pension scheme depends critically on the ability of the capital markets to use contributed capital efficiently, thereby generating reasonable returns at reasonable risk to fund participants. The capital markets are still at a very early stage of development, with roughly 29 companies currently included on the Kazakhstan Stock Exchange's A-List of companies (Appendix 3). Market capitalization is low, approximately \$2.7 billion in equity capitalization and \$1.4 billion in corporate bond capitalization. Opportunities to adequately diversify pension assets simply cannot exist in markets of such a size. Moreover, even with sustained strong growth, the capital markets in Kazakhstan will be hard pressed to absorb the roughly \$40 million in contributions now flowing into the pension system every month. Therefore, if the pension system is to provide more than a forced savings scheme and satisfy its broader role as an essential program of social insurance, the Government must (i) continue to privatize state assets; (ii) continue to promote the development of the capital markets, particularly in nonenergy segments of the economy (which are the most logical source of tenge denominated securities); and (iii) be prepared to issue medium- and long-term debt, as necessary, to soak up excess liquidity in the capital markets, even if government finances are adequate and it has little practical reason for borrowing.

B. Benefit Adequacy, Coverage, and Distributional Concerns

61. Replacing the PAYGO pension system with a new system based solely on individual defined contribution accounts resulted in social insurance supported by three components: (i) a small, publicly managed pension scheme financed on a PAYGO basis; (ii) mandated participation in privately managed pension funds; and (iii) voluntary participation in privately managed pension funds, for people wanting to save more than is required under the social mandate. In combination with a low contribution rate (10%), this approach to pension reform suffers from several key weaknesses that may undermine its ability to serve as an effective mechanism for providing social protection to the bulk of Kazakhstan's working population over the long term. Key weaknesses include the following:¹⁹

- (i) A substantial number of future retirees are likely to receive benefits from their individual investment accounts that are insufficient to provide adequate levels of income replacement. They (mostly women) are likely to receive only the guaranteed minimum benefit.
- (ii) Benefits received by women, who retire earlier and live longer, will be substantially lower than those received by men.

¹⁹ Andrews, Emily. 2001. *Kazakhstan: An Ambitious Pension Reform*. Washington, DC: World Bank.

- (iii) People who experience illnesses and cannot work, and families that suffer the death of a primary income earner, will likely be inadequately protected against hardship.
- (iv) The system is unlikely to reach the portion of the population working in the informal economy, which is substantial. These individuals will obtain no benefit from the reformed scheme or will participate only long enough to become eligible for the guaranteed minimum benefit.

62. Addressing these issues will likely require the Government to revisit the original design of the system and institute a second phase of reforms, including, perhaps, measures such as (i) the reintroduction of a small first pillar—in the form of either a flat benefit based on contributory service or an earnings-related benefit—financed on a PAYGO basis or funded from the general budget; and (ii) further increases in the retirement age, a higher minimum benefit guarantee, or the adoption of unisex life expectancy factors in the annuitization of account balances, to establish greater benefit parity between men and women. There appears to be a growing recognition among senior government officials that additional reforms will be necessary.

C. Governance Issues

63. While the reform was generally successful in establishing a legal and regulatory framework, concerns linger over the governance of the system. The transmission of information on employee selection of pension funds at the employer level may have resulted in lower competition among funds than may be desirable. A more effective process would be an anonymous system whereby employers send employee contributions to SPPC, and SPPC, as an independent quasi-government agency, would allocate contributions according to contract information supplied by employees (Appendix 2 provides a flow of funds diagram for SPPC). This would eliminate any perception that employers are involved in any coercion supporting employee participation in a specific pension fund.

64. The Government itself has realized that there were gaps in the three-tier regulatory structure initially implemented to oversee the pension funds. The regulator's ability to take appropriate action may have been constrained because of political interference, a weak incentive structure, poor accountability, a lack of skills and immunity provisions for supervisors and inspectors, and limited coordination and information sharing. Recognizing these potential weaknesses, the Government empowered the Financial Supervision Department of NBK²⁰ to monitor the activities of commercial banks and the securities market. While this department has been in operation for only 6 months, there is a need to support compliance with international regulatory standards and strengthen capabilities in (i) special surveillance, (ii) off-site supervision, (iii) on-site supervision, and (iv) research and training. These efforts should include the implementation of appropriate management information systems. Further efforts toward regulatory independence are under way (para. 40), and the creation of a new independent financial supervision agency is anticipated in 2004. If this agency is to be effective, it will require full Government support, political independence, and adequate financial resources.

²⁰ This department is structured to regulate and supervise all segments of the financial sector—commercial banks, the securities market, and nonbank financial institutions. It is anticipated that this department will be separated from NBK and become an independent regulatory body by the end of 2003.

VII. CONCLUSIONS

A. Key Lessons Learned

65. Key lessons learned from the Program include the following:

- (i) The implementation of a funded pension system requires a substantial commitment of time and resources to adequately develop the institutional, administrative, and regulatory framework on which the system depends.
- (ii) Shifting from a PAYGO pension system to a partially or fully funded system contributes to capital market development in early-stage transition economies and creates institutional pressure to strengthen financial market regulation and oversight.
- (iii) Shifting from a PAYGO pension system to a partially or fully funded system also deprives the Government of resources for addressing social issues and should only be pursued if additional resources can be obtained to ease the cost of the transition.
- (iv) The success of a funded pension system in providing adequate income replacement depends upon the capacity of the capital markets to absorb substantial inflows of investment capital and generate adequate returns to fund participants. In countries with nascent capital markets, the inflow of capital may exceed the absorption capacity of the markets and could expose invested assets to inappropriate risks.
- (v) The introduction of a funded pension system in the absence of other mechanisms to assure a minimum level of benefit adequacy and to effect a reasonable degree of income redistribution from the comparatively well-off to the less fortunate may not provide effective long-term social insurance to the working population.

66. Taking into account the context in which the pension reform was enacted, the reform was not only tremendously ambitious, it was designed and implemented more rapidly than virtually any other reform in the former Soviet Union. The scope of the reform is particularly impressive when juxtaposed against Kazakhstan's nascent capital markets and the inadequacy of the infrastructure that had supported the administration of the old PAYGO system. The reform was complex to design and challenging to implement. It necessitated writing new laws and promulgating regulations to address issues that had never before been faced in Kazakhstan. Moreover, it was logistically demanding, as the administration of the new system required the issuance of SICs to millions of people and the computerization of existing social insurance records, which, itself, was a massive undertaking. It also required creating, staffing, organizing, and outfitting entirely new institutions—including SPPC, NPA, and departments within NSC and NBK—to oversee and administer the scheme. And, last, it depended upon the emergence of private pension funds and asset management companies (and the training of professionals to run them) that, until the reform, did not exist in any meaningful sense.

67. Equally important, the success of the Government's pension reform depended on the creation of its components—laws and regulations; administrative and regulatory bodies; and market actors, such as private pension funds and asset managers, administrative and regulatory procedures, and infrastructure (computer networks, databases, and so forth)—and the ability of the Government to explain and justify the reform to a public that had lived most of

its life under a system of central economic planning. When measured against this yardstick, the Government and the Program clearly accomplished a great deal within a remarkably short period of time.

