

Off the Grid:

Exploring the expanding informal economy and threats to old-age social protection in Kyrgyzstan and Tajikistan



HelpAge International helps older people claim their rights, challenge discrimination and overcome poverty, so that they can lead dignified, secure, active and healthy lives.

Off the grid: Exploring the expanding informal economy and threats to old-age social protection in Kyrgyzstan and Tajikistan

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Edited by Natasha Yefimov

Some names and details may have been changed to protect identities.

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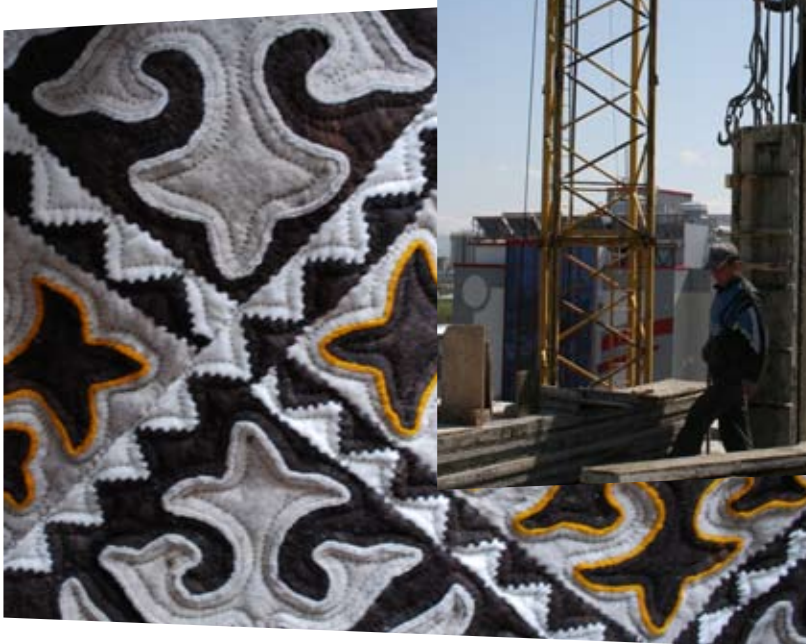
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“There is no doubt that the growing role of informal labour in the economic lives of Kyrgyzstan and Tajikistan is reducing contribution to the pension system now and will have an impact in the future.”

1. Introduction

Concerns about governments' capacity to provide long-term social protection for citizens in their old age are as common in the richest nations as in the least developed. This report focuses on Kyrgyzstan and Tajikistan, two of the poorest countries to emerge from the former Soviet Union, which face a mix of unique challenges and unique opportunities for protecting future generations of older people. In both cases, a rapidly expanding informal economy, coupled with pension reforms and an ageing population, threatens to leave many of today's workers with grossly insufficient income in their old age. As in many other countries, people in Kyrgyzstan and Tajikistan are living longer and having fewer children, meaning that the proportion of older people in the population will more than double by 2050.¹ However, for now, both populations are still relatively young and that gives these governments, and the aid organizations that work with them, a valuable window of opportunity to recalibrate social protection policies to account for future needs.

In the 20 years since the collapse of the Soviet Union, Kyrgyzstan and Tajikistan have seen an explosion of the informal labour market. According to official statistics, only about half of working² people in Kyrgyzstan, and fewer than half in Tajikistan, pay into the countries' respective systems of pension and health insurance. Hundreds of thousands more work abroad as labour migrants, also without making formal contributions to their countries' coffers. This trend fundamentally jeopardizes the informal workers' prospects for security in their old age: As a consequence of reforms, future pension rates will largely depend on contributions from employers and employees to the state-run social insurance funds, but many of today's working people have a very limited number of formal working years, meaning that few if any contributions have been made toward their pensions. Moreover, informal labourers are often unaware of the new pension systems' effects on their entitlements for old-age social protection.

¹World Population Prospects: The 2008 Revision, United Nations Population Division, 2009: <http://esa.un.org/unpp/>.

²In Kyrgyzstan's and Tajikistan's official statistics, "working people" refers to those employed in both the formal and informal sectors.

