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## SOCIAL PROTECTION SYSTEM DEVELOPMENT IN KAZAKHSTAN IN THE CONTEXT OF EUROPEAN TRENDS

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### *Abstract*

The article is devoted to the formation and development of a social protection system in the countries with a transformational economy (the former Soviet Union). The article presents characteristics of social protection institutions in Kazakhstan (social insurance, social security, social assistance). Financing of social security and social assistance payments from the national budget is now more extensive than social insurance payments. The planned modernization of health financing on the basis of compulsory health insurance will increase the share of social insurance in the total state expenditure on the social protection. The formation process of social protection institutions is influenced by both informal norms, which are the result of the Soviet social security system, and modern trends. The latter ones are characterized by a revision of welfare state principles. The difference between liberal and conservative social states is leveled. Increasing responsibility for periods of disability is being placed on the society members for whom the employment is the only source of their material security. Private management and competition are beginning to play an active role in social insurance. More and more hopes are associated with non-public insurance based on accumulative corporate (private insurance) pension systems, which indicates the strengthening of the self-responsibility principle in the society. The authors formed recommendations for improving the social protection system in Kazakhstan, taking into account the experience of developed countries with social market economies and the fact that the basis of an effective social protection system is the labor market corresponding to modern macroeconomic principles.

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**Keywords:** Social protection in Kazakhstan, transformation of social protection in countries with social market economies, lessons for developing countries.



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## **1. Introduction**

There are some general features of the social protection system in developed countries. First of all, these are two main financing mechanisms: social insurance and social assistance. The social insurance mechanism operates mainly on the basis of financial resources reallocated to the social insurance system by employers and employees. In most cases, social insurance funds have considerable independence in the sphere of financial management, while the social assistance system is financed from the budget of the central government and the budgets of municipalities. The main condition for providing assistance is compliance with certain criteria of need: non-compliance of income per household member with the established social standard, the presence of persons with disabilities or dependents, etc. It is also common to have developed and adopted at the state level standards of social protection and appropriate funding mechanisms. Social standards cover retirement age, minimum pension benefits, the minimum subsistence level (including geography), the period of payment and minimum amount of benefits for officially unemployed, rates of insurance contributions for compulsory social insurance for employees, basic level of maternity benefits and others. Besides in social states, the central government delegates a sufficient range of powers in the social protection sphere to local authorities, especially social assistance. Municipalities implement national social security programs in their localities, assess the need of households for social assistance, and initiate the attraction of extra-budgetary financial resources to implement their own measures of material support for those in need.

The analysis of the legislation in the field of social protection of the population in the Republic of Kazakhstan shows that there is a sufficient legitimate basis for the implementation of existing in the international practice forms of social protection of the population and their financial mechanisms – social security, social insurance and social assistance.

## **2. Problem Statement**

The modern system of social protection of the population in Kazakhstan is the result of the historical development of socio-economic relations related to the material support for disabled society members. For 130 years (from the 60s of the XIX century), the development of politics and social sphere on the territory of Kazakhstan was determined by the legislation of the Russian Empire, and then the Soviet Union.

As a result of the fall of the Russian Empire after the proletarian revolution in October 1917, public charity and charity as forms of social protection ceased to exist. The new political power sought to attract to its side a wide range of social strata of a new created state, which led to the adoption of the most advanced at that time standards in the field of social protection of workers and members of their families. After the adoption of the Constitution of the USSR in December 1936, the material security in the old age, in case of illness and disability was enshrined among the most important rights of Soviet citizens. As a result, by 1940, the Soviet system of social security and social insurance was formed in the Kazakh SSR. Social insurance eventually was losing its basic insurance principles, the formation and use of funds was carried out without taking into account social risks. Since gaining the independence, Kazakhstan is on the path of building a social market economy, which in turn implies a change in economic relations and requires the construction of an adequate social insurance system.

### **3. Research Questions**

The main research questions are:

- Formation and development of social protection institutions in the Republic of Kazakhstan;
- Institutional transformation and challenges in the field of social protection in developed countries;
- Problems of building an effective social protection system in developing countries.

### **4. Purpose of the Study**

The purpose of the study is:

- Describe modern institutions of social protection in the Republic of Kazakhstan;
- Determine development directions of the social protection system in Kazakhstan;
- Identify trends in the social protection system of European States;
- Formulate proposals that contribute to the construction of an effective social protection system in developing countries.

