Poverty and Economic Transition in Kazakhstan

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1. Introduction

Kazakhstan is located in the heart of Asia, bordered on the north and west by Russia, on the east by China, and on the south by Turkmenistan, Uzbekistan, and the Kyrgyz Republic. Per capita GDP in 1995 was US \$1,330. It is a vast country of over 2.7 million square kilometers with a population of around 16.5 million. Population density is among the lowest in the world and has declined further since independence, largely as a result of emigration. Kazakhs are the largest ethnic group (48 percent) with Russians forming a large minority (34 percent). The country is divided into fourteen provinces (oblasts). The national capital till 1998 was Almaty, its largest city, located in the south-east of the country. Its new capital, Astana, lies to the north. The north of the country is its major grain bowl as well as its industrial heartland. The south is mostly agricultural, with some light industry. The major mineral resource of the country, oil, is located in the west.

Poverty, in the sense of low or inadequate income, is not a new phenomenon in Kazakhstan.¹ However, during the Soviet period, the severity of poverty was limited by state action. Low administered prices for a range of key goods and services (food, rent, utilities) kept the cost of living strictly under control. Guaranteed employment, and a relatively generous system of pensions, family allowances, sick pay and maternity benefits insulated households from major income shocks. Subsidies to child-care helped maintain a fairly high level of participation among women. Access to education and healthcare was universal. This system of social provision underlies the strong achievements in the field of human development that is characteristic of the countries of the former Soviet Union (FSU). At independence, most human development indicators were higher in Kazakhstan than in countries with comparable levels of income, an achievement which largely persists despite recent difficulties (see UNDP 1995, 1996).

Since independence, poverty has been aggravated by economic decline. As in other transition economies, economic activity has contracted significantly since independence. Although macroeconomic performance has been improving -- output growth resumed in 1996 for the first time since independence -- GDP remains at a little over sixty per cent of 1990 levels. The fall in output has resulted in a substantial decline in real wages and incomes, while inflation has virtually destroyed household savings. The weakened fiscal position of the state has limited its ability to mitigate the impact of these changes on household welfare, and has reduced the quality and quantity of public services.

This paper investigates the effects of the economic transition on poverty and provides an assessment of the effectiveness of the social safety net in place. Section 2 contains an overview of the economic changes that have taken place since Kazakhstan gained independence from the FSU. Section 3 contains a profile of the poor based on a nationwide household survey conducted in 1996. Section 4 and 5 discuss two important aspects of a poverty alleviation strategy: growth and social assistance. Section 6 concludes.

2. Economic Transition

¹ Estimates from the 1989 Family Budget Survey (Family Budget Survey) suggest that around 15 percent of the population had incomes below the 'socially acceptable minimum' compared to 33-52 percent in other central Asian SSRs. The figures should be treated as indicative as the FBS sample is not nationally representative. For further discussion, see Atkinson and Micklewright, 1992.

The most important factor affecting living standards in Kazakhstan since independence has been the unprecedented fall in output. After declining continuously for five years, GDP expanded modestly in 1996 and 1997, but remains at a little above 60 percent of pre-independence levels (see Table 1). The contraction in output in Kazakhstan since 1991 is related to the twin challenges of adjusting to the dissolution of the FSU while at the same time managing the transformation of a planned to a market economy. Kazakhstan was part of a Union-wide division of labor in which the central Asian republics specialized in production of food and raw materials. The Russian hinterland was (and still remains) the major source of inputs and the main market for output. Transport and other infrastructure was designed with the view to meeting these needs, not those of the local economy.² Social spending was high, maintained in part by transfers from Moscow. Central budgetary support to Kazakhstan was estimated to be of the order of 12 percent of GDP in the early 1990s (World Bank, 1994). These arrangements were seriously disrupted by the dissolution of the FSU.

[Table 1]

Massive inflation, associated with uncontrolled deficit financing and loose directed credit, was an additional problem in the early years. After the introduction of a new currency (the tenge) and some initial hiccups, the budget deficit was gradually reined in and money supply growth brought under control. In response, inflation dropped to 11.5 percent in 1997 after peaking at 1880 percent in 1994.

The reduction in the budget deficit has come at a cost. Wage and pension arrears mounted steadily from around 4 percent of GDP at the end of 1995 to 6 percent at the end of 1996 despite progress in clearing the bulk of central government wage obligations during the year. More generally, there has been a massive build-up of payments arrears in the economy with arrears and barter arrangements substituting to a large extent for money and credit. Delays in the payment of wages and pensions have become a significant source of public dissatisfaction with the economic transition. Despite the resumption of growth, public opinion remains firmly pessimistic, perhaps because the recovery has been relatively modest (See International Foundation for Election Systems, 1996).³

The rise of open unemployment in Kazakhstan has been relatively modest compared to the scale of output decline. Registered unemployment rose from 0.3 percent in 1992 to 3.8 percent in 1997. Much of the adjustment in the market for labor has taken place on the price side. According to official estimates, real wages have fallen by more than 50 percent since 1991.⁴ The slow emergence of open unemployment in Kazakhstan may be attributed to three factors: the widespread use by employers of 'administrative' leave and short hours (in place of outright dismissal of workers), the growth of informal sector activity (kitchen-gardening, petty commerce), and movements out of the labor force (often through early retirement).

² For example, the lack of pipeline capacity is a key constraint to the export of oil and gas outside the FSU.

³ In December 1996, 82 percent of adults polled said they were dissatisfied, and 38 percent very dissatisfied with the overall economic situation. A year earlier, the figures were 77 percent and 32 percent respectively.

⁴ There are numerous problems with official wage and unemployment data. See Klugman and Scott in Falkingham et. al. (ed.), 1997, and World Bank, 1998.