In the next two decades, as the overall proportion of older people gets notably larger, the first wave of the post-Soviet informal labour force will start to reach retirement age, posing a critical challenge for social protection programmes in both countries. On one hand, under existing rules, many informal workers will not be eligible for so-called contributory pensions, because they and their employers have not been paying into the necessary funds. On the other, both countries already struggle with fiscal strains that make any new public-sector spending, including large-scale poverty-reduction programmes, hard to afford. If strategies to address this triple dilemma of informal labour, an ageing population and low state revenue are not developed soon, Kyrgyzstan and Tajikistan will face a massive spike in the number of older people without decent income and, consequently, greatly increased rates of old-age poverty.

“I think, when I get old, I’ll go back home, buy a couple of cows and work as a shepherd,” said a 37-year-old father of three who drives a taxi, and explained that he can rarely afford the monthly work permits that would formalize his labour and make him eligible for a contributory pension

This report aims to look at the expansion of the informal labour market and the simultaneous ageing trend in Kyrgyzstan and Tajikistan in terms of their implications for old-age social protection. In doing so, it hopes to persuade governments and donors alike to pursue a comprehensive analysis of the imminent challenges and to coordinate their efforts in designing ways to meet them. Post-Soviet countries are in a unique position with regards to social protection reform. While most developing countries struggle to expand narrow coverage of older people by relatively simple programmes, Kyrgyzstan and Tajikistan face the challenge of retaining the near universal coverage they inherited from their Soviet past, while upgrading it to meet existing and future needs. This will require developing a comparatively sophisticated and complex system that builds on the one in existence today. Most importantly, the solutions must be tailored for the specific context of each country, not copied from a generic blueprint. Other countries’ social protection systems and attempts to reform them, particularly in Eastern Europe and Latin America, could offer useful lessons to be adapted for the Central Asian context.

If efforts to reform these two countries’ systems of social protection fall short, hundreds of thousands, perhaps millions, of today’s workers could slip off the grid of official programmes, left in old age to fend for themselves. Some of them are preparing for this already. One of the respondents in a survey conducted for this report, a 37-year-old father of three who drives a taxi, explained that he can rarely afford the monthly work permits that would formalize his labour and make him eligible for a contributory pension: “I think,” he said, “when I get old, I’ll go back home, buy a couple of cows and work as a shepherd.”



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2. Methodology

HelpAge International collected basic data on labour market participation and demographic trends through desk research, in collaboration with the relevant government bodies in both countries: In Kyrgyzstan, these were the National Statistics Committee and the Social Fund, and in Tajikistan, the Presidential Agency on Statistics and the Ministry of Labour and Social Protection. This quantitative research was supplemented with a survey of 600 workers from five sectors of the economy known to employ a large proportion of informal labour. The goal of the survey was to understand what motivates these people to participate, or not, in their governments' social protection schemes. The survey was conducted during the summer of 2010 in the two largest cities of Kyrgyzstan, Bishkek and Osh, and the two largest cities of Tajikistan, Dushanbe and Khujand, in cooperation with the American University of Central Asia (Bishkek) and Tajik National University (Dushanbe). In each city, approximately 30 people from each of the following sectors were surveyed: construction, garment manufacturing, transportation, bazaar trade and services (metalworking, household repairs, hairdressing, currency trading, cell phone payment kiosks and others), giving a total of 150 respondents from each city and 600 respondents in all. Of the sample pool, 35.2% were women and 64.8% men. Roundtables presenting the survey results to government representatives, academic institutions and civil society were held in Bishkek, Osh, Khujand and Dushanbe in February 2011 in order to test the findings and to consider further analysis and recommendations for next steps.

3. Changes to the labour market

Even before the collapse of the Soviet Union, Kyrgyzstan and Tajikistan were two of the country's poorest republics. Both are mountainous and landlocked, with relatively few resources; they relied very heavily on subsidies from Moscow and on centrally planned economic linkages with other republics. It has been exceedingly difficult for these now-sovereign nations to recover from the disintegration of the state-run Soviet economy. By 2007, after more than 15 years of statehood, per capita GDP in Kyrgyzstan had reached about 80% of pre-independence levels, while Tajikistan's had crept just above 50%; by comparison, only ten years after independence, oil-rich Kazakhstan and tiny Armenia had already reached pre-independence levels of per capita GDP.³

³Jane Falkingham and Athina Vlachantoni, "Pensions and Social Protection in Central Asia and South Caucasus: Developments in the Post-Soviet Era" (Centre for Research on Ageing, School of Social Science, University of Southampton, 2010).