B. Follow-Up Actions

68. The reform stretched institutional capacity, and the Government's fiscal resources were far more constrained when the reform was launched than they are now. It is now possible to assess some of the remaining issues. A second phase of reform is needed to address the weaknesses of the new pension system. The most important issues the system will face in the future include the (i) capacity of the capital markets to absorb all of the funds flowing into SAF and private pension funds; (ii) adequacy of benefits that will be provided, number of workers who will actually be covered, and issues of equity and fairness under the new scheme; and (iii) problems with governance.

69. The pension reform effort thus far has devoted far more attention to financial market development than to retirement income security issues. In some respects this is understandable, owing to the immensity of the institution building that was needed to make the reform a success. Nevertheless, 5 years after the reform was implemented, there is still no reliable analysis of its likely impact on the average income of future retirees or its likely differential impact on low-wage or low-skilled workers, workers suffering unusually long bouts of unemployment, and women. Preliminary analyses raise questions about the adequacy of the benefits that will be produced by the new pension system, under its present structure. In light of this, the Government is encouraged to conduct a formal distributional analysis of the reform as soon as possible and address any concerns this analysis raises.

70. Further, the success of the pension reform ultimately depends on the ability of Kazakhstan's capital markets to use contributed capital efficiently and generate reasonable returns at reasonable risk to fund participants. For this reason, the Government is encouraged to (i) issue medium- and long-term debt, as necessary, to soak up excess liquidity in the capital markets; (ii) promote the further development of the capital markets, particularly in nonenergy segments of the economy; (iii) work to improve the investment climate, particularly by strengthening corporate governance and increasing transparency within medium- and large-sized enterprises; and (iv) privatize remaining medium- and large-sized state-owned enterprises. Extending, at the earliest possible date, TA to the Government of Kazakhstan to support these activities and the benefit adequacy, coverage, and distributional concerns mentioned, would help address some of the potential shortcomings of the Program. In addition, the Government would benefit from TA designed to draw on internal expertise in the establishment of the consolidated financial regulator. ADB has already been quite successful in providing such TA to Indonesia.²¹

²¹ ADB. 2001. *Technical Assistance for the Development of a Financial Services Supervisory Institution in Indonesia*. Manila; and ADB. 2003. *Technical Assistance Completion Report on the Development of a Financial Services Supervisory Institution in Indonesia*. Manila.

STATUS OF REFORMS

| Policy Action | Status of Reforms October 1999 | Status of Reforms April 2000 | Status of Reforms May 2003 |
|--|--|---|---|
| I. Create an Enabling Legal, Regulatory, and Institutional Framework | | | |
| 1. Enact legislation for pension reform. | Completed. 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 (PAYGO) system, introduced regular indexing of all benefits under the PAYGO system, and made minor technical changes covering reporting requirements for the new system. | Further changes, made in November 1999, restricted automatic indexing under the PAYGO system to the minimum pension and made contributions to the new system voluntary for those working past the statutory retirement age. | Significant amendments to the Pension Law were made in September 2002, to enhance the oversight and management of the pension funds. |
| 2. Develop detailed regulations for the State Accumulation Fund (SAF), private pension funds, asset management companies, and custodian banks, to (i) 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) establish sound investment criteria. | Completed. 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. | SAF is no longer the default fund for those not signing pension contracts. Workers are required to sign contracts as a condition of employment. |
| 3. Develop prototype pension contract and custodial agreement for SAF, and develop a prototype pension contract, asset management contract, and custodial agreement for private pension funds. | Completed. Prototype pension contracts, custodial agreements, and asset management contracts were developed by October 1997. | The Government developed legislation that would eliminate SAF as the default fund for those not signing pension contracts. Workers will be required to sign contracts as a condition of employment. | Workers now voluntarily select funds, and participation in the private sector funds has grown to 75%. |

| Policy Action | Status of Reforms October 1999 | Status of Reforms April 2000 | Status of Reforms May 2003 |
|---|--|---|--|
| 4. Formulate and commence implementation of a policy for the review of investment guidelines for asset management companies, to make appropriate adjustments in line with capital market developments in both domestic and foreign markets. | Completed. 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% minimum), and, for private funds, the maximum investment in Class A enterprises listed on the Kazakhstan Stock Exchange was raised from 20% to 30%. (SAF is currently not allowed to invest in private shares.) | Guidelines continue to be updated. The most recent revision allows up to 5% of assets to be in foreign corporate bonds rated AA or better. | A special department, the Financial Supervision Department, within the National Bank of Kazakhstan (NBK) now regulates pensions as part of its responsibilities. This department is undertaking regulation for the financial sector as a whole, in an effort to address gaps and overlap in the previous three-tier structure. |
| 5. Establish, with clearly defined responsibilities, the State Pension Payment Center (SPPC), National Pension Agency (NPA), and SAF. | Completed. 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 the naming of government agencies and did not signify a change in its status, function, or organization. | Pension regulation has been centralized. |
| 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 NBK, enabling the department to perform supervisory responsibilities under the pension system. | Completed. The actions were fully implemented by October 1997. | The Government considered centralizing responsibility for the supervision of the pension industry under NSC. This is seen as a mechanism for streamlining the regulatory process by eliminating overlap and duplication. | The Pension Law was significantly amended in September 2002 to accommodate the changing needs of the pension industry. Part of the changes was the establishment of a unit within NBK to regulate and supervise the financial sector-bank and non-bank activities. This was done to strengthen financial market oversight. It is expected that this unit will expand into a fully independent agency by the end of 2004. |
| II. Increase Public Awareness of the Pension Reform | | | |
| 7. Establish an adequately staffed and funded public awareness unit in the Ministry of Labor and Social | Completed. The unit was established in May 1997 and continues to function within MLSP. | | Pension funds have been marketing their products in cities and rural areas. |

| Policy Action | Status of Reforms October 1999 | Status of Reforms April 2000 | Status of Reforms May 2003 |
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| Protection (MLSP) headed by a senior official responsible for the development of a public information campaign and the preparation of campaign materials. | | | |
| 8. Undertake a public information campaign that will inform citizens about all aspects of the reform program, including benefits and risks. | Completed. The Government backed a public information campaign that included (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 contribution and enrollment procedures, and (iii) training and education directed at market participants. These efforts were supported by assistance from the United States Agency for International Development (USAID) and a technical assistance (TA) grant from the Asian Development Bank (ADB). ^a | ADB's 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. | |
| III. Enhance the Administration and Management Capacity of the Pension System | | | |
| 9. Develop an organizational structure, and adequately staff and fund SPPC and the regulatory authorities of the pension system. | Completed. The agencies were established and staffed by October 1997. | SPPC is fully operational and appears adequately staffed. It is currently addressing several problems with the social identification code (SIC). Although 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. CRAAPF is a part of MLSP and has had more difficulty in getting adequate staffing. | SPPC is now fully functional. While it is a quasi-governmental organization, it has started servicing special information requests from pension funds. |