Another feature of the transition in Kazakhstan has been the growing incapacity of the government to mobilize resources. Government revenues fell from 39 percent of GDP in 1992 to 24 percent in 1996 (see Table 2). Combined with the fall in GDP, this has resulted in a situation where public expenditures have fallen substantially in *real* terms.

[Table 2]

The decline in public expenditure have fallen disproportionately on public investment, social protection, and public services (see World Bank, 1996). The social safety net has worn thin. Public expenditure on social protection (pensions, unemployment benefits, family allowances, sick pay, maternity benefits, and social assistance) fell from 11.2 percent of GDP in 1992 to 6.6 percent in 1996 before rising to 7.9 percent in 1997 as the government cleared pension arrears of the order of 1.5 percent of GDP during the year. Expenditure on public services has suffered considerably. Public outlays in education and health-care were running at about one-third to one-half of 1991 levels in real per capita terms (see Table 2). Although private out-of-pocket spending on education and health-care has expanded, the nature of these expenditures raise questions of access and equity.

3. Poverty

The huge changes since independence have affected not just the general standard of living in Kazakhstan, but have created new groups of people who are vulnerable to poverty. This section investigates which groups have suffered most from the prevailing economic circumstances and examines the main correlates of poverty. While drawing on other material, it relies largely on a nationally representative, multi-purpose survey, the Kazakhstan Living Standards Survey (KLSS), conducted by the National Statistical Agency in July 1996.

In analyzing poverty, the paper focuses on monetary indicators of household welfare -- in particular, per-capita consumption. Poverty is a multi-dimensional phenomenon which encompasses non-monetary dimensions such as access to public services. The declining quality of public services and the emergence of differential access are issues of tremendous public concern in Kazakhstan.⁵ By focusing on consumption, this paper does not mean to suggest that non-monetary aspects are unimportant. However, non-monetary aspects of poverty often reinforce monetary inequities. For example, the rich are in a better position than the poor to insulate themselves against the effects of deteriorating public services.

Per capita consumption is calculated as total household consumption divided by the number of household members. Consumption includes both food (including purchases, home-produced food, as well as food received as a gift or as payment in kind for services rendered) and non-food goods (including utilities, transport, clothing, cleaning, leisure, healthcare, and education). An imputed value for the services of durables was also included. However, it was not possible to impute rental values for owner-occupied dwellings. Total consumption was adjusted to take account of regional differences in prices.⁶ Poverty was defined as having per capita consumption below the government's "subsistence minimum" line (*prozhitochnyi minimum*). The

⁵ Over 86 percent of adults polled in November-December 1996 stated they were dissatisfied with the quality of healthcare while 68 percent expressed dissatisfaction with the system of education. See International Foundation for Election Systems, 1996.

⁶ Further discussion of data and methodology may be found in World Bank 1998, Appendix 1.

“subsistence minimum” is similar in concept to an absolute poverty line. At the time of the survey, it was equal to around US \$ 40 (2861 Tenge) per person per month at market rates of exchange, and around US \$70 at purchasing power parity.

According to the KLSS, 34.6 percent of the population of Kazakhstan was living in poverty in July 1996. The poverty gap was 11.4 percent and P_2 (the poverty severity index) was 5.2 percent. Thus, average consumption of the poor was nearly a third below the poverty line.⁷ In comparison, in the Kyrgyz Republic average consumption shortfall among the poor was 49.1 percent in 1993 (see World Bank, 1995a). On these measures, poverty in Kazakhstan is not as deep as that observed in the Kyrgyz Republic.

The KLSS suggests that poverty is higher in rural than in urban areas, although the differences are relatively small (see Table 3).⁸ While poverty rates between urban and rural areas may not be that different, information on demographic and health indicators do suggest a picture of greater rural deprivation. Rural areas in Kazakhstan show higher infant- and child- mortality relative to urban areas. The incidence of stunting (low height-for-age), wasting (low weight-for-height), and anemia in children, is also higher in rural areas (see National Institute of Nutrition et al., 1996). Housing is of poorer quality and access to public services is lower.⁹

[Table 3]

While urban poverty is lower than rural poverty, one group of urban dwellers -- residents of so-called one-company towns -- are generally believed to be poorer than most (see, for example UNDP, 1995). One company towns were dependent on one or a few enterprises during Soviet times. These have since closed or have shut down for all practical purposes. There are 57 such towns in Kazakhstan, mostly in the north of the country. Local unemployment rates are extremely high, and public services (formerly financed by the enterprises) vastly under-funded.¹⁰ Public utilities face particular problems due to the lack of effective demand. As the sub-sample of households from one-company towns in the KLSS is too small to be representative, this paper was not able to examine the poverty rates in these towns separately.

Perhaps more striking are differences in regional poverty rates (see Table 4). More than two out of three people live in poverty in the South compared to a national average of around one out of three. Poverty is also significantly deeper in the South than elsewhere. These findings reflect the lower resource endowment of the region, limited employment opportunities, and the

⁷ Average consumption shortfall among the poor is given by the dividing the poverty gap by the head-count ratio.

⁸ Allowing for economies of scale in consumption makes the difference between rural and urban poverty rates even smaller. See World Bank, 1998, Appendix 4.

⁹ Nearly 59 percent of urban households have in-house toilets compared to 5.6 percent of rural households. Access to piped drinking water (urban 78 percent, rural 17 percent) and to central heating (urban 70 percent, rural 10 percent) are also significantly different. See National Statistical Agency, 1996.

¹⁰ Tekali, a mining town of around 27,000 people in Taldykorgan oblast provides a good example. Official unemployment is 20 percent. Another 40 percent of the labor force is subject to short hours or administrative leave.

disproportionate impact of fiscal contraction (see World Bank, 1997). In contrast to the South, one out of eleven people live in poverty in the North. Not only is poverty more limited in the North, it is less deep and far less severe than in other parts of the country. Lower poverty in the North may be related to greater opportunities for cross-border trade with Russia in this region.