### **5. Research Methods**

The study is based on the institutional-evolutionary theory of Douglass North (1990). The state, as a subjective institution, organizes material support for people who are not capable of economic self-sufficiency because of the age and other objective reasons. This function is performed by the state within the framework of a fundamental social contract concluded with citizens, under which it is delegated with control in the performance of social protection. Formal and informal norms form an institutional environment where institutional structures function being defined by norms – social protection organizations. The state can transfer a part of its powers under the social contract to private organizations. So, the market of social services can arise. Both public and private institutional social protection systems are not perfect. An urgent task of the current development stage of national approaches to the organization of social protection is the optimal combination of these systems (Shutyak, 2004).

### **6. Findings**

In 1994, Kazakhstan, together with other members of the CIS, approved the Charter of social rights and guarantees for citizens of CIS members, thus declaring its commitment to the basic principles of its activities, primarily the principle of social partnership, i.e. coordination of social issues between the government, employers' organizations and professional unions. At that time, the social protection system was characterized by unsystematic legislation and insufficient incentives to participate in it for participants of employment relationships. The principle of solidarity prevailed with a high level of the state participation and the lack of self-responsibility of people for periods disability.

The Law "On compulsory social insurance" adopted in Kazakhstan dated 28.12.2015 N156-p was in line with the Concept of social protection of the population of the Republic of Kazakhstan N1398 dated 15.09.2000 and was the beginning of the institutional construction of a social protection financing system

on insurance principles. To protect the employed population from social risks, a joint stock company with one hundred percent state participation – the State Social Insurance Fund – is being created in the republic. It occupies a central place in the social insurance system, accumulating social contributions, forming data on workers who need social protection on the basis of information from the state center for pension payments. In 2005, Kazakhstan introduced the Law "On compulsory insurance of employees against accidents in the performance of their work (official) duties" dated 30.12.2009 N234-IV. As an insurance object, the property interest of employment relationships participants is declared in connection with the possible physical damage that caused the loss of one or another degree of working capacity, or the death of an employee and the loss of the breadwinner by his family members.

The Concept of social protection of the population of the Republic of Kazakhstan N1398 dated 15.09.2000 also determined directions of improving parameters of the solidary pension system. It provided the development of mandatory funded pension insurance, including increased responsibility of contributions payers and improved mechanism of pension payments from funded pension funds. In 2013 the Law "On pension provision in the Republic of Kazakhstan" dated 21.06.2013 N105-V was adopted, in accordance with which a single accumulative pension fund (SAPF) was created, where pension assets of private accumulative pension funds have been transferred to. In 2018, the pension system got as a part a conditional-funded component, which assumes that employers at their own expense transfer 5% of employees' incomes to the SAPF, which administers them.

In 2018, Kazakhstan started realizing the Law "On compulsory social health insurance" dated 16.11.2015 N405-V. During 2018 and 2019, it was decided to make only monthly contributions of employers to the social health insurance fund in the amount of 1.5% of the salary of each employee, since 2020 it is 2%. This norm also applies to individual entrepreneurs and owners of farms that employ workers. The relevance of the new legislation is determined to the chronic underfunding of free medical care. As a result, the share of payments of the population has increased from 31% in 2011 to 40% in 2016. The world health organization (WHO) considers these costs as a factor leading to poverty, as well as to the instability of the health care system. In comparison, the share of the population in the payments for medical services in the OECD countries is 16.3% (World Health Organization, 2019). The participation of employees in the compulsory medical insurance system is expected from the beginning of 2020, when employers will start deducting their incomes and paying contributions from them at the rate of 1% in 2020 and 2% in 2021.

In Kazakhstan, significant amounts of financial resources for material support of disabled society members are directed from the national budget. State allowances and benefits are provided to persons who have a certain social status in accordance with the law, within the framework of such a social protection mechanism as financial security:

- Pensioners receiving a solidary and basic pension;
- Victims of nuclear tests at the Semipalatinsk nuclear test polygon;
- Participants and heroes of the Great Patriotic War and their widows;
- People with disabilities and people who lost breadwinners;
- Employees of underground mines and open-pit mines engaged in the production associated with harmful to health or severe conditions of their professional activity;

- Women at the birth of a child and for the care of a child in cases where the mother or the caregiver is not a member of the compulsory social insurance system;
- A mother with many children for a disabled child;
- A family member or other person who is caring for a disabled person since childhood.