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

| Policy Action | Status of Reforms October 1999 | Status of Reforms April 2000 | Status of Reforms May 2003 |
|---|--|---|--|
| 10. Centralize collections under the State Tax Inspectorate. | Completed. Responsibility for enforcing collections rules has rested with the State Tax Inspectorate since July 1997. Pension contributions for the new system are routed through SPPC to the individual funds selected by each individual. | | The comprehensive database is operational and has contributed to a reduction in duplicate accounts, numbers, etc. Data security has been achieved through new security systems, a substantial backup system on-site, and also off-site backup and data storage. There are also backup generators on-site, in case of power failures. |
| 11. Assign responsibility for payment and clearing functions and the maintenance of the contribution records to SPPC. | Completed. Implemented in July 1997. | | SICs are now issued to all persons of working age and, in special cases and upon request, children and other nonworking people. |
| 12. Prepare a detailed design and cost estimates for a centralized computer-based information system that will facilitate payment and clearing functions and enable SPPC to record pension contributions. | Completed. The design was completed in June 1997. The system is now operating. | | USAID completed its assistance in this area. The World Bank did not disburse the final tranche of the PRIL. |
| 13. Establish a computerized beneficiary earning and contribution records system that assigns individual identification numbers to those employed in the formal sector. | Completed. The system for assigning SICs was established by November 1997. | | |
| 14. Enroll at least 60% of those employed in the formal sector in the accumulation component of the new pension system. | Completed. The target of 60% enrollment was a second tranche condition, and it 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. | |
| 15. Complete computerization of records of existing pensioners. | Completed. Records of 2.3 million pensioners were computerized at the 216 local offices of SPPC. | A new single database was set up in Almaty, and scheduled to be operational in September 2000. The database aggregates data of individual | The SPPC in Astana maintains the records of all pensioners. The computer system is fully functional and operating efficiently. |

| Policy Action | Status of Reforms October 1999 | Status of Reforms April 2000 | Status of Reforms May 2003 |
|--|--|--|--|
| | | centers and includes more comprehensive information on pensioners and their liabilities. | |
| 16. Expand the information system and accomplish coverage of the entire population. | Not Completed. SICs were issued to all people needing them for purposes of implementing the pension reform, but were not yet assigned to the rest of the population. | There were discussions underway by MLSP, State Tax Inspectorate, and Ministry of Interior to use SICs as a common identification number for taxes and internal passports. The possibility of assigning SICs at birth was being evaluated. | A decision was made not to automatically issue SICs at birth. But SICs are available to all who request them and are required for all workers. |
| 17. Prepare a capacity-building and training program for the regulatory agencies, SPPC, and capital market institutions and ensure its adequate financing. | Completed. The capacity-building and training program was completed in the fall of 1997 and has since been implemented. | | |
| 18. Implement the capacity-building and training program. | Completed. Several TA activities were undertaken to build capacity and train officials of relevant institutions. These included (i) two ADB TA activities designed to assist key regulatory agencies, including NPA, NSC, and NBK's Insurance Supervision Department, in strengthening regulatory and supervision capabilities, setting up management information systems, and training asset managers and insurance industry personnel; (ii) the World Bank's PRIL, which included capacity-building components for SPPC and MLSP; (iii) TA from USAID, which included legal expertise in actuarial and tax compliance areas; and (iv) TA from other bilateral sources, including the Government of Japan, which funded a study tour to Chile for key government officials from MLSP, SPPC, and SAF in September 1998. | Current USAID TA includes preparing actuarial reports; developing plans to unify the three regulatory agencies, create a strategy for the issuance of SICs to the informal sector, and make available 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 supporting some of these activities when USAID financing scales down in late 2000. | |

| Policy Action | Status of Reforms October 1999 | Status of Reforms April 2000 | Status of Reforms May 2003 |
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| 19. Enable foreign companies to participate in asset management and custodial activities, either directly or through joint ventures with local financial institutions. | Completed. 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 custodian banks have foreign partners, ABN-AMRO and Kazcommertzbank. | | |
| 20. Identify key indicators and establish standardized reporting systems for SPPC, SAF, and nonstate pension funds. | Completed. In 1998, the Government established a management information system that compiles, on a regular basis, operational and financial statistics on the investment activities of SAF and private pension funds. Performance reports are produced quarterly, semiannually, and annually. Administrative capacity for licensing and supervising private pension funds was strengthened through ADB's TA. | Under ADB's TA, support was provided to improve the information system infrastructure of CRAAPF and 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 | | | |
| 21. Adopt measures to strengthen nationwide collection enforcement efforts. | Completed. As of May 1997, responsibility for enforcing the social taxes and pension contribution rules was shifted to the State Tax Inspectorate. Responsibility for collecting the 15% solidarity contribution shifted to the State Tax Inspectorate in January 1999. | Legal changes introduced in November 1999 will strengthen collection enforcement by requiring pension funds to certify that all contributions have been paid on any wages used to compute benefits under the solidarity program. | The costs to the Government of the PAYGO system will continue to decline over the next few years. And while collections have improved, there is still more effort needed to address underreporting of income and participation by people in the informal sector. Finally, the Government must seriously examine whether the 10% contribution rate will be sufficient to provide adequate replacement rates for pensioners. |
| 22. Settle T20.6 billion in outstanding pension arrears. | Completed. Outstanding arrears settled in September 1997. | | Pension payments have not been in arrears since 2000. |

| Policy Action | Status of Reforms October 1999 | Status of Reforms April 2000 | Status of Reforms May 2003 |
|---|--|---|---|
| 23. Settle T5.2 billion in pension arrears that were outstanding as of 1 June 1997. | Completed. Outstanding arrears settled in November 1997. | | Pensioners can receive payments through bank accounts, checks, or cash. |
| 24. Settle T10.2 billion in pension arrears accumulated since 1 June 1997. | Completed. Outstanding arrears settled in December 1997. | | |
| 25. Prepare a fiscal adjustment plan to finance deficits in the pension system. | Completed. A plan to finance the fiscal deficits in the pension system was prepared in October 1997. | No new estimates of the transition costs were released. | The fiscal situation has been ameliorated by the discovery of oil. However, the Government has been quite prudent in its use of the oil revenues and maintained a strict budgetary stance. Social tax revenues continue to support the fiscal costs of the pension reform. Some reassessment of the social tax may be expected in 2004. |
| 26. Allocate adequate funds in the annual budget submitted to Parliament in 1998 to meet the financing requirements of the PAYGO component of the new pension system. | Completed. The 1998 budget contained sufficient financing to cover all deficits in the PAYGO component of the new system. | | Equity issues continue to lag behind debt listings. While corporate governance and reporting standards remain a concern, the control of blue-chip companies remains in the hands of the Government and a few strategic investors. |
| 27. Allocate adequate funds in the annual budget submitted to Parliament in 1999 to meet the financing requirements of the PAYGO component of the new pension system. | Complied With. The 1999 budget submission allocated sufficient resources to cover all 1999 pension liabilities. | As a result of the Asian and Russian 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 the World Bank Pension Reform Adjustment Loan and in part by increasing the social tax by 5%. | ADB conducted a preliminary study (<i>The Distributional Effects of the Pension Reform</i>) in July 2000. This study highlighted the need to address gender issues and replacement rates. The Government may take up these issues in a second phase of reforms. |
| 28. Allocate adequate funds in subsequent annual budgets | Complied With. The 2000 budget contained sufficient revenue to cover | | |