[Table 4]

Poverty in Kazakhstan is positively associated with household size. Households in the bottom quintile have an average of 4.5 members while those in the top most quintile have slightly less than 3 members. Most of the difference is driven by higher average number of children in poor households. In the bottom quintile, households have, on average, one additional child compared to households in the top quintile. In comparing household size across quintiles, no account has been taken of economies of scale in consumption.¹¹ However, the finding that large households are at greater risk of poverty stands up to alternative assumptions regarding scale economies (see World Bank, 1998).

[Table 5]

Focusing on particular family groups who may be vulnerable to poverty due to life-cycle factors, it can be seen that single elderly people or elderly couples face lower than average risks of being in the bottom quintile (see Table 6). Moreover, single parent households are less susceptible to low levels of consumption than is commonly believed although families with young children are disproportionately represented in the lower quintiles. Allowing for greater economies of scale in consumption however overturns these conclusions about elderly and single-parent households (see World Bank, 1998). Such households tend to be small and thus appear more poor as we allow for a greater scale economies. We therefore need to be cautious when interpreting findings for these households based on per capita consumption

[Table 6]

Although households with young children are more likely to be poor, the extent of malnourishment among young children appears to be limited. According to the Demographic and Health Survey conducted in 1995, 3 percent of all children under three years were wasted. Moderate or severe stunting was found in 16 percent of children in the same age group (National Institute of Nutrition et. al., 1996). The prevalence of both wasting and stunting in children in Kazakhstan is not higher than what might be expected in a normally nourished population. Micro studies focused on poorer regions of the country suggest that even the less well off populations have avoided serious malnutrition (see Ismail and Hill in Falkingham et. al., 1997).¹²

¹¹ Economies of scale are best explained intuitively by the idea that 'two can often leave as cheaply as one'. By taking per capita consumption as our measure of household welfare, we implicitly assume that there are no economies of scale. Allowing for the fact that many can live relatively cheaply compared to a few often changes the demographic profile of poverty. Typically, large households appear less poor when economies of scale are allowed for. For further discussion, see Lanjouw and Ravallion (1995) and Lanjouw, Milanovic and Paternostro (1998).

¹² On the basis of a representative survey of three rayons in Kzyl-Orda oblast which is affected by the Aral Sea crisis, Ismail and Hill, 1997 found no evidence of wasting (0.5 percent) and limited evidence of stunting (15 percent) in the region.

Unemployment in Kazakhstan is strongly associated with poverty. As seen in Table 7 individuals in the higher quintiles are more likely to be economically active (working or seeking work) than those in lower quintiles. But what truly separates the poorer individuals from the others is the level of unemployment. The poorest individuals suffer an unemployment rate of 9.4 percent while their counterparts in the top quintile of the population have an unemployment rate of only 2.6 percent.

[Table 7]

The importance of employment for living standards is best illustrated by looking at the number of household members being supported by each *employed* person. In the top quintile, each employed person supports 1.4 other household members, including children and unemployed or inactive adults. In the bottom quintile, each employed person supports 2.5 persons. Even if the average worker in the poorest households earned the same amount as his or her counterpart in the top quintile, consumption per capita would be significantly lower due to the greater dependency on that income.

While unemployment is strongly associated with poverty, the limited rise in open unemployment means that as a proportion of all working age individuals the number of unemployed is relatively small. In the bottom quintile, 46.3 percent of working age individuals are employed, 4.8 percent are unemployed and 48.8 percent are inactive (neither employed nor actively seeking work). In the bottom two quintiles, the figures for employed, unemployed and inactive are 48.3 percent, 4.7 percent and 47.0 percent respectively. Thus the bulk of the poor are 'working poor' i.e. are at work but are poor either because they have too many dependents to support adequately, work in low-wage occupations, are subject to involuntary leave without pay or short hours, are paid irregularly, or some combination of these factors. Another large proportion of the poor are inactive, including women who stay at home and those who are too discouraged to look for work.

In accordance with international experience, education and poverty are inversely correlated in Kazakhstan. Individuals in the lowest quintile have less schooling on average than those in the top most quintile, though the difference (1.2 years) is relatively small (see Table 8). A stronger correlation appears to exist between poverty and level of schooling (basic or additional). Individuals in the top quintile are much more likely to have additional schooling (beyond grade 9). University degrees are positively correlated with consumption. Vocational and technical degrees are *negatively* correlated with consumption i.e. those with such training are more likely to be found in the lower quintiles. This is perhaps a reflection of the collapse in the industrial employment in the post-1991 period, and the greater versatility of university education in the changed circumstances.

[Table 8]

The gender of the household head is not correlated with poverty. The proportion of households headed by women is around 30 percent in the bottom two quintiles, compared to 40 percent in the population as a whole. Although female-headed households face no greater risk of poverty, this is not to suggest that there are no gender inequalities in Kazakhstan. Women's work was traditionally associated with low pay in the FSU, as in other parts of the world. Much of this difference has persisted -- in Kazakhstan in 1996, official wages in the female-dominated sectors

(education, health-care) were about half the official average wage. Women appear to face a marginally greater risk of unemployment than men, and possibly higher rates of long-term unemployment. However, inequality in access to education and health-care are not significant (see UNDP 1995, 1996, 1997; Asian Development Bank, 1997).