The dramatically rough transition to post-Soviet capitalism in the 1990s caused devastating changes in people's ability to find work and pushed millions into a new shadow economy. Within the Soviet Union, official employment had been close to 100%, with most people of legal working age holding public-sector jobs that included extensive social protection programmes; female labour market participation was very high, thanks to state-provided child care and the enforced expectation that all citizens must work. But as ties between Moscow and its satellites were severed, local collective farms and industrial enterprises stopped functioning. Unemployment skyrocketed, and people began scrambling for income in a new, barely regulated landscape off the radar of official institutions. "For nearly 30 years I've been earning money by sewing," said a 47-year-old mother of five interviewed in Dushanbe. "Under the Soviets, I worked at a shoe factory. After the collapse, the factory closed down and since then, for nearly 20 years, I've been working from home. I never thought about registering my business and haven't ever paid any taxes."

Although technical definitions vary, workers are generally considered "informal" when they fall outside the system of government taxation, protection and monitoring. And while precise figures for the size of the informal labour force in Kyrgyzstan and Tajikistan are hard to come by, available data and anecdotal evidence suggest it is huge. For both countries, one significant category of informal labourers comprises migrants who seek work abroad, mostly in Russia. For example, prior to the global financial crisis of 2008, estimates of the number of Kyrgyz migrants working outside the country ranged from 200,000 to 500,000,⁴ equivalent to as much as 13.7% of the country's so-called labour-age population.⁵ While remittances from these workers have raised living standards for many of their families, the money usually bypasses official channels and thus augments neither state revenue nor the workers' future pensions.

"for nearly 20 years, I've been working from home, I never thought about registering my business and haven't ever paid any taxes"



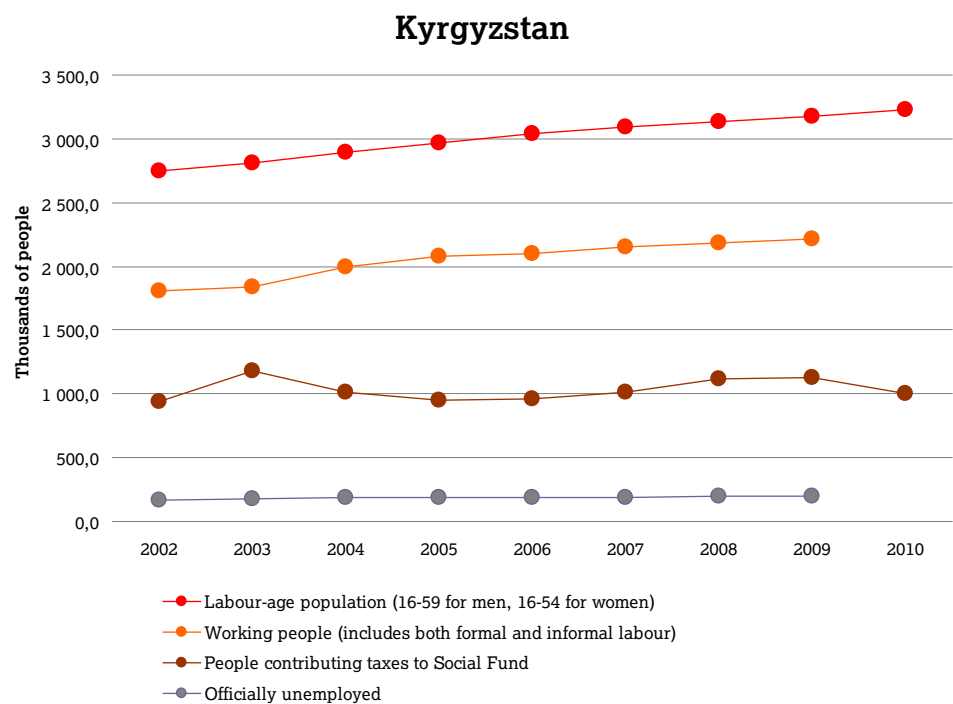
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⁴Irina Lukashova and Irina Makenbaeva, "Impact of the Global Financial Crisis on Labour Migration from Kyrgyzstan to Russia: Qualitative Overview and Quantitative Survey" (OSCE, ACTED and the European Commission, 2009).