| Policy Action | Status of Reforms October 1999 | Status of Reforms April 2000 | Status of Reforms May 2003 |
|--|--|---|--|
| submitted to Parliament to meet the financing requirements of the PAYGO component of the new pension system. | projected pension liabilities. | | |
| 29. Ensure timely pension payments (after 1 April 1998) under the PAYGO component of the new pension system. | Complied With. 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. | Plans for the new central pensioner database included an option for all pensioners to receive payments through bank accounts, checks, or cash. | Pension payments are timely with no disruptions since 2000. The choice of payment method (cash, check, transfer to bank accounts) is available. Banks are obliged to offer pensioners accounts free of charge, if used only for transferring pension payments. |
| 30. Issue government domestic debt instruments with a maturity of more than 2 years. | Complied With. The Government issued T36 billion in special treasury bills with 10-year maturities. | | |
| 31. Formulate a proposal satisfactory to ADB for the introduction of indexed bonds. | Complied With. The Ministry of Finance 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 during the preceding 6 months. | The Government did not choose to introduce indexed bonds. 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% of the portfolio of the private funds. | The Eurobonds have remained popular as an inflation and currency hedge. However, as the tenge has appreciated in the last few months many pension funds have found themselves exposed to their tenge obligations. The lesson to diversify portfolios has hit the balance sheets of many pension funds. |
| 32. Develop a strategy to strengthen and modernize the insurance industry. | Complied With. NBK's Insurance Supervision Department, with ADB's TA, prepared a draft strategy to strengthen and modernize the insurance industry. The main elements of the strategy included (i) establishing a legal basis for the insurance industry, including provisions for licensing, regulating, and reporting systems; (ii) developing effective insurance supervision; (iii) promoting financial and institutional strengthening of insurance companies; and (iv) developing market infrastructure, including the training of specialists. | | |

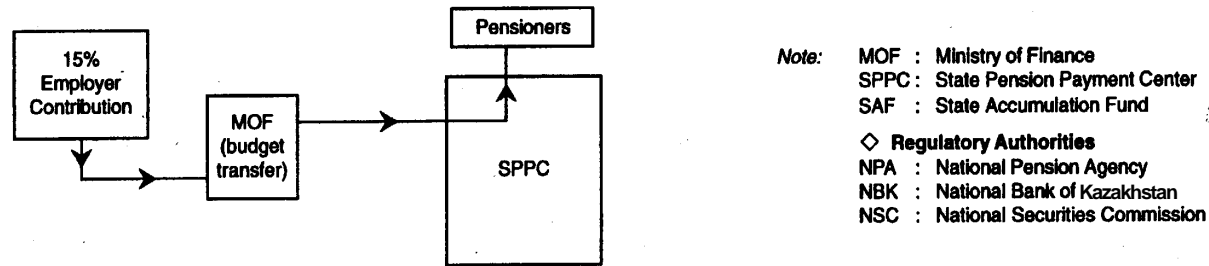
| Policy Action | Status of Reforms October 1999 | Status of Reforms April 2000 | Status of Reforms May 2003 |
|--|--|--|--|
| 33. Implement the insurance strategy, including the development of insurance annuity products to facilitate options linked to the realization of pension benefits as well as mandatory disability and insurance for survivors. | In Process. Preparation of the draft legislation by ADB staff and NBK under way. | The legislation was scheduled to be ready for submission to Parliament in June 2000. It was expected that the legislation would be enacted by the end of 2000. This, however, was delayed. | The Government developed a strategy to promote the development of an insurance market that, among other things, will eventually be needed to facilitate the payment of pension benefits from individual investment accounts. The strategy was never implemented. The lack of a domestic market for annuities is not yet a pressing problem—current retirees are receiving most of their benefits from the old system, and the funds in their accounts are either (i) used to augment their benefits from the old system (to ensure that their total benefits exceed minimum guaranteed benefits) or (ii) distributed in one lump-sum payment. The eventual development of this market is important for the funded system to function efficiently in the long term. |
| 34. Prepare draft amendments to existing legislation to establish greater participation by foreign insurance companies. | Complied With. The 1998 Law on Insurance Organization and Insurance Activities was amended to allow greater foreign participation in the insurance industry. The new law allows foreigners to own up to 50% of the equity of a life insurance company. Total foreign ownership can amount to 25% of the authorized capital of the industry. NBK is also empowered to waive these restrictions. Currently, foreign companies own about 14% of the industry's authorized capital. | | |
| 35. List at least 15 companies, of which at least five are Class A, on the Kazakhstan Stock Exchange. | Complied With. As of 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 2 months of 2000. Nevertheless, new stock issues proceeded more slowly than previously planned, in part because of the impact of the Asian and | The development of the capital market has become more pressing in the last year. Accumulations from pension funds have grown to such an extent that more, high quality, investment |

| Policy Action | Status of Reforms October 1999 | Status of Reforms April 2000 | Status of Reforms May 2003 |
|--|---|---|--|
| | | Russian financial crises. It may also be necessary to implement further reforms in corporate governance and 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 in 1999, and more are expected this year. | products must be made available to the funds. The Government realizes the situation and is contemplating a second wave of privatizations to provide more equity in the market. The bond market has continued to expand at an impressive rate. |
| 36. Continue periodic reviews of developments in the capital markets and its regulatory and institutional framework for improved pension fund investments. | Complied With. A special unit within 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% of assets to be held in foreign corporate bonds rated AA or better. | | Given the stress created by the inflow of pension fund assets, the Government is considering two options: (i) divesting some of the state assets through privatization and (ii) continuing to issue government bonds. Both activities will most likely be needed to absorb the liquidity of the pension funds. |
| V. Ensure Social Sustainability | | | |
| 37. Formulate and adopt a method of periodic retrospective indexing of minimum pensions to the consumer price index. | Completed. Amendments to the Pension Law adopted in April and November 1999 provided for annual indexing of minimum pensions to changes in consumer prices. | | |
| 38. Implement a minimum benefit guarantee scheme that relates to years covered in employment and income adequacy. | Completed. Pensioners with full years of service (25 years for men and 20 years for women) were now eligible to receive a minimum pension if their combined public and accumulation plan pensions fall below a minimum consumption basket. | | |
| 39. Develop a labor market information database that includes data on participants in the pension system. | Not Implemented. This database was to have been completed by September 1999. SPPC started to develop information on the formal sector | Financing for the additional actions needed to complete this activity was included in the PRIL, but no arrangements were made to implement | This activity has not been formally completed, although SPPC is collecting substantial amounts of data on declared wages within the formal |

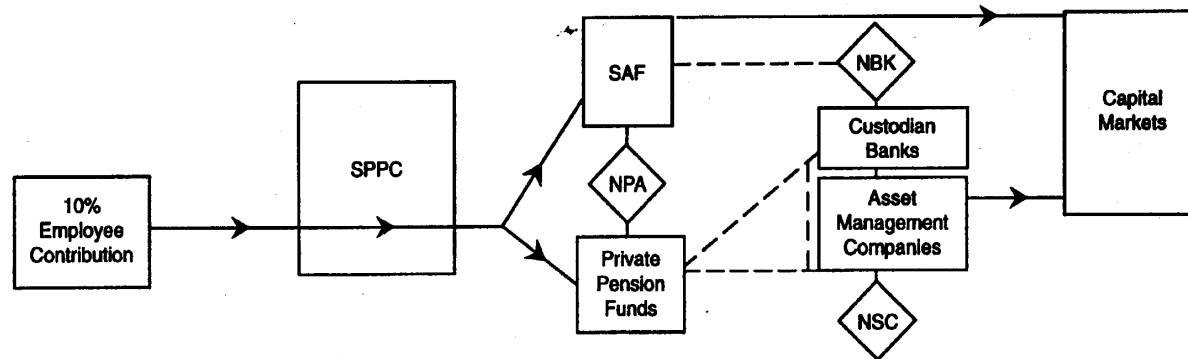
| Policy Action | Status of Reforms October 1999 | Status of Reforms April 2000 | Status of Reforms May 2003 |
|---|---|---|---|
| | workforce, in connection with its contribution collection activities. | them. The World Bank offered to finance a household labor force survey. | economy. This data, however, does not capture (i) the degree to which there is substantial underreporting within many sectors of the economy covered by the pension system or (ii) any information regarding wages and employment in the informal economy. |
| 40. Develop an analytical framework and undertake analyses of distributional issues, including pension and social benefits by gender, age, and working life, on an ongoing basis. | Not Implemented. The analyses were to be completed by September 1999. Although financing for these studies was included in the PRIL, no arrangements were made by this time to implement them. | A preliminary actuarial analysis was prepared with financing from USAID and a World Bank grant. This analysis compared government pension spending with and without the reform. Work was also started on a distributional analysis, but this was suspended when available funds were exhausted. Only very preliminary distributional results were made available. | This has not been implemented, although there appears to be growing recognition among more senior government officials that additional reforms are necessary. ADB conducted initial work in March 2000 and provided some analysis for the Government on the potential distributional impact. More work is needed. |
| 41. Implement measures, in consultation with ADB, to address inadequacies in replacement rates, other pension issues, and social benefits by gender, age, and working life. | Not Implemented. The analyses necessary to identify these inadequacies were not done. No remedial measures were adopted. This objective was to have been met by January 2000. | There was little progress on this activity. | This will require the Government to revisit its original design for the pension reform and take steps to deal with the very low benefit levels that will be paid to many pensioners and the distributional inequalities the reform will engender. |