One group who may very well be poor but about whom relatively little can be said are migrants and refugees. The transition has been accompanied by a sharp increase in migration in Kazakhstan. In addition to substantial emigration, Kazakhstan has received immigrants, including ethnic Kazakhs from other CIS countries and Mongolia, and refugees escaping conflict in other parts of the CIS, and Afghanistan.¹³ In thinking about the living standards of the two groups, it is important to distinguish between ethnic Kazakh immigrants, who are entitled to state assistance, and refugees, who are typically not covered by the social welfare system. Within each group there are likely to be those who are more well-placed to cope with changed circumstances. Further research is needed to establish poverty rates and living conditions among these groups.

The composition of consumption and income suggest different ways in which households have responded to changed economic circumstances. The ability to grow one's own food is a vital coping strategy. This is reflected in the share of own-production in food consumption (see Table 9). The poor in Kazakhstan are those who are not able to meet a large proportion of their food consumption needs from self-production and need to rely on purchased food. Since access to private plots is generally higher in rural areas, this would tend to put urban residents at a relative disadvantage.

[Table 9]

Other informal activities, such as holding a second job offer alternative ways of making ends meet (see Table 10). Gifts and transfers between households are also an important source of cash income. The KLSS recorded private transfers between households, including assistance from immediate and extended family, other households, charities, cultural and religious organizations, and NGOs. The data suggest that parents are the single most important source of private cash transfers in Kazakhstan followed by other relatives, reflecting the importance of the extended family network as a source of informal social security. In terms of overall magnitude, private transfers are smaller share of household income than pensions *but are significantly larger than the sum of all other public transfers*. In fact, private assistance is nearly five times the size of all government transfers excluding pensions. This probably reflects the erosion in the value of benefits and the impact of arrears.

[Table 10]

Before concluding this section, it is worth mentioning one caveat. As the KLSS was conducted over one summer month when own-production of food is likely to have been high, it probably overstates consumption and, consequently, underestimates poverty especially in rural areas. The estimates presented in this section may therefore be thought of as a lower bound on poverty. It is also possible that the share of own-produced food in total food consumption, and its importance as a coping strategy, is overstated.

¹³ Over 150,000 Kazakhs have arrived in Kazakhstan since 1991. The number of refugees is more difficult to estimate. Ethnic Kazakhs have tended to settle in the southern half of the country while the south-eastern oblasts have received refugees from the Afghan and Tajik conflicts.

Turning briefly to inequality, we see that the Gini coefficient for consumption is 0.35. Consumption in Kazakhstan appears to be more equally distributed than in neighboring countries. Recent estimates from Russia and the Kyrgyz Republic place the Gini in both countries at around 0.46 (see World Bank, 1995a, 1995b).

The analysis presented here indicates that poverty has many dimensions. A poverty alleviation strategy for the country will therefore require a multi-faceted approach based on growth, social safety nets and human capital investment. The first two components of a poverty alleviation strategy, growth and safety nets, are covered in the next two sections. Data limitations impede including an assessment of programs investing in human capital. This latter aspect is important, and further work in this area is needed.

4. Growth

Economic activity in Kazakhstan has contracted by around 40 percent since independence leading to a sharp fall in wages, and a rise in unemployment and underemployment. Over one-third of the population was living in poverty in 1996. Given the scale of output decline, and the level of poverty, it should be clear that broad-based growth that both raises wages and creates employment will be key to reducing poverty in Kazakhstan. Growth is critical not just for raising incomes but also for providing the resources for a fiscally sustainable safety net to help those who might be temporarily or chronically disadvantaged.

In general, the prospects for a sustained increase in output over the medium term in Kazakhstan are good, both because of a stable policy environment, and because it is well-endowed with natural resources.¹⁴ As in other transition economies, the private sector is likely to provide the main impetus for growth. Continued macroeconomic stability and low inflation will be important for growth to occur. Further developments, such as improving the legal and regulatory framework for the private sector, improving the management of public resources and the process of enterprise restructuring, and improvements in the areas of health and education services will also be critical. As with other oil-exporting countries, Kazakhstan will need to adjust to large inflows of foreign exchange and increased competition from imports. Over the medium run, attention will need to be focused on policies that raise the competitiveness of the non-oil sectors, particularly as these sectors are vital from the viewpoint of employment creation.

While growth is a necessary condition for the reduction of poverty in Kazakhstan, it is not a sufficient condition. First, growth will not necessarily result in net increases in employment, at least in the short run. The further restructuring needed in the non-service industries, notably in agriculture, but also mining, transportation and utilities will involve significant net reductions in employment, given inherited levels of over-staffing and the limited adjustment of employment to falls in output since independence.¹⁵ Information from the KLSS on employment probabilities

¹⁴ Natural resources can be a mixed blessing. The competitiveness of non-oil sectors of the economy has been found to be a problem in almost every country that has experienced a rapid expansion in foreign exchange earnings from petroleum exports. In a study covering growth in ninety-seven developing countries during the period 1970-89, Sachs and Warner, 1995 found that countries with high export earnings based on natural resource wealth grew more *slowly* than those without such natural resources.

¹⁵ Employment norms that are several times levels found in other countries are still common in Kazakhstan. In Kzyl-Orda, for example, sheep farms typically employ about one person per 200

suggests that differences between those with university education and those with technical and vocational training have already emerged. Many of the semi-skilled, and those with inappropriate skills may experience greater unemployment in the near future.

Second, growth is unlikely to be distributionally neutral. Wage and earnings differentials were suppressed under the former system with skilled manual labor compensated relatively well compared to other professions.¹⁶ With the growth of the private sector and the market economy, earnings differentials are likely to grow. In other words, wage growth cannot be expected to be distributed evenly across the population.