In accordance with the Law "On special social services" dated 29.12.2008 N144-IV, Kazakhstan citizens are guaranteed the volume of special social services at the expense of budget funds. These services are included in the system of minimum social standards in the social security sphere. Orphans, neglected minors, persons suffering from severe physical and mental illnesses and being in need of constant care, people who are unable to self-service because of the old age, illness and disability, homeless people released from prison, and some other categories are entitled to support under this type of social security.

The financial system of social protection of the Republic of Kazakhstan also includes social assistance, which was introduced in 2001 by the Law "On state targeted social assistance" dated 17.07.2011 N246-II as a part of the Kazakhstan program to overcome poverty in the country. Monetary payments that are provided by the state to officially poor people living on the territory of the corresponding municipality of the republic on a permanent basis are called targeted social assistance. Officially, a person is recognized as poor if his income for the quarter is less than forty percent of the established subsistence minimum.

Targeted social assistance is provided in two forms: unconditional and conditional. Unconditional monetary assistance is provided to single pensioners, the disabled and seriously ill, as well as to households with children of preschool age, persons with disabilities, elderly people who need care, as well as families in which all members are disabled, being at the working age. Other poor families receive social assistance payments under certain conditions, if they fulfill their obligations to promote employment under a social contract.

According to our estimates, the majority of social assistance recipients are rural residents (more than 60%). Among social assistance recipients, the largest share is presented by children (more than 60%). The share of the self-employed population is about 10%, the share of the unemployed – about 8%, and the working-age population share is less than 1%. The further development of the social protection system in Kazakhstan should take into account trends in this area that have formed in recent decades in developed European countries.

Since the end of the 90-ies of the last century, there has been a tendency to criticize the principle of solidarity in the financial provision of social protection inherent in the welfare states. That was caused by the growing social burden on the budget system. Another factor that neutralizes the significance of the social state model is the transformation of the labor market in connection with the transition of the society to digitalization, as well as to the services and knowledge economy, which causes a change in the structure of demand in favor of highly qualified workers, specialists in the field of information technology, personnel with competences in research activities. Changes in the labor market are accompanied by a significant differentiation between professional groups by the nature and conditions of work, the level of payment and, as a result, by the types and probability of social risks. These trends may lead to the loosening previous mechanisms for assessing social risks. The knowledge economy, which is replacing the post-industrial economic type, is characterized by work with unique skills, which requires specification of methods and assessment of professional social risks, not averaged ones. Thus, the need for individualization of

approaches to social protection in an innovative economy inevitably increases. As a result, one of the basic principles of the welfare state – the universality of social support – has been questioned. Financial mechanisms based on the principle of solidarity, which assumed the mass character of typical insurance cases and risk assessment based on the laws of statistics, are being reviewed.

The need for new forms of material support for society members affected by social risks other than universal social insurance mechanisms is determined by both the objective demographic situation and socio-political transformations in the labor market. Options for clarifying risks in the social insurance system, differentiation of damage assessment in the context of risks, and clear formalization of differences between social security and social assistance are being discussed (Rosanvallon, 1997). Among the proposed directions of changes in the social protection sphere are such as the revision of its fundamental principles, adjustment of types and sizes of social guarantees. It is declared that changes should be an incentive to the labor activity and effective economic growth.

In the developed economies, private business is increasingly beginning to manifest itself in the system of social protection forming a competitive environment. The experts discuss advantages of a wider application of compulsory pension insurance accumulative systems implemented by non-state insurance institutions, as well as the conclusion of personal pension insurance contracts, which contributes to strengthening the role of non-public insurance in providing guarantees proclaimed by the state in the Constitution. New approaches are proposed, for example, the theory of "welfare for work". It proclaims the need to engage people in professional training throughout their life. Thus, according to its apologists, the employed population will be included in the production of goods and services until the retirement age.

In Europe, there is a tendency to rationalize, if not reduce, the use of public resources intended to finance the social protection. At the same time, the social budgets of the European countries, undergoing structural changes, increase in absolute terms providing a real growth. More and more expenditures are directed to financing social sectors such as gerontology and gerontological medicine, vocational education, social and economic implementation of migrants, family, motherhood and childhood. Social security spending is giving way to leadership. Under these conditions, it is possible to predict the blurring of the boundaries between the conservative model of the social state characteristic of the European countries and the liberal model (the U.S.A., Canada, Australia, Japan). It seems that this process can ensure the growth of the labor productivity in "liberal" states, and in e European countries (conservative model) the opposite trend will arise.