⁵The cutoff points for "labour age" vary from country to country and institution to institution. See Appendix 1.

Additionally, Kyrgyzstan and Tajikistan both have significant numbers of informal labourers within their borders. The better data is available for Kyrgyzstan. According to the country's Social Fund, which collects payments for the national pension and health insurance funds, the number of people working, both formally and informally, grew between 2002 and 2009 from 1.8 million to 2.2 million, but the number of people paying into the Fund has consistently been only about half that, inching up from 940,000 in 2002 to just 1.1 million in 2009. These data indicate that more than a million people work without contributing to the national system of social insurance. Some people seem to fall into a statistical gray area: Between 2002 and 2009, Kyrgyzstan's labour-age population shot up by 17% to almost 3.2 million, but the sum of those identified as "working" and those who are "officially unemployed" (narrowly defined to mean that a person is seeking work through official channel) is a little over 2.4 million. What is happening to the remaining people, more than 0.8 million: Are they without work altogether? Or taking part in the informal economy?

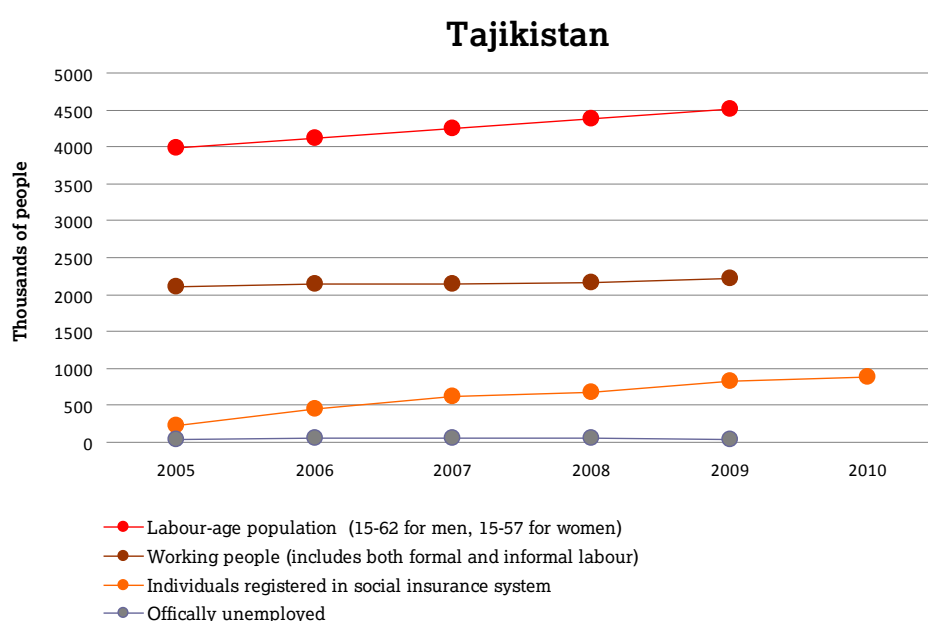
Figure 1: Kyrgyzstan



Sources: Social Fund of the Kyrgyz Republic; National Statistics Committee of the Kyrgyz Republic.

In Tajikistan, the situation is no less dire. According to data from the national Agency of Social Insurance and Pensions, as of 2009, the number of individuals registered in the social insurance system equalled less than 40% of those who were working, or about 836,000 out of 2.2 million. The number of those actually paying into the system is estimated to be even smaller than that, but official statistics are not available. Besides, the labour-age population, officially over 4.5 million in 2009, is more than double the number of working people, while official unemployment stands at zero. Again, this raises the question: How many of these unaccounted-for 2.3 million people are earning money in the informal sector and what will be their eligibility for social protection in old age?