5. Social Safety Nets

Given the limitations of growth, a strong social safety net will be necessary to protect the population from the worst effects of the transition. The present social safety net for Kazakhstan incorporates elements of both social assistance and social insurance.¹⁷ Social assistance includes: (i) child allowances, of which the major program is the means-tested child allowance, (ii) means-tested housing allowances, and (iii) benefits in cash and kind. Social insurance includes: (i) pensions, (ii) unemployment compensation, and (iii) allowances related to events such as births and deaths and temporary incapacity to work including sickness and maternity.¹⁸ In 1996, spending on all social protection programs in Kazakhstan was 6.6 percent of GDP. Pensions are the most important program in the system of social protection with 75 percent of spending going to pensions.¹⁹ The second largest program is the means-tested child allowance. The housing allowance scheme is small but is expected to expand substantially in the near future

[Table 11]

The present social safety net reflects a series of important changes from the pre-independence system. The old social safety net was a comprehensive social security system that combined guaranteed employment with a generous system of pensions, sickness and maternity benefits and subsidies for food, fuel, transport and a range of consumer items. Normal pension ages were low by international standards and significant groups of the population were entitled to early retirement on full pensions. Social assistance relied on universal child allowances and a range of benefits targeted at specially identified vulnerable groups including single pensioners, veterans of war, victims of environmental disaster, nuclear testing, and political and social repression.

animals compared to the international average of one person per 600 animals. In water utilities there are 50 staff members per 1,000 connections, compared to 10-20 employees per 1,000 connections in relatively inefficient utilities, and 2-3 employees per 1,000 connections in efficient ones (see World Bank, 1997).

¹⁶ This pattern of remuneration was common to many command economies (see Barr, 1994).

¹⁷ In discussing the social safety net, we exclude general production and consumption subsidies.

¹⁸ A fourth component is health insurance which this paper will not consider in detail.

¹⁹ As a result of the payment of pension arrears in 1997, pensions rose from around three-quarters to nearly 90 percent of total social safety net expenditure, but this was a one-off event.

Due to the demands of the new economic structure, the government has taken a number of steps to make the social safety net both less generous and more targeted. The employment guarantee was abolished and programs designed to assist the newly unemployed (training, unemployment benefits and job placement services) were introduced, utility subsidies were reduced and a housing allowance scheme introduced to cushion the impact. The main child allowance scheme moved from being a universal entitlement to a means tested program in 1994. Finally, the age for retirement pension eligibility was increased.

The composition of social safety net expenditure, divided among pensions, other social insurance, and social assistance, has remained by and large unchanged from 1992 through 1996. Within these three broad groups of programs, however, there have been substantial changes in the importance of the different sub-programs. Unemployment benefits have increased in importance over time within labor market programs (up from 5 percent in 1992 to 57 percent in 1997), sickness and maternity programs have increased their share among other social insurance, and the means tested child allowance programs has declined as a share of social assistance program, largely due to the increase in the housing allowance benefit.

[Table 12]

The decline in the overall level of resources combined with the changes in composition of spending have led to declines in the level of some benefits as well as a fall in the number of beneficiaries. The real value of pensions fell by over two-thirds between 1993 and 1995 although there has been a modest increase since then. The number of pensioners declined from 2.82 million in 1993 to 2.67 in 1997. Maternity benefits fell by a half in real terms between 1994 and 1995 although the number of beneficiaries remained the same. Unemployment benefits fell to forty percent of their previous level in 1994. But, in 1996, this was revised upwards sharply and now is well above the 1993 level; the number of beneficiaries in this program has also risen continuously. The expenditure per beneficiary has also risen for the basic child allowance, due in large part to the substantial decline in the number of beneficiaries.

[Table 13]

Cash transfers are an important source of income for many poor households but, in general, coverage is limited and available assistance is not well targeted. Data from the KLSS show that thirty-seven percent of households in Kazakhstan receive at least one transfer (see Table 14). But, over sixty percent of poor households receive no cash benefits at all. Of the different transfers, pensions are the most common, being received by over 28 percent of households. Other transfers are relatively uncommon with child allowances being received by only four percent of households, and unemployment benefits by around 1.5 percent of households. Average benefits are modest compared to the subsistence minimum (poverty line), especially for unemployment benefits.

[Table 14]

As a result of falls in benefit levels and limited coverage, cash transfers play a modest role in protecting living standards in Kazakhstan (see Table 15). Pensions and other transfers account for nearly 20 percent of consumption on average in the bottom quintile, and over 20 percent of

consumption in the second quintile. Public transfers fall to a little over 7 percent in the top quintile. For the population as a whole, transfer payments account for around 15 percent of total consumption. In terms of relative importance in household consumption (or income), pensions are the most important transfer while child allowances come second. In the lowest quintile, pensions contribute over six times as much to household resources than child-allowances.

[Table 15]

There are two additional issues associated with the effectiveness of the social safety net. First, a large proportion of households appear not to receive the transfers they are entitled to (see Table 14).²⁰ Receipt rates are the highest for pensions and the lowest for maternity benefits. In the case of the means-tested child allowances, the major social assistance program, *only one in three eligible households actually received payments during the month of the survey*. Receipt rates were slightly higher for unemployment benefits which were received by around two in five eligible households. The proportion of beneficiary households, and the impact of the transfers, would obviously be significantly higher if a greater proportion of eligible households were to actually receive benefits. The main reason cited for not receiving benefits was the shortage of cash on the part of the local authorities. There is a distinct locational pattern to non-receipt of transfers -- it is higher in rural areas and in the South and the East than in other parts of the country. The incidence of non-receipt in Almaty city is, however, small.

A second issue relates to the targeting of transfers. The largest program in the social safety net program is the pension program, which is, by definition, not a targeted program. As might be expected, pensions are not progressive (see Table 16).²¹ The benefits flow largely to the middle income groups with the bottom quintile receiving 11 percent of total program expenditure. There is some evidence that sickness and maternity benefits are also largely enjoyed by the non-poor but this finding should be interpreted with caution given the small proportion of households in the sample that actually receive these benefits.