Despite the strengthening of the corporate sector, the state budget continues to play a leading role in the redistribution of the nation's income. On average, the European countries spend more than 30% of their GDP on the social protection. Two-thirds of the budget directed to the social protection is funding for pensions and health care. This state of affairs is fully in line with Social policy (basic aims and standards) convention N 117 dated 23.04.1964, which recognizes as a fundamental function of the state the financing of all necessary measures to maintain an acceptable standard of living for the population, including the consumption of food, clothing, housing, medical care, social security and other social services. The social policy directions formulated by the Council of Europe mainly correspond with the provisions of the ILO convention and the revised strategy for Social Cohesion (European Committee for Social Cohesion, 2004). The meaning of these documents is to realize rights of the society members to participate in social and labor

relations, to guarantee a decent standard of living for all of them, to eliminate inequality in ensuring the availability of material and other benefits, and to minimize the society differentiation by incomes.

We share the point of view of scientists who believe that globalization processes only on the surface of phenomena seem independent from the actions of the governing bodies in national economies which provokes them to inaction (Bauman, 2005). Ultimately, the global integration will lead to uneven socio-economic development of countries caused by the unfair competition. These processes will inevitably have a negative impact on the labor market and on the level of social protection of the population.

The Western political elite points out shortcomings of the social state model: a significant burden on the budget, high taxes, formation of dependent moods. The informal norms (solidarity, charity) that have been formed over the previous decades of functioning of a broad support system for social risks victims are being questioned and revised. The modernization processes of social insurance, social security and social assistance institutions are being updated. It is very likely that in the future in the developed countries, a large share of the responsibility for disability periods will lie on citizens themselves rather than on the society or the state as it is at present.

The unavailability of certain social goods and services (for example, high-tech education, medical services, pension insurance) because of their transfer to the private sector can lead to an increase in the property differentiation and poverty. The declarations of the Council of Europe allow us to maintain some optimism since they emphasize the priority of implementing social policies that guarantee conditions for the equal integration of all people into the economy and society, and not only social assistance to persons who have officially proved their poverty (European Committee for Social Cohesion, 2004).

In recent years, Western scientific research in the field of social protection has a purely applied nature. Special attention is paid to the econometric analysis of the impact of existing mechanisms of compensation for social risks on the labor market. The published works show, in particular, an inversely proportional relationship between the coverage degree of medical costs by the insurance policy and the dynamics of offers from people of retirement and pre-retirement age in the labor market (Chen, 2012).

The focus of scientists' attention in the liberal social states is on pension systems and the analysis of the influence of various factors (marital status, number of children in the family, education, family income, etc.) on the decision of employees on early or delayed retirement (Hubener, Maurer, & Rogalla, 2014). In the USA, most people choose the early (at age 62) retirement in spite of higher pensions if they reach the term (66 years) or additional preferences in the case of a deferred retirement.

Econometric studies of the effect of health insurance on household welfare in the public and private sectors in the United States has led to the conclusion that in the public sector (if you have medical insurance guarantees) the general level of material security (current income, savings, property) is lower than in the private sector, where the health insurance by the employer has a limited distribution. This conclusion is considered as an argument against the introduction of universal health insurance system (Clark & Mitchell, 2014), which in our opinion is incorrect. In developing economies, in contrast to developed countries, there is no increase in the propensity to save and to ensure the material well-being of families, the presence of insurance protection of social risks. Elder persons (50-75 years old) are more likely to accumulate savings if they are either not covered by the social protection system or are partially covered by it. Thus, the existing

research results do not confirm the conclusion about the unambiguously positive impact of insurance funds on the savings rate (Naranjo & van Gameren, 2016).

In the post-Soviet space, in a number of states, the social protection system is at the stage of formation. This is reflected in the content of scientific publications of authors who study the relevant issues. Considerable attention is paid to shortcomings of existing social protection systems:

- Insignificant amount of benefits and pensions and their insufficient impact on the living standards of recipients;
- Non-implementation of the principle of targeting in the provision of social assistance;
- Low quality and high cost of social services in the specialized institutions for people who need outside care and constant medical care;
- Poor development of social services at the local level for vulnerable categories of the population;
- Reduction in the number of payers of insurance premiums per pensioner, caused by the increased labor migration, and a wide range of exempt from paying contributions and paying them on preferential terms;
- Insufficient participation of labor migrants in the social insurance system.

It is noted that the declared goals (social orientation of state expenditures) do not correspond with the actually implemented budget policy and that the state and municipal authorities do not pay enough attention to the social protection system in practice (Chotonov, 2016).

