



**Full Length Research Article**

**KYRGYZ SOCIAL SECURITY SYSTEM IN TERMS OF INTERNATIONAL STANDARDS**

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**ABSTRACT**

This paper highlights some aspects of Kyrgyz social security system in terms of international donor organizations' policy. First it was analyzed how various international guidelines on national social security are compatible. Then the selected international recommendations were reviewed in detail for defining its applicability to the national social insurance system and adequacy to social security law. Particularly, there were discussed in detail: (i) ILO's Social Protection Floors and its applicability and necessity as a prerequisite to the ILO Convention 102 ratification, (ii) where the "Social Protection Floors" stands in a legal hierarchy, and (iii) WB recommendations on state pension insurance adequacy to national social insurance system and how it would impact to budget sustainability in one hand and to poverty alleviation in another. Finally, the paper tried to assess how far recommendations are enforceable.

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**INTRODUCTION**

International socio-economic guidelines are still critical in the process of providing sustainability of the national social security systems, especially in developing countries and as it has seen the guidelines come through the periodic reviews and revisits. The main international players have own policy frameworks and over the time we can observe specific bottom lines of each donor. EC and ILO promulgates social security international standards, WB produces social security recommendations on national level. IMF monitors fiscal policy and assists in general budget robustness and sustainability but IMF can make perfect emphasizing on social security research if it is necessary and define its impact to the entire state budget by conducting large policy intervention in social security system. Over the last few years Kyrgyz Republic national social security system was in the great attention within international donors as it was post revolution period when national economy has made its worse performance and GDP growth dropped down to less than 0.5 percent in 2011-2012 (National Statistic Committee, 2013). The situation was a big concern for Government who

had tried to restart damaged economy as well as for international donors who rendered their contributions to subside violent impact of the shock, so that ILO was concentrated on regional policy by correcting it in accordance with social security standards and EC continues its regional combating against poverty and illiteracy by developing programs in social transfer and education reforms, WB and IMF worked over the macroeconomic stabilization. The paper conducts a legal analysis of international donors' recommendations and defines its legal enforceability. Also, it is going to be conducted a socio-economic analysis of particular recommendations of ILO on Social Protection Floor Recommendations No.202 and WB recommendations on pension reform and indicate to what extent these recommendations affect old age security branch of the national social insurance policy.

**Kyrgyz social insurance system review**

The Kyrgyz National Sustainable Development Strategy's main economic priority is to give opportunity for the private sector and to provide necessary conditions for investments (National Sustainable Development Strategy, 2005). According to the strategy, the national projects are mainly focused on transport and communications, mining, finance,

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energy and agro-industry. The strategy aims to reduce poverty mainly by creating new jobs, re-training of unemployed persons, and improving social inclusion, particularly for pensioners and low-income groups. In 2013, the national GDP has grown by 10% after several years of economic recession. Official unemployment was about 8.5%, with an estimated 20% of the labor force working abroad and consequently the labor migration has contributed to reducing rural poverty. Nowadays the national social security system provides constitutional right to be secured from all social risks and to be insured while working. Country has sufficient level of contributory social insurance system against long term income loss including pension and medical insurance which are regulated by the set of social insurance laws:

(i) Social Insurance Law on general and detailed principles, scope of application, risks, main techniques of social insurance, (ii) Social Contributions Rates Law, (iii) Social Pension Insurance law, (iv) Medical insurance of citizens. Pension system comprises major defined contribution public pay-as-you-go scheme for old age pensioners, invalidity and survivors. Pension benefit amount consists of basic pension and insurance parts. Basic pension is a flat rate benefit with amount is based on insurance length. Basic pension is considered as a pensioner's minimum subsistence level and is maintained the amount not lower than 12 percent of average wage in the economy. Insurance pension contains accrued pension rights before 1996 and social contributions history after 1996. The mentioned pension parts are indexed separately. Pension contributions are paid both by employers and employees. By the recent period the farmers and land owners paid contributions proportionally to their land square but now they will pay it based on average wage scale. Self employed persons pay fixed amount of contributions based on type of activities. Funded pension pillar is pretty small and its robustness depends on further efficient management of pension assets.

Health care system partially financed from social contributions which are transferred to State Mandatory Health Insurance Fund. The national healthcare program based on family medical doctors concept and mainly financed by state budget. Social insurance covers minimum expenditures which include limited list of medicines, primary care and cost of accessories and what is the important it gives patients the right to be treated in the prescribed clinics. Social contributions are being collected equal to 3-4% of the state health budget. Despite its small financial role, the Mandatory Health Insurance Fund has introduced new purchasing methods that link payment to services, and provides more flexible funding mechanism. Theoretically, the Fund could become a 'single purchaser' and the channel for management and distribution of state budget funds dedicated for health care. Co-payments are required for complementary medicine (physiotherapy, massage and acupuncture), induced abortions, and some treatment (such as kidney dialysis). Patients also may pay co-payments for laboratory tests.