Other benefits are, however, progressive. Child allowances are mildly progressive with 45 percent of benefits going to the two lowest population quintiles. The means tested program is much more progressive than the categorical child allowance schemes, suggesting that there is scope for improved targeting of other social assistance. Unemployment benefits, although not intentionally targeted, largely flow to the poor. Over a third of the benefit is received by the bottom quintile. This is not surprising given the observed correlation between unemployment and poverty. Additionally, given the low real value of the benefit this may also reflect self-targeting by the poor. However, the earlier caveat on small numbers applies here as well.

[Table 16]

These findings suggest that there is scope for improved targeting of social assistance. Further reforms in targeting could increase the allocation of resources to the poor. There is a high

²⁰ For this analysis, eligibility for the means-tested child allowance was determined by applying the means test to the income per capita of households with children. For other transfers, eligibility is self-reported.

²¹ A subsidy is considered “progressive” if the benefits go disproportionately to the poor in absolute terms.

level of leakage of resources to the non-poor in the means-tested child allowance. Improving the targeting mechanism, using either a full fledged proxy means test²² or simply incorporating some additional characteristics of the household along with the income measure, could substantially reduce leakage and increase the impact of the programs. Other social assistance programs could follow this model as well.

Rationalizing the social assistance system would further improve the impact of the social safety net. The present multiplicity of programs increases the administrative costs of the system without substantially increasing the number of beneficiaries.²³ And the overlap of programs, such as the child allowance, with contradictory targeting schemes undermines the ability to reach the poorest groups in the population.

Beyond the savings that can be had through better targeting, further assistance for the poor would have to come from an expansion in social protection spending. In this context, it is worth considering the introduction of targeted income support for the poor. There is currently no targeted benefit for those who are poor but do not qualify for public means-tested assistance through the child allowance or housing allowance schemes.²⁴ The lack of benefits for people who are generally poor and do not fall into one of the pre-determined categories partly explains why coverage among social assistance programs is so low. This would suggest that the various non means-tested and local programs are perhaps best replaced with a targeted poverty benefit. In any such scheme the level of the benefit would need to be carefully considered to preclude adverse incentives. At the very minimum, the benefit should be lower than the level of other social insurance payments. It should also provide an encouragement for people to help themselves. This would suggest that the level of the benefit should be austere, and given the considerable reliance on self-production and informal safety nets in Kazakhstan, about a third to a half of the level deemed necessary for minimum subsistence would not be inappropriate. Significantly, the poverty benefit would *not* be aimed at bringing the individual or household up to the subsistence level but to provide a helping hand to the process. For administrative efficiency, the program could be administered by the local departments of social protection.

The observed correlation between poverty and unemployment, and the difficulty of targeting transfers also suggests a role for public works programs in targeting assistance through self-selection among the poor. Public works programs operate on a very limited scale in Kazakhstan at the moment, accounting for less than 1 percent of all spending on labor market programs. These schemes, could, however be expanded significantly and play an important role in targeting assistance to the poor. Given the possible association of such schemes with the forced labor of former times, it may be important to emphasize community services at the expense of heavy manual labor. This would also favor women who face a marginally higher risk of unemployment in Kazakhstan. Community services worthy of consideration for inclusion in public works programs include cleaning and sanitation activities, home-care for the aged, and informal child-care.

²² Along the lines of the Ficha Cas in Chile or the SISBEN in Colombia.

²³ For example, there was one child benefiting from the program for children with HIV in 1996.

²⁴ For example, to qualify for the means-tested child allowance, household income (largely based on the official wage) must be below a particular threshold. If the official wage is above the threshold, the household becomes ineligible, *whether it has received that wage or not*.

6. Conclusions

This paper examines the impact of economic transition on living standards in Kazakhstan and suggests ways in which the social safety net can be made more effective. There are three principal conclusions. First, over a third of the population of Kazakhstan was living below a 'subsistence minimum' living standard in 1996. Second, given the extent of poverty, this is a problem that cannot be eliminated by public transfer programs. Indeed, the social safety net has shrunk substantially since independence under the combined impact of falling revenues and the need to maintain fiscal discipline. Strong and sustained growth that raises wages and reduces unemployment will therefore be key to poverty reduction in Kazakhstan. Third, the social safety net will nonetheless be critical for easing the costs of economic restructuring, and to assist those who may not be able to take advantage of changing economic opportunities. The social safety net should be made more effective through greater regularity in the payment of benefits and improved targeting of benefits to those in greatest need. An expansion of programs that assist the poor should be considered.

Table 1: Selected macroeconomic indicators in Kazakhstan since independence

	1991	1992	1993	1994	1995	1996	1997
Real growth in GDP (%)	-9.8	-2.9	-10.4	-17.8	-8.9	1.1	2.1
Index of real GDP (1990=100)	90.2	87.6	78.4	64.5	58.7	59.3	60.5
Index of real consumption (1993=100)			100	78.2	76.5	80.3	n.a.
Inflation (end-of-year change in CPI)	90	1,381	1,662	1,880	60	29	11
Fiscal deficit (% GDP)	7.9	7.3	1.3	7.2	2.5	3.1	3.8
Nominal rate of exchange (ann. avg. T/\$)			2	36	61	68	76

Source: National Statistical Agency, 1997a, 1997b.

Table 2: Fiscal adjustment in Kazakhstan since independence

	1991	1992	1993	1994	1995	1996	1997
Government revenues and grants (% GDP)		38.9	37.2	23.8	23.6	24.0	n.a.
Social protection expenditures (% of GDP)		11.2	8.3	4.6	6.6	6.6	7.9
Index of real per capita expenditure on healthcare (1992=100)	168	100	94	59	72	66	80
Index of real per capita expenditure on education (1992=100)	177	100	100	51	63	49	62

Source: World Bank, 1996. Estimates for 1996 and 1997 were computed by World Bank staff.