KAZAKHSTAN PENSION REFORM: FLOW OF FUNDS

Continuation of Pay-As-You-Go System



New System of Savings Accumulation



Source: ADB. 1998. *Progress Report on the Pension Reform Program in Kazakhstan*. Manila.

SELECTED INFORMATION ON ISSUERS

Table A3.1: Bonds

| Issuer | Currency of Transaction | Nominal Value of the Issue | Last Price or Nominal Price (%) | Market Capitalization (\$ million) |
|--|-------------------------|----------------------------|---------------------------------|------------------------------------|
| Official List (Category A) | | | | |
| 1. Alfa-Bank OJSC SB | \$ | 9,928,548 | 100.0000 | 9.929 |
| 2. Almaty Kus OJSC | \$ | 20,000,000 | 94.2900 | 18.858 |
| 3. ARNA OJSC | T | 3,072,755 | 98.0190 | 3.012 |
| 4. Alliance Bank OJSC | \$ | 19,857,095 | 99.9756 | 19.852 |
| 5. Astana-Finance OJSC | \$ | 10,000,000 | 100.1330 | 10.013 |
| | \$ | 29,785,643 | 97.0833 | 28.917 |
| 6. ATF Bank OJSC | \$ | 10,000,000 | 104.4689 | 10.447 |
| 7. Development Bank of Kazakhstan CJSC | \$ | 29,785,643 | 100.2224 | 29.852 |
| | \$ | 100,000,000 | 102.4000 | 102.400 |
| 8. Bank TuranAlem OJSC | \$ | 20,000,000 | 112.7600 | 22.552 |
| | \$ | 24,821,369 | 99.5510 | 24.710 |
| 9. TuranAlem Finance B.V. | \$ | 100,000,000 | 105.5000 | 105.500 |
| | \$ | 100,000,000 | 108.5578 | 108.558 |
| 10. Bank CenterCredit OJSC | \$ | 4,500,000 | 102.5300 | 4.614 |
| | \$ | 9,928,548 | 101.4000 | 10.068 |
| 11. Bank Caspian OJSC | \$ | 15,000,000 | 99.3568 | 14.904 |
| 12. Halyk Savings Bank of Kazakhstan OJSC | \$ | 16,000,000 | 106.0500 | 16.968 |
| | \$ | 13,516,063 | 95.3010 | 12.881 |
| 13. Zhayremskiy OMPE OJSC | \$ | 15,223,773 | 100.0000 | 15.224 |
| 14. Karazhanbasmunai OJSC | \$ | 20,000,000 | 101.1700 | 20.234 |
| 15. Kazkommertsbank OJSC | \$ | 49,642,738 | 95.0345 | 47.178 |
| | \$ | 20,000,000 | 100.8700 | 20.174 |
| 16. Kazkommerts International B.V. | \$ | 200,000,000 | 108.7500 | 217.500 |
| 17. DAGOK Kustanaiasbest OJSC | \$ | 6,000,000 | 104.0000 | 6.240 |
| 18. NAC Kazatomprom | \$ | 15,223,773 | 101.4347 | 15.442 |
| 19. Kazakhstan Mortgage Company | T | 9,884,679 | 104.0000 | 10.280 |
| 20. Kazakhtelecom | \$ | 25,000,000 | 102.5000 | 25.625 |
| 21. KazTransOil CJSC | \$ | 30,000,000 | 100.7000 | 30.210 |
| | \$ | 150,000,000 | 103.7000 | 155.550 |
| 22. Nurbank OJSC | \$ | 9,928,548 | 99.2700 | 9.856 |
| 23. Corporation Ordabasy OJSC | \$ | 10,259,499 | 97.7400 | 10.028 |
| 24. RG Brands OJSC | \$ | 15,554,724 | 98.0797 | 15.256 |
| 25. HOP OJSC | \$ | 25,000,000 | 99.0925 | 24.773 |
| 26. Temirbank OJSC | \$ | 5,000,000 | 100.0000 | 5.000 |
| | \$ | 5,900,000 | 101.2419 | 5.973 |
| | \$ | 14,561,870 | 94.4481 | 13.753 |
| 27. NC KTZ CJSC | \$ | 30,000,000 | 102.0594 | 30.618 |
| 28. Texakabank OJSC | T | 9,884,679 | 99.6150 | 9.847 |
| 29. Valut-Tranzit Bank OJSC | \$ | 10,000,000 | 99.1880 | 9.919 |
| Subtotal (Category A) 29 Issuers | | 1,213,259,944 | | 1,252.713 |
| Official List (Category B) | | | | |
| 1. Atyraumunaigasgeologiya OJSC | \$ | 1,000,000 | 100.0000 | 1.000 |
| 2. Kazneftekhim OJSC | \$ | 2,024,100 | 100.0000 | 2.024 |
| 3. Lariba Bank OJSC | \$ | 1,028,007 | 99.4380 | 1.022 |
| 4. UKBF OJSC | T | 3,309,516 | 100.0000 | 3.310 |
| 5. VITA OJSC | \$ | 4,964,274 | 96.7614 | 4.804 |
| Subtotal (Category B) 5 Issuers | | 12,325,896 | | 12.159 |
| Total (Categories A + B) 34 Issuers | | 1,225,585,840 | | 1,264.872 |

CJSC = closed joint stock company, OJSC = open joint stock company.

Source: Available: <http://www.kase.kz/eng/Emitters/> (version dated 12 May 2003).