Studies of social issues in countries with transformational economies are devoted to the integration of the principles and structure of national social protection systems with international standards in this area, analysis of the materials of the International Labour Organization. The practical recommendations are aimed at overcoming the emerging tendency for states to limit the growth of social protection expenditures because of the economic downturn and demographic imbalances. Special attention is directed to the fact that such trends were not qualified by the relevant structures as a violation of the ILO Charter.

## **7. Conclusion**

Based on the studied world experience, it seems that approaches to solving urgent problems in the field of social protection in the Republic of Kazakhstan, caused by the aging of the population, globalization, and unstable economic dynamics, should be developed based on the following theses:

- The construction of the social protection system and its financial mechanism should be carried out on the basis of international agreements in the field of human rights and freedoms. The provisions of the Universal declaration of human rights dated adopted by resolution 217 A (III) of the UN General Assembly dated 10.12.1948 and other financial and socio-cultural covenants affirm the right of individuals to a decent life, personal integrity, free employment, vacation, freedom of conscience, education, social security in case of disability, etc.
- The focus should be on the labor market condition. It is necessary to maintain a balance of supply and demand for jobs. To maintain the employment at an acceptable level, an active state employment policy and an effective insurance system against risk are necessary (e.g. the risk of lack or low demand for labor).



Germany has a positive experience in this sphere. This country is traditionally one of the states with the highest employment rates among the other Western countries. The overall unemployment rate was 6.4% in 2015, and it fell to 3.1% in 2019. For comparison, this figure in France is 8.6%, in the UK – 4%, in Sweden – 7%. One of the main factors in this encouraging situation in the labour market is the active employment policy pursued by the German government. In recent years, state programs have been implemented that included subsidizing low-paid jobs, budget funding for the creation of unemployed companies, and subsidizing small and medium-sized businesses with innovative orientation. An active employment policy does not reduce the role of unemployment benefits. Unemployment benefits are financed by the insurance contributions of employees and employers on a parity basis. The minimum amount of the benefit paid indefinitely is equal to the subsistence minimum. As a result, about 2% of the gross domestic product is used to finance the employment.

- The modern socio-economic model should provide a common vector of goals of the state power and the civil society, an active social position of people, strengthening their solidarity and cohesion. As a part of the task of improving the people's welfare, it is necessary to change proportions of the value added distribution to increase the share of employees' salaries and the income of the self-employed in the GDP. Achieving optimal proportions of the income distribution will ensure the financial stability of the social insurance as the leading element of the social protection system of the population, since it is the remuneration of labor that is the tariff base for calculating insurance premiums for pension, medical and other types of social risk insurance. In developing countries, this rate is in the range of 36-46%. In developed social states, the share of salaries in the GDP is more than 50%. The leading country in this aspect is Switzerland (59%). The total insurance rate ranges from 25% to 35%, and insurance premiums account for 18-25% of GDP;
- Social insurance should become the leading financial mechanism of the social protection. The existing prevalence of the social security and social assistance, as well as benefits financed from the budget system, in unstable developing economies leads to financial instability of the social protection system.

The structure of sources for financing social protection of the EU member states is currently presented as follows: contributions to compulsory social insurance – 70%, funds of the budget system – 20%, resources of the corporate sector – 10%. About a half of the resources of corporations are used for insurance of employees in case of illness and living up to the retirement age. In developing countries of the post-Soviet space, under the influence of the Soviet social security system, the structure of financial resources has developed, in which budget sources predominate – 50%, insurance funds account for 45%, and 5% is formed by corporate funds (Roik, 2017). The prevalence of budgetary funds in the context of global economic uncertainty and the slowdown in the world economy put into question the financial stability of national social protection systems.

- The development of social assistance should be carried out in the context of improving the systems of remuneration and taxation of labor incomes, including the determination of the minimum non-taxable wage.

In this regard, the experience of Germany is interesting again. Since the beginning of 2015, the legal minimum wage for all employers has been set at 8.84 euros per hour to protect workers from unjustified under-payment and to ensure the financial stability of the social insurance system. The minimum wage defined by law is mandatory for all lands, types of work and professions. Such legislative initiatives in developing economies will help to eliminate the social phenomenon of poverty among working members of the society.

Thus, there is a need for parity in the distribution of functions between the subjects of the social protection system (the state, employers and employees), taking into account the emerging differentiation of their interests. It seems that the leading role should belong to the state system of compulsory social insurance when delegating certain powers (social assistance, social services) to civil society structures (socially oriented non-profit organizations), as well as to create institutions that promote the growth of people's responsibility for their health and material security.

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