Table 3: Urban versus rural poverty in Kazakhstan²⁵

	Head count ratio, H	Poverty gap, PG	P ₂
Urban	30.0	8.9	3.8
Rural	39.0	13.7	6.6
Total	34.6	11.4	5.2

Source: KLSS 1996

Table 4: Regional dimensions of poverty in Kazakhstan

Region	Head count ratio, H	Poverty gap, PG	P ₂
North	9.2	1.9	0.7
Center	26.4	9.0	4.4
East	31.3	9.0	3.6
West	37.8	10.8	4.2
South	69.2	26.4	13.0
Total	34.6	11.4	5.2

North: Kostanai, Kokshetau, Pavlodar, and North Kazakhstan oblasts; Center: Zhezkazgan, Karaganda, Akmola and Torgai oblasts; West: Manghystau, Atyrau, Aktyubinsk, West Kazakhstan; East: Semi Palatinsk, East Kazakhstan, Taldykorgan and Almaty oblasts and Almaty city; South: Kzyl-Orda, South Kazakhstan and Zhambyl oblasts. In April 1997, the merger of oblasts reduced the total number from nineteen to fourteen.

²⁵ The head count ratio, H, is the proportion of individuals below the poverty line. The poverty gap, PG, is a measure of the depth of poverty. It measures average consumption shortfall in the population (the non-poor have zero shortfall) as a proportion of the poverty line. P₂ is a measure of the severity of poverty. It is calculated in same way as the PG but gives more weight to poorer households. For further details, see Ravallion, 1994.

Table 5: Household composition and poverty in Kazakhstan

	Consumption quintile					Total
	Bottom	Second	Third	Fourth	Top	
Average household size	4.5	4.1	3.5	3.4	2.9	3.6
Average no. of children	1.8	1.4	1.1	0.9	0.8	1.1
Average no. of elderly	0.4	0.4	0.3	0.4	0.3	0.3
Dependency ratio	1.1	1.0	0.9	0.9	0.8	0.9

Note: Dependency ratio is the sum of all persons below 16 years or above 59 years divided by those of prime age (16-59 years).

Source: KLSS 1996

Table 6: Poverty incidence among selected demographic groups
(percent of households in quintile and in total)

% of households which are:	Consumption quintile					Total
	Bottom	Second	Third	Fourth	Top	
One person, elderly*	3.1	4.7	5.9	5.4	4.8	4.9
Only elderly*	6.0	10.0	9.4	11.8	7.7	9.0
One adult w/ dep. children	3.8	4.7	5.4	5.0	5.2	4.9
W/ children < 6 years	40.1	28.7	25.5	20.0	15.3	24.8

*: An elderly person is anyone 60 years and over

Source: KLSS, 1996

Table 7: Labor force status and poverty in Kazakhstan
(ILO definitions)

	Consumption quintile					Total
	Bottom	Second	Third	Fourth	Top	
Labor force participation rate	51.2	54.8	60.9	66.0	68.6	60.8
Unemployment rate	9.4	8.2	6.0	6.0	2.6	6.0
Dependency on employment	2.5	2.3	1.7	1.7	1.4	1.9

Note: Dependency on employment is the number of household members being supported by each employed person.

Source: KLSS 1996

Table 8: Education and poverty in Kazakhstan

	Consumption quintile		
	Bottom	Second	Top
Years of schooling	10.6	11.2	11.8
% with more than basic schooling	55	68	79
Degree if more than basic schooling (%):			
Vocational	21	21	17
Technical, no secondary	9	8	7
Technical w/ secondary	18	16	15
Technical College	36	29	37
University	16	25	24
Post-graduate	0.3	0.0	0.4

Note: Basic schooling is grades 1-9.

Source: KLSS 1996

Table 9 : Structure of consumption and poverty in Kazakhstan

Source of expenditure	Consumption quintile					Total
	Bottom	Second	Third	Fourth	Top	
Total Food	73.5	74.2	72.7	73.7	77.9	74.3
Food purchased	51.3	47.5	44.9	35.3	24.8	40.7
Food self produced	19.0	23.8	23.3	30.7	40.5	27.4
Food eaten out	1.0	0.6	1.3	1.8	1.6	1.3
Food as gift	2.2	2.3	3.2	5.9	11.0	4.9
Utilities	8.5	6.9	7.0	5.5	4.2	6.4
Durables	2.5	2.5	2.8	3.2	2.6	2.7
Transport	2.2	2.8	3.0	2.8	2.7	2.7
Cleaning	3.4	3.0	2.7	2.4	1.9	2.7
Clothing	6.5	6.1	6.5	7.0	5.9	6.4
Leisure	2.8	3.2	3.9	4.0	3.7	3.5
Health (chronic)	0.7	1.1	0.9	0.9	0.6	0.8
Education 6-16	0.1	0.2	0.5	6	0.7	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0
Avg. per capita consumption (tenge)	1,524	2,610	3,684	5,245	9,562	4,545

Note: Owing to data limitations, total health and education expenditures are underestimated.

Source: KLSS 1996

Table 10: Structure of cash incomes in Kazakhstan

	Consumption quintile					Total
	Bottom	Second	Third	Fourth	Top	
Primary wage	45	49	55	51	50	51
Pensions	16	21	14	13	9	13
Other public transfers	6	4	4	3	3	3
Secondary/other occupation	6	4	6	4	4	5
Own business	8	3	7	8	8	7
Sale of food	2	1	1	1	3	2
Private cash transfers	14	13	9	14	19	15
Other	4	4	4	4	4	4
TOTAL	100	100	100	100	100	100
Avg. per capita cash income (tenge)	957	1,535	2,167	3,067	4,116	2,370
Avg. per capita income (including imputed income from own-production)	1,371	2,412	3,229	5,156	9,473	4,743

Note: Other public transfers includes all transfer payments excluding pensions.