Table A3.2: Stocks

| Issuer | Currency of Transaction | Number of Paid Shares | Last Price or Nominal Price (in T per share) | Company Capitalization (T million) |
|---|-------------------------|-----------------------|--|------------------------------------|
| Official List (Category A) | | | | |
| 1. Almaty Kus OJSC | T | 64,867,490 | 14.8300 | 1,138.613 |
| | T | 5,132,510 | 14.9300 | |
| | T | 10,000,000 | 10.0000 | |
| 2. Astana-Finance OJSC | T | 2,073,949 | 1,000.1056 | 2,074.168 |
| 3. ATF Bank OJSC | T | 400,000 | 834.3500 | 333.740 |
| 4. Bank TuranAlem OJSC | T | 1,276,635 | 20,432.2500 | 26,084.525 |
| 5. Bank CenterCredit OJSC | T | 17,321,695 | 200.0000 | 3,464.339 |
| 6. Bank Caspian OJSC | T | 6,215,007 | 171.0000 | 1,082.377 |
| | T | 114,681 | 171.0000 | |
| 7. Halyk Savings Bank of Kazakhstan OJSC | T | 74,225,999 | 180.0000 | 17,071.980 |
| | T | 18,000,000 | 150.0000 | |
| | T | 6,742,000 | 150.0000 | |
| 8. Kazkommertsbank OJSC | T | 294,220,069 | 120.0000 | 37,781.796 |
| | T | 55,763,155 | 44.3911 | |
| 9. Corporation Kazakhmys OJSC | T | 4,911,533 | 4,774.0000 | 23,447.659 |
| 10. Kazakhtelecom | T | 10,922,876 | 3,642.2400 | 40,529.349 |
| | T | 403,034 | 1,850.0000 | |
| 11. SSGPO OJSC | T | 5,850,000 | 999.0247 | 5,844.294 |
| 12. Temirbank OJSC | T | 1,390,000 | 1,000.0000 | 1,400.000 |
| | T | 10,000 | 1,000.0000 | |
| 13. Texakabank OJSC | T | 973,380 | 1,000.0000 | 973.380 |
| 14. UKTMK OJSC | T | 971,190 | 7,000.0000 | 7,122.740 |
| | T | 107,885 | 3,007.0000 | |
| 15. Valut-Tranzit Bank OJSC | T | 4,874,800 | 350.0000 | 2,437.322 |
| | T | 1,624,760 | 450.0000 | |
| Subtotal (Category A) 15 Issuers | | 588,392,648 | | 170,786.282 |
| Official List (Category B) | | | | |
| 1. Aktobemunai-Finance OJSC | T | 12,983,800 | 100.0000 | 1,298.380 |
| 2. Aliuminii Kazakhstana OJSC | T | 52,939,396 | 98.0000 | 5,512.583 |
| | T | 5,408,711 | 60.0000 | |
| 3. Bayan-Sulu OJSC | T | 3,687,812 | 100.0000 | 368.781 |
| 4. Chimpharm OJSC | T | 5,112,752 | 184.4800 | 943.200 |
| | T | 131,945 | 297.0000 | 39.188 |
| 5. CLAscAS OJSC | T | 139,923 | 16,000.0000 | 2,248.847 |
| | T | 10,079 | 1,000.0000 | |
| 6. Kant OJSC | T | 5,970,710 | 100.0000 | 597.071 |
| 7. TNC Kazchrome OJSC | T | 7,147,485 | 1,063.0900 | 7,863.020 |
| | T | 756,000 | 350.0000 | |
| 8. Mangistaumunaigas OJSC | T | 9,805,142 | 1,000.0000 | 10,669.454 |
| | T | 1,089,460 | 793.3400 | |
| 9. Neftebank OJSC | T | 632,670 | 1,314.9700 | 831.942 |
| 10. Insurance Company SAYA OJSC | T | 138,925 | 1,005.0000 | 139.620 |
| 11. HOP OJSC | T | 61,928,201 | 232.1446 | 14,376.692 |
| | T | 394,500 | 1.0000 | |
| 12. Valut-Tranzit Zoloto OJSC | T | 6,000,000 | 200.0000 | 1,600.000 |
| | T | 2,000,000 | 200.0000 | |
| 13. Jyluenergya OJSC | T | 900,000 | 125.0000 | 150.025 |
| | T | 300,000 | 125.0837 | |
| 14. KRTD Zangar OJSC | T | 750,110 | 10.0000 | 8.326 |
| | T | 82,480 | 10.0000 | |
| 15. Zerde OJSC | T | 75,000,000 | 2,500.0000 | 187,500.000 |
| Subtotal (Category B) 15 Issuers | | 253,310,101 | | 234,147.130 |
| Total (Categories A+ B) 30 Issuers | | 841,702,749 | | 404,933.412 |
| Total Stocks in \$ (Exchange Rate = \$1 : T151.0795) | | | | 2,680.267 |

OJSC = open joint stock company.

Table A3.2—Continued

| Issuer | Currency of Transaction | Number of Paid Shares | Last Price or Nominal Price (in T per share) | Company Capitalization (T million) |
|---|-------------------------|-----------------------|--|------------------------------------|
| Nonlisted Securities Sector (1st Level) | | | | |
| 1. Narodnaja Investicionnaja Compania OJSC | T | 500,000 | 10.0000 | 5.000 |
| Subtotal (Level 1): 1 Issuer | | | | |
| Nonlisted Securities Sector (2nd Level) | | | | |
| 1. GRC ABS-Balkhash OJSC | T | 120,280 | 10,000.0000 | 1,202.800 |
| 2. Amangeldy Gaz CJSC | T | 1,000 | 100.0000 | 0.100 |
| 3. SC Altynalmas OJSC | T | 5,267 | 5,000.0000 | 26.335 |
| 4. Alatau OJSC | T | 1,984,627 | 101.0850 | 200.616 |
| 5. CNPC-Aktobemunaigaz OJSC | T | 8,946,470 | 4,030.0000 | 37,818.526 |
| | T | 943,955 | 1,869.0000 | |
| 6. Atyrauskii Neftepererabatyvaushii Zavod OJSC | T | 397,130 | 5,904.6656 | 2,344.920 |
| 7. International Airport of Atyrau OJSC | T | 90,617 | 1,000.0000 | 90.617 |
| 8. Atasuruda OJSC | T | 227,921 | 1,579.4900 | 399.998 |
| | T | 25,324 | 1,579.4900 | |
| 9. Aksaigazservis OJSC | T | 26,794,992 | 3,000.0416 | 80,386.091 |
| 10. AZ Etalon OJSC | T | 10,098 | 18,899.8591 | 190.851 |
| 11. Euro-Asia Air OJSC | T | 26,808 | 10,000.0000 | 268.080 |
| 12. AES OJSC | T | 25,560,680 | 25.5786 | 653.806 |
| 13. G-Media OJSC | T | 2,935,510 | 10.0000 | 29.355 |
| 14. Irtysk-Avia Air company OJSC | T | 74,064 | 10,000.0000 | 740.640 |
| 15. KTSSHK JSCOT | T | 10,266,600 | 27.7419 | 284.815 |
| 16. Kyrgyzenergo JSC | T | 971,114,001 | 26.4615 | 25,697.145 |
| 17. Kyrgyztelecom JSC | T | 105,402,410 | 20.2351 | 2,132.830 |
| 18. Kazinterbank OJSC | T | 10,000,000 | 99.9948 | 999.948 |
| 19. Kazakhstancaspishelf OJSC | T | 455,023 | 3,000.0416 | 1,516.918 |
| | T | 50,558 | 3,003.0876 | |
| 20. KSB Group OJSC | | 6,000 | 1,000.0000 | |
| 21. Kaskor-Transservice OJSC | T | 1,224,000 | 200.0000 | 272.000 |
| | T | 136,000 | 200.0000 | |
| 22. Kaztorgtehnika OJSC | T | 128,350 | 26,100.0000 | 3,349.935 |
| 23. Kazakhoil-Emba OJSC | T | 14,296,708 | 116.5500 | 1,837.731 |
| | T | 1,588,523 | 107.9300 | |
| 24. KazTransCom OJSC | T | 1,989,250 | 20.0000 | 39.785 |
| 25. KazTransGaz OJSC | T | 725 | 100.0084 | 0.073 |
| 26. KazTransOil CJSC | T | 19,202,862 | 1,000.0000 | 19,202.862 |
| | T | 203,209 | 1,000.0000 | 203.209 |
| | T | 13,478,504 | 1,000.0000 | 13,478.504 |
| 27. KazTransGaz LNG CJSC | T | 1,000 | 3,000.0000 | 3.000 |
| 28. Kazzinc OJSC | T | 20,643,659 | 447.0725 | 9,229.212 |
| 29. Maiskoe-1 OJSC | T | 172,170 | 100.0000 | 19.130 |
| | T | 19,130 | 100.0000 | |
| 30. PRG Bottlers OJSC | T | 3,575 | 1,000.0000 | |
| 31. Rakhat OJSC | T | 2,400,000 | 250.0000 | 600.000 |
| 32. SAYR OJSC | T | 3,000,000 | 100.0000 | 300.000 |
| 33. SSGPO OJSC | T | 650,000 | 400.0000 | |
| 34. Sultan OJSC | T | 2,959,737 | 1,000.0000 | 2,959.737 |
| 35. Ulbinskii Metallurgicheskii Zavod OJSC | T | 2,383,447 | 1,000.0000 | 2,595.309 |
| | T | 264,827 | 800.0000 | |
| 36. Uzenmunaigaz OJSC NK Kazmunaigaz CJSC | T | 5,732,065 | 3,000.0416 | 17,196.433 |
| 37. Vasilkovskiy OMPE OJSC | T | 5,395,300 | 160.0000 | 863.248 |
| 38. Voskhod OJSC | T | 36,738 | 17,665.0000 | 648.977 |
| 39. Zaman-Bank OJSC | T | 450,000 | 1,005.5724 | 452.508 |
| Subtotal (Level 2): 39 Issuers | | | | |
| Total (Nonlisted Securities): 40 Issuers | | | | |