#### **Analysis of international organizations' guidelines on Kyrgyz social security**

The National social security system always was under the vigilant control of international donors. Nowadays they are

still demonstrating their vigorous advisory activities. ADB plans to help the government to achieve inclusive economic growth by addressing key constraints to economic growth, improving the investment climate, and reducing disparities in access to economic opportunities, enhance connectivity and reduce the gaps between regions in levels of basic infrastructure and services (ADB Country Partnership, 2013). IMF concentrates its effort on fiscal policy and supports social programs as well in return of some government commitments to gradually reducing the wage bill as a share of GDP, ongoing procurement reform, including e-procurement, etc. Also IMF supports insurance pension indexations (particularly IMF supported 2013-2014 basic pension increase for 9-10 percent) and assigns high priority to poverty alleviation, number of other social transfers such as food allotments for elderly people, special schools and orphanage programs support (KR and IMF, Letter of intent, November 2013).

WB makes more economic, sectoral and budgetary analysis in its annual report and recommendations, and helps country to alleviate poverty, improves health insurance by increasing coverage of the enrolled population in the health care system and recommends the options of parametric reform of the national pension system with the objectives of decrease financial burden of the poorest population and increase particularly poverty targeted programs in order to mitigate negative effects of various shocks on the poor (WB-KR Partnership Program, 2014) and recommends the Government on how to improve the performance of social assistance expenditure and how to take more decisive action to cover the poorest children. ILO conducts his general advisory line to ensure basic protection for all workers, and to take into account lessons learned elsewhere on individual pension funded accounts, developing community based social services for elderly and infirm claimants, targeting social assistance schemes effectively, and promoting gender equality in social security. In employment area, ILO's main message is that employers should be actively engaged in labour and social issues of their workers.

ILO renews their policy by issuing a country report and refreshing its program and continues "promoting" the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102). Particularly in the last year's meeting with Government officials it was stated that "none of the Central Asian countries ratified the mentioned Convention No.102 which covers nine branches of social security and ratification would show firm commitment of countries to improve their social security system" (ILO – Kyrgyz Republic partnership meeting, Bishkek, February 20, 2014). At the same time, as an interim policy, ILO suggests Social Protection Floors Recommendation No.202 which covers major social security branches: health care, income security for children, elderly people and people who are at working age but cannot engage at work. Social Protection Floors will be a subject of further detailed discussion in the separate chapter below. We looked into the details of international organizations' social protection policy frameworks in Kyrgyzstan and it is important to find out how those policies are compatible with each other? Apart from each international donor's policy bottom lines which were described above, we can observe one similarity of activities - all international donors, in various extend,

nowadays pay attention to poverty alleviation<sup>1</sup>. The poverty was deteriorated in the country after 2008-2009 financial crisis and over the latest years Government increased guaranteed minimum income and was able to decrease extreme poverty by 1.6 percentage points from 2012 to 2.8 percent of the population, but still around 2.14 million persons out of a total population of 5.7 million lived below the poverty line of 27,768.50 KS per year per capita (WB Program Partnership Paper, 2014) and, headed by MOF, almost all international donors, working in Kyrgyz Republic, combat against poverty and both ILO and WB recommend to enlarge poverty targeted allowances by improving targeted social assistance which, in my opinion, may cause a stagnation of social programs due to the reasons will be explained further.

As it was stated by classic of social security science Jos Berghman “not surprising” that there is “growing consensus on a broad definition of instruments that should be considered part of social security” (Berghman Jos, 1986), so various sub-instruments of the targeting social assistance including community based, means tested, proxy meant tested are being used worldwide covering minimum level of population and applicable well for extreme poverty alleviation by supporting minimum living subsistence and at the same time by producing huge of non-take up cases. Another weakness of the “addressing” is expensiveness. Various stages of preliminary data collecting, evaluation, requires at least additional facilitating teams and companies and it costs value. Third problem is linked to the risk for families to be trapped again by the poverty regardless of social benefits provided. In other words, we may find the donors’ recommendations to improve targeting as less effective as the Government will focus only to small groups of extreme or absolute poverty by producing large scale of social exclusion. Addressing must be complemented by categorical and universal flat rate social allowance system in order to reach desirable goals.