Figure 2: Tajikistan



Sources: Agency of Social Insurance and Pensions of Tajikistan; Presidential Agency on Statistics of the Republic of Tajikistan.

In sum, there is no doubt that the growing role of informal labour in the economic lives of Kyrgyzstan and Tajikistan is reducing contributions to the pension system now and will have an impact in the future, deepening poverty levels among older people and stretching government capacity to reach all older people with social protection. While it is important to acknowledge that the shadow economies of both countries include a broad and diverse cross-section of activities and earnings, this report is concerned primarily with the poorest of today’s informal workers, as they will become the most vulnerable of tomorrow’s older people. Special attention should be paid to women, whose role in Central Asia’s traditional societies – including responsibilities as primary care givers and a minimal asset base – expose them to a particularly high risk of old-age poverty.

4. Social protection in old age

Just as the demise of the Soviet Union put an end to the command economy, so too did it erode the social safety net that came with it. Prior to the country's break-up, old-age pension coverage had been practically universal, with cash transfers forming but one part of an extensive package of state-sponsored services. Retirees could obtain free or heavily subsidized health care, housing, heating, basic food items and even holidays. But the newly independent states were unable to maintain such a generous welfare system and people found themselves forced to pay for these goods and services on their own. For many older people, particularly those without family support, small cash pensions have become their main, sometimes their only, source of income.

Reforms undertaken in Kyrgyzstan and Tajikistan over the past 20 years have altered the countries' pension systems in two significant ways. First, they have shifted greater responsibility for funding future pensions onto businesses and individual citizens, who, by law, must now contribute part of their earnings to social insurance funds. (See Appendix 1.) Second, the reforms have effectively split the countries' pension systems into two parts, both of which will need to adapt as the proportion of older people in society grows larger. One half of the system deals with the "contributory" pensions available to formal-sector workers; the other half, which continues to depend on state funding and is classified as a poverty-reduction programme, pays so-called social pensions to older people without an adequate history of formal employment. This bifurcation, especially pronounced in Kyrgyzstan, has created some specific hurdles to reforming old-age social protection, which are discussed in greater detail in the Conclusions section of this report.

In order to better appreciate the urgency of the situation, it is important to analyse the current breakdown of pension spending. Today, the majority of older citizens in the two countries receive pensions classified as contributory; this is because they spent a significant part of their working lives in the Soviet Union, and it is those employment records that have made them eligible for the bulk of their current cash transfers. But because the Soviet Union had very little unemployment or informal employment, the number of people now collecting social pensions is very small. In Kyrgyzstan, for example, it is just over 2,000, or less than 0.5% of the country's older people. But as successive waves of informal workers reach retirement age, this ratio will shift dramatically, driving up the need for some form of social protection for older people without a lengthy record of formal employment.

It is also worth noting that some of the countries whose pension reforms became prototypes for those of Kyrgyzstan and Tajikistan are now reconsidering them, worried that an emphasis on long, formal working lives and high salaries does not guarantee sufficiently broad coverage for older people in need of social protection. Those models of reform, including the move towards individual accounts and so-called defined contributions (see Appendix 2), were popular in the 1990s and 2000s in Latin America and Eastern Europe. These countries' experience may provide useful lessons for Kyrgyzstan and Tajikistan on the measures needed to complement earlier reforms and to ensure adequate coverage and sustainability of social protection systems.

As described above, the informal economy promises to pose major challenges for old-age social protection in the future, but its scale – and the consequent shortfalls in payments to social insurance funds – also deepens some of the problems that exist today, in particular the government's ability to pay out benefits. As it stands, both types of pension currently available to older people are woefully inadequate as a single source of income. In Kyrgyzstan, the average contributory pension is about 50 USD/month, while Tajikistan's is a little over 20 USD/month; the average social pensions are less than half that, about 21 USD/month in Kyrgyzstan and 9 USD/month in Tajikistan. The official poverty line in Kyrgyzstan is about 34 USD/month and "extreme poverty" is defined as 21 USD/month; Tajikistan does not have an official poverty line.⁶