CJSC = closed joint stock company.

Source: Available: <http://www.kase.kz/eng/Emitters/> (version dated 12 May 2003).

ASSET HOLDINGS OF PENSION FUNDS

(as of 1 May 2003, percent distribution)

| 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 |
| A. MOF Securities | | | | | | | | | | | | |
| 1. Medium- and Long-Term | | | | | | | | | | | | |
| Government Eurobonds | — | 24.28 | 24.28 | 0.00 | 13.62 | 13.62 | — | 21.49 | 21.49 | 17.92 | 3.57 | 21.49 |
| Special Currency State Bonds | 13.19 | — | 13.19 | 10.26 | 0.00 | 10.26 | 12.42 | — | 12.42 | 9.74 | 2.69 | 12.43 |
| 2. Short-Term | | | | | | | | | | | | |
| Government | — | — | — | 0.00 | 0.00 | 0.00 | — | — | — | 0.00 | 0.00 | 0.00 |
| State Treasury Bonds | 0.07 | — | 0.07 | 0.00 | 0.00 | 0.00 | 0.05 | — | 0.05 | 0.05 | 0.00 | 0.05 |
| Special Currency State Bonds | — | — | — | 0.00 | 0.00 | 0.00 | — | — | — | 0.00 | 0.00 | 0.00 |
| Subtotal (A) | 13.26 | 24.28 | 37.54 | 10.26 | 13.62 | 23.88 | 12.47 | 21.49 | 33.96 | 27.71 | 6.26 | 33.97 |
| B. Notes of National Bank of Kazakhstan | 11.34 | — | 11.34 | 54.18 | 0.00 | 54.18 | 22.55 | — | 22.55 | 8.37 | 14.20 | 22.57 |
| C. Securities of Local Governments | — | 0.59 | 0.59 | 0.00 | 0.09 | 0.09 | — | 0.46 | 0.46 | 0.44 | 0.02 | 0.46 |
| Subtotal, Government Debt (A+B+C) | 24.60 | 24.87 | 49.47 | 64.44 | 13.71 | 78.15 | 35.02 | 21.95 | 56.97 | 36.51 | 20.48 | 56.99 |
| D. Bank Deposits | 5.58 | 0.97 | 6.55 | 21.86 | 0.00 | 21.86 | 9.84 | 0.71 | 10.55 | 4.83 | 5.72 | 10.55 |
| Subtotal, Bank and Government Debt (A+B+C+D) | 30.18 | 25.84 | 56.02 | 86.30 | 13.71 | 100.01 | 44.86 | 22.66 | 67.52 | 41.35 | 26.20 | 67.55 |
| E. Nonstate Securities | | | | | | | | | | | | |
| Shares | 6.29 | 1.81 | 8.10 | 0.00 | 0.00 | 0.00 | 4.64 | 1.34 | 5.98 | 5.98 | 0.00 | 5.98 |
| Bonds | 10.23 | 25.07 | 35.30 | 0.00 | 0.00 | 0.00 | 7.55 | 18.51 | 26.06 | 26.06 | 0.00 | 26.06 |
| Subtotal (E) | 16.52 | 26.88 | 43.40 | 0.00 | 0.00 | 0.00 | 12.19 | 19.85 | 32.04 | 32.04 | 0.00 | 32.04 |
| F. Other Assets | 0.58 | — | 0.58 | 0.00 | 0.00 | 0.00 | 0.43 | — | 0.43 | 0.43 | 0.00 | 0.43 |
| Total Assets | 47.28 | 52.72 | 100.00 | 86.30 | 13.71 | 100.01 | 57.48 | 42.51 | 99.99 | 73.82 | 26.20 | 100.02 |

— = no data available, MOF = Ministry of Finance, SAF = State Accumulation Fund.

Source: National Bank of Kazakhstan.

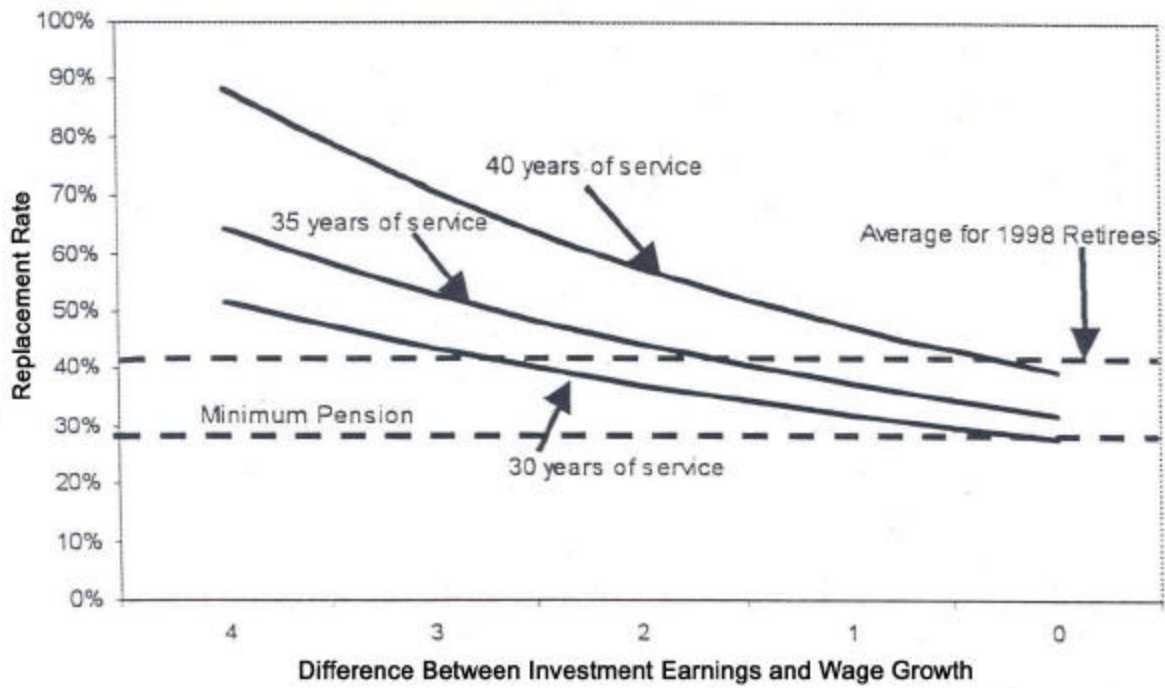
PENSION FUNDS AND ASSET MANAGEMENT COMPANIES
(T million)