Source: KLSS 1996

Table 11: Social safety net expenditures in Kazakhstan as a percent of GDP, 1992-97

	1992	1993	1994	1995	1996	1997
Total social safety net expenditure	11.2	8.3	4.6	6.6	6.6	7.9
<i>of which:</i>						
1. Pensions	8.2	4.1	3.8	4.3	5.0	7.1
2. Labor market programs (including unemployment benefits)		0.1	0.1	0.2	0.2	0.2
3. Social Insurance Fund benefits	0.8	0.8	0.5	0.7	0.6	0.4
<i>of which:</i>						
Sickness	0.4	0.4	0.3	0.4	0.4	0.3
Maternity	0.1	0.1	0.1	0.1	0.1	0.1
4. Social Assistance	1.4	0.6	0.6	0.7	0.8	0.3
<i>of which:</i>						
Means tested child allowances	1.4	0.5	0.4	0.5	0.5	0.2
GDP (million tenge)	1,213,616*	29,413	423,484	1,019,722	1,425,000	1,742,000

*: million ruble

Source: Ministry of Labor and Social Protection, Kazakhstan

Table 12: Composition of social safety net expenditures in Kazakhstan
Selected years, 1992-96

	1992	1993	1996	1997
1. Pensions		100	100	
Old age		80	79	n.a.
Disability		8	8	n.a.
Loss of breadwinner		7	8	n.a.
Social		2	2	n.a.
2. Labor market programs	100	100	100	
Unemployment benefit	5	5	56	n.a.
Administrative costs	36	28	18	n.a.
Assistance to migrants	0	43	3	n.a.
Training	11	11	13	n.a.
Public works	0.6	0.5	1.2	n.a.
3. Social Insurance Fund benefits	100	100	100	100
Sickness	52	50	68	77
Maternity	15	14	18	20
Sanatoria	29	32	10	0
4. Social Assistance	100	100	100	100
Means tested child allowances	97	92	83	82
Other child allowances	3	7	10	5
Local social assistance	0	0.4*	6	0
Housing allowances	0	0	0	12

Source: Ministry of Labor and Social Protection, Kazakhstan.

Table 13: Program beneficiaries and average benefit levels in Kazakhstan, 1993-96
Selected programs

	1993	1994	1995	1996	1997
1. Pensions					
Number of beneficiaries (000s)	2,829	2,814	2,819	2,771	2,670
Index of real average benefits (1993=100)	100	41	35	44	43
2. Labor market programs -- Unemp. Ben.					
Registered unemployed (000s)	40	70	139	282	258
Index of real minimum benefits (1993=100)	100	41	40	103	127
3. Social Insurance Fund benefits - Maternity					
Number of beneficiaries (000s)	283	284	n.a.	n.a.	n.a.
Index of average real benefit	100	48	n.a.	n.a.	n.a.
4. Social Assistance - Means tested CAs					
Number of beneficiaries (000s)	2,417	1,674	1,795	1,469	1,232
Index of average real benefit	100	94	186	235	247

Source: Ministry of Labor and Social Protection, Kazakhstan. Indices computed by authors.

Table 14: Coverage and average value of cash transfers in Kazakhstan, 1996

	Poor		Non-poor		Average benefit per household (tenge per month)
	Proportion of households in receipt of benefit	Receipt rate	Proportion of households in receipt of benefit	Receipt rate	
Pensions					
Old age	23	68	24	81	2,619
Disability	5	74	3	76	2,586
Loss of breadwinner	1	42	1	76	2,683
Unemployment benefit	2	40	1	40	1,382
SIF - Sick pay	0.2	10	0.8	15	10,353
SIF - Maternity benefit	0.0	0	0.5	8	1,063
Child allowances					
Means-tested	6	36	3	25	2,603
Other	1	n.a.	2	n.a.	776
Other social assistance	4	n.a.	4	n.a.	2,345
ALL BENEFITS	37		37		

*: Receipt rate is proportion of eligible households who received benefits during the month of the survey.

Eligibility is self-reported with the exception of mean-tested child allowances.

Notes: Subsistence minimum (poverty line)in the survey month was 2861 tenge per capita.

Source: KLSS 1996

Table 15: Share of public transfers in consumption in Kazakhstan

	Consumption quintile				Total	
	Bottom	Second	Third	Fourth	Top	
Pensions	15.2	19.3	12.8	11.3	5.6	12.2
Mean-tested child allowances	2.2	1.2	1.2	0.3	0.1	0.9
Unemployment benefit	0.7	0.1	0.2	0.1	0.1	0.2
All others	1.2	1.5	0.6	1.1	1.3	1.1

Source: KLSS 1996

Table 16: Proportion of program expenditures reaching different quintiles in Kazakhstan

	Consumption quintile				
	Bottom	Second	Third	Fourth	Top
<u>All</u> pensions	11	21	20	25	23
Old age pensions	11	21	19	26	23
Disability	13	29	25	11	23
Loss of bread-winner*	0	39	17	31	13
Unemployment benefit*	33	4	33	12	18
SIF -- Sick pay*	11	1	6	38	44
SIF -- Maternity benefit*	0	16	33	45	5
<u>All</u> child allowances	21	25	33	13	8
Means-tested child allowances	24	25	31	13	7
Other child allowances	1	26	44	11	17
Other social assistance	6	19	9	19	47

*: Owing to the small number of sampled households who receive these transfers, the results should be treated as indicative.

Source: KLSS 1996

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