That may affect to state budget but will allow society to be better off and increase attractiveness of the social security system by avoiding income inequality in term of loss of social welfare (Sen Amartia, 1992). In practice, several countries with middle range income introduced effective systems within non-contributory programs covering sometimes one third of population with successfully addressed poverty alleviation schemes particularly in Brasil, Mexico and South Africa (Olivier Marius, 2014). As the recent research in Kyrgyzstan shows that possible flat rate categorical children allowances with value of 200 KS for the families with 2 and more children would decrease children poverty rate from 44 to 27 percent and also flat rate allowances of the various targeted groups of children based on ages would alleviate poverty significantly (National research on children poverty and inequalities, 2009). Tangible socio-economic impacts of poverty combat can be obtained by promoting balanced and effective semi-categorical and flat rate benefit programs which would be the techniques on how to make better off the vulnerable part of the population.

<sup>1</sup> IMF “assigns high priority to alleviating poverty” and WB “recommends to increase poverty targeted programs from 15.5 to 35 percent” whereas ILO suggests “targeting social assistance schemes effectively”.

## **ILO Social Protection Floors and WB pension parametric reform recommendations**

In the next chapter we make a socio-economic analysis of particular recommendations of ILO on Social Protection Floors Recommendations No.202 and WB recommendations on pension reform and indicate to what extent these recommendations affect the national social insurance policy.

### **ILO Social Protection Floors**

ILO 101<sup>st</sup> Session states in the special report that even if social security has spread worldwide and recognized as fundamental human right, the majority of the population in the world don’t benefit from it. Only 20 percent of the working population were estimated to have an access in effective social security (ILO Report on Social Protection Floors, 2012). The Report determines global protection gaps: (i) in population coverage, (ii) in contingencies covered, (iii) in the adequacy of benefits provided and it is expected that through the closing those gaps countries can establish necessary universal social security basis, which has never been declared by ILO before. The idea of the mentioned universal basis is the main quintessence of the Social Protection Floor Recommendation No.202. In spite of “recommendation” status of the Social Protection Floors, it may give a new impetus towards more promising and sound social security. The Floors may be used for constructing necessary framework and basis for the ratification of Convention No.102. It may be considered as a rather significant progress for ILO than a simple “staying and observing” which we could realized over the last decade. Implementation of the recommendations would complement existing social security policies and standards and would provide guidance on how to reach meaningful framework of social protection which would be adjusted to country specific development.

ILO understandably doesn’t have appropriate instruments to enforce countries to ratify ILO Conventions or to fulfill requirements of Recommendation 202 like there are in European Union where “monitoring of economic guidelines including sanctioning competencies that go beyond the “naming and blaming” (Schoukens Paul and Smeth Joris Beke, 2014), so that Europe 2020 strategy monitoring process which is called integrated monitoring procedure comprises the techniques like European semester, two pack, macroeconomic imbalance procedure, surveillance and enforcement, treaty on stability, etc. Therefore, Social Protection Floors Recommendation is non-binding and non-enforceable guideline. But it might be considered as ‘positive’ recommendation and includes not only monitoring and observing but active implementation measures like (i) to assist countries in the wider context of national social as well as economic policy, in governance designing and effective social security and regular measures impact evaluation, (ii) to strengthen countries’ capacities to implement responsive social protection system including various social aspects and trends, (iii) to enhance awareness of ILO social security standards, notably ILO Convention No. 102 and its activation measures, (iv) to support countries to develop programs and measures on strengthening macroeconomic basis and budgetary policy; (v) to support countries on promotion

employment and establish sustainable welfare system; (vi) to promote national and international social dialogue on the role of sustainable social area. The Recommendation No.202 is one step forward in comparison with ILO Convention No.102 ratification requirements in terms of psychological easiness for accepting it by countries, and as it is indicated in the ILO resolution the Recommendation would allow to protect “wider groups of population and provide higher level of protection” (ILO Report on Social Protection Floors, 2012) and finally encourages countries to ratify the Minimum Standards of social security and other conventions.

### **WB pension parametric reform recommendations (selected items)**

In 2013 WB responded to the Kyrgyz pension PAYG system challenges like it was the case several times over the past decade by showing its major advisory role of periodic economic and social shocks which unfortunately happens in developing countries. As it was stated by WB “*The pension system suffers from the effects of the prevailing macroeconomic, fiscal, and labor market conditions, as well as from systemic pension design issues.*” (WB Partnership Paper, 2014, p.12). Every year pension fund is increasing and now it is equal to 10 percent of GDP whereas in 2007-2008 it was below 5 percent. It is projected that pension spending will grow up to 12-14 percent of GDP. Inadequate level of pension payments is deteriorating the situation. WB reports that only 40 percent of employees out of all registered socially insured persons have accrued rights for state pension which means that out of social insured persons the only state agencies and private companies and its employees pay full fledged 25% pension contributions. Farmers which are more than half of all social contributors and self employers pay far less but get inadequate pension amounts. These budgetary and macroeconomic inconsistencies lead to another circle of parametric reforms. The recommendations below were designed within WB Emergency Social Response project in Kyrgyz Republic and in turn that was the base of the KR Social Fund’s state pension reform concept which still has not been approved by the Government. We will try to explain why this Concept has not been still adapted by reviewing some items of the mentioned WB’s pension reform recommendations which had been included in the draft of the mentioned Concept.