| Name of the Pension Funds and Asset Management Companies | Net Pension Assets | Total Assets | | Invested |
|--|--------------------|------------------|---------------------------------------|------------------|
| | | Size | % of All Pension Assets of Kazakhstan | |
| A. ABN AMRO Asset Management | | | | |
| Philip Morris Kazakhstan | 683.2 | 682.4 | 0.24 | 681.8 |
| Capital | 798.0 | 797.2 | 0.28 | 785.8 |
| ABN AMRO-CaspiMunai Gas | 19,921.5 | 19,918.8 | 7.09 | 19,881.0 |
| Subtotal | 21,402.7 | 21,398.4 | 7.61 | 21,348.6 |
| B. Zhetysu Asset Management | | | | |
| UlarUmit | 47,092.2 | 47,068.9 | 16.75 | 46,936.8 |
| Kazakhmys | 9,015.4 | 9,008.6 | 3.21 | 8,998.7 |
| Nefte-Gas-Dem | 6,754.5 | 6,746.4 | 2.40 | 6,729.9 |
| Subtotal | 62,862.2 | 62,823.9 | 22.35 | 62,665.4 |
| C. Halyk Bank Asset Management | | | | |
| Halyk Bank of Kazakhstan | 64,277.7 | 64,217.2 | 22.85 | 63,696.5 |
| OTAN | 3,470.5 | 3,470.2 | 1.23 | 3,352.5 |
| Subtotal | 67,748.2 | 67,687.4 | 24.08 | 67,049.0 |
| D. Ak Niet Asset Management | | | | |
| Korgau | 4,116.8 | 4,114.4 | 1.46 | 4,061.4 |
| Kunaev | 861.8 | 861.7 | 0.31 | 857.5 |
| Subtotal | 4,978.6 | 4,976.1 | 1.77 | 4,919.0 |
| E. BTA Asset Management | | | | |
| Kazakhstan Pension Funds | 7,664.5 | 7,659.9 | 2.73 | 7,630.6 |
| Kurmet Pension Funds | 11,734.4 | 11,722.2 | 4.17 | 11,708.1 |
| Subtotal | 19,399.0 | 19,382.1 | 6.90 | 19,338.7 |
| F. Active-Invest Asset Management | | | | |
| Valyut-Transit Fund | 8,584.9 | 8,591.7 | 3.06 | 8,536.7 |
| Subtotal | 8,584.9 | 8,591.7 | 3.06 | 8,536.7 |
| G. Bestinvest Asset Management | | | | |
| Senim Pension Funds | 13,410.1 | 13,439.4 | 4.78 | 13,377.9 |
| Subtotal | 13,410.1 | 13,439.4 | 4.78 | 13,377.9 |
| H. Nurtrust Asset Management | | | | |
| People's Pension Fund | 5,309.4 | 5,303.1 | 1.89 | 5,281.1 |
| Subtotal | 5,309.4 | 5,303.1 | 1.89 | 5,281.1 |
| I. State Pension Accumulation Fund | 77,409.1 | 77,440.0 | 27.55 | 76,608.8 |
| Total Pension Assets | 281,104.4 | 281,042.1 | 100.00 | 279,125.2 |

Source: National Bank of Kazakhstan.

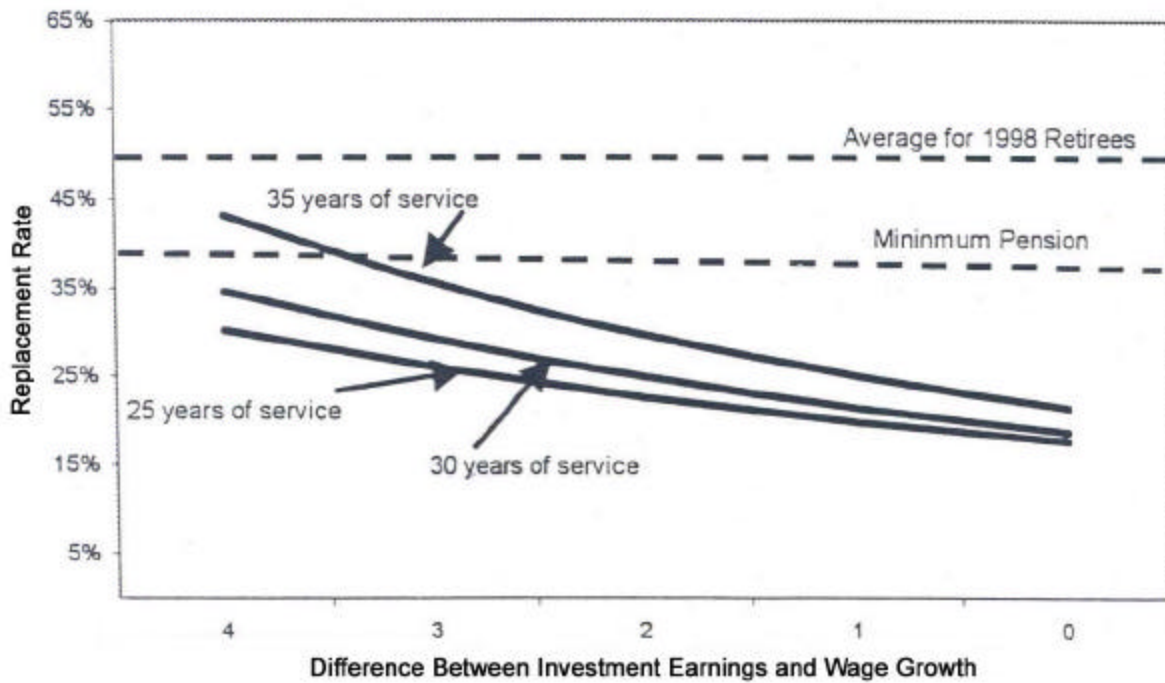
PROJECTED REPLACEMENT RATES

Figure A6.1: Male Earning Average/Male Wage



Source: Thompson, Lawrence. 2000. *Distributional Effects of the Kazakhstan Pension Reform*. ADB: Manila.

Figure A6.2: Female Earning Average/Female Wage



Source: Thompson, Lawrence. 2000. *Distributional Effects of the Kazakhstan Pension Reform*. ADB: Manila.