Proposed by WB “universal pension” suggests the followings:

- *The universal pension substitutes basic and social pensions after 2015;*
- *Administered by Social Fund, a universal pension is paid to all citizens reached retirement ages 63 and 58 for men and women accordingly.*
- *In the first years of reform the amount of universal pension is established at the level of basic pension of relevant year;*
- *In the future, similarly to basic pension indexation in the existing system, the universal pension is indexed by keeping the basic pension on the required level of 12% of the average wage in the economy.*

Now the state pension consists of three parts described in detail in the previous chapters. Implementation of the

universal pension will affect to pension system flexibility and may break up the connection between pension benefits and social contributions as it is existing now within the rules for basic, first and second insurance pensions which was promulgated by Pension Insurance law of Kyrgyz Republic. Also, taking into account that 60 percent of the total active contributors are rural socially insured farmers and they pay up to 5 percent of the total social contributions and accordingly all farmers have tiny acquired rights, the universal pension would finally lead to drastic increasing of farmers’ social contributions and may raise poverty among rural population. Developing the idea of universal pension, the WB proposes it for non-contributory social pensions as well whereas the social pension is the categorical social assistance and it falls under the competent of Ministry of Social Affairs, is assigned according to Article 14 of the “Law on State Social Allowance”. WB financial proposals to finance the universal pension from state budget by supplement tax levies may cause a burden for state budget as it would eliminate part of the contributory pension scheme. Social tax contradicted to the nature of social contributions in the country where the social insurance was promulgated as prioritized component of social welfare state. According to Article 1 of the Social Contributions law “State social insurance is a system of guaranteed benefits at the expense of social contributions of employer and employees in case of risks of old age, death and loss of breadwinner”.

WB suggests *to provide income replacement for all citizens regardless of participation in the contributory pension system on the level which is not lower than universal pension.* WB’s argument is that the number of citizens who don’t participate in the pension system is increasing sharply now and during the some decades this number may reach up to 60-65% of population who mainly are around 58-63 or older and that replacement of social pension to universal pension may play important role in poverty alleviation among elderly people. In this case, may universal pension substitute non-contributory social pension? As it is defined in State Social Allowances Law, elderly people after pensionable age are eligible to monthly non-contributory social pension if the person is not eligible to social insurance pension. Social Insurance system deals with only contributory scheme, consequently social pension cannot be financed from social contributions and unique pension cannot be treated equally for contributory and non-contributory pension schemes. To implement unconditional eligibility within pension insurance scheme would increase number of dependants and inflate non contributory pension amounts’ budget and it would contradict to the philosophy of the social insurance.

### **Conclusion**

International donors’ social security support agenda in Kyrgyz Republic is related to healthcare, state pensions, safety net and social assistance. But we could observe certain emphasis on poverty alleviation in all donors recommendations, so that in some extend, by not taking into consideration their “specialization” and traditional specific accents, the social security guidelines of the main donors are consistent and compatible. With regard to enforceability the guidelines in its variety could be understood ambitiously and the level of enforceability was scantily explored, although IMF and WB

guidelines on poverty alleviation and social insurance reform are designed in a way them to affect to state budget. Consequently, we can say that the recommendations “are integral part of the economic guidelines” (Schoukens Paul and Smeth Joris Beke, 2014, p.69) and it makes whole recommendations critical for Government. In this term, we can consider that IMF and WB economic guidelines with social security recommendations are enforceable if parties bound by by-lateral loan agreements in which the Government is committed to fulfill requirements within the guidelines. ILO conventions and recommendations are treated differently in terms of enforceability. As it was discussed before, ILO Social Protection Floors may be considered as one step forward in comparison with the ILO Convention 102 and could be the proactive way for promoting harmonization standards, but “Floors” still remains as non-enforceable “positive” social policy i.e. the policy “which supports social objectives” (Schoukens Paul and Smeth Joris Beke, 2014, p.69). Discussed before in this paper WB initiatives in state pension insurance inspired Government to issue State Pension System Reform Concept which was not approved and endorsed yet because the Concept is an awkward attempt to get round pension system difficulties and pass over the angles in order to make a shortcut for easier achievements which may cause unpredictable spillover effect in relation to economic and budgetary consequences for all pension insurance stakeholders.

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