While the task of rethinking old-age social protection may seem daunting, Kyrgyzstan and Tajikistan both have demographic profiles that, in terms of time, offer policy makers enviable opportunities for thorough analysis and long-term planning. On one hand, life expectancy is increasing and fertility rates are in decline, meaning that, over the coming years, older people will make up a much larger proportion of the population than today and will drive up demand for social protection programmes. On the other hand, at present, both countries are relatively young: Today, older women and men make up just 8.3% of Kyrgyzstan's 5.4 million people and 5.1% of Tajikistan's 7.5 million.⁷

⁶Figures from the National Statistics Committee of the Kyrgyz Republic and the Presidential Agency on Statistics of the Republic of Tajikistan.

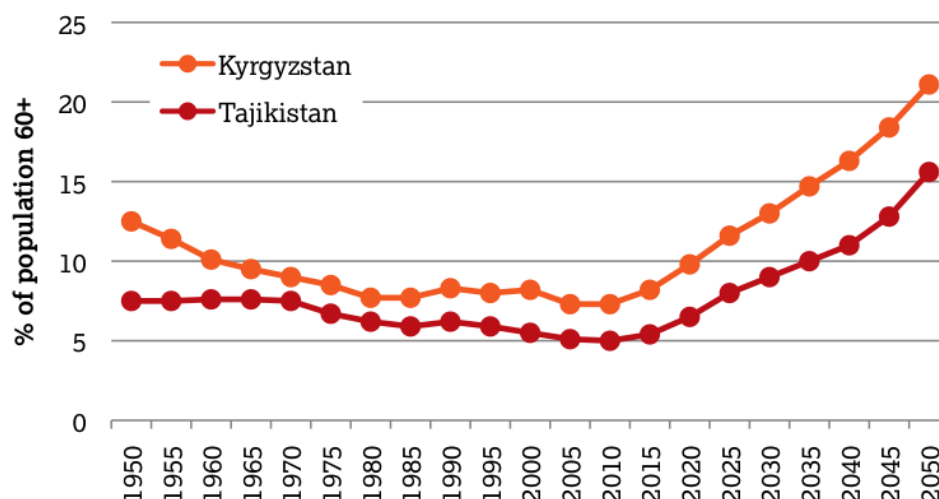
⁷Ibid.



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Another Dushanbe resident, a 35-year-old divorcee with one child, said she cannot pay taxes or buy a permit because her job – selling cigarettes, sunflower seeds and "other trifles" from 8 a.m. to 6 p.m. daily – only offsets the cost of food, while she relies on a brother to pay her electricity and gas bills.

Figure 3: % of population 60+



Source: <http://esa.un.org/unpp/index.asp?panel=2>

5. Findings of the informal labour survey

The official data on social insurance payments make it clear that a significant proportion of workers in Kyrgyzstan and Tajikistan are not abiding by laws and regulations designed to protect them in the dusk of their lives. But why? In order to develop a plan of action for improving old-age social protection, policy makers will need a better understanding of the motivations behind this phenomenon. That was the purpose of the survey described in the Methodology section above, conducted among 600 people working in sectors with high rates of informal labour in the two largest cities of each country. Of those surveyed, 50% said they do not pay taxes and 69% said they do not pay into their countries' respective social insurance funds. Upon reaching old age, these informal workers will be ineligible for contributory pensions and may be too numerous for their governments to afford paying them social pensions under the existing systems. Some may find alternative sources of social protection, but those who are the poorest now will form the most vulnerable sector of future older people.



Roza Rayapova/HelpAge

“Money is really short, and we’ve got no trust in anyone. In a bank, money can disappear. If I ever become confident in a bank, then I’ll start paying for a future pension. I’m very scared for my future.”

One school of thought contends that informal workers should face their old-age predicament alone, as a consequence of their own actions; however, to accept this argument without qualification would be both unfair and imprudent. A significant number of these workers have incomes that are simply too small for them to afford the taxes and other payments required by the state. Many of them lack access to clear, reliable information about the rules for compliance. Many more are intimidated by officialdom, especially if they are internal migrants whose rights are limited because they do not have proper residency registration. Finally, people in Kyrgyzstan and Tajikistan exhibit a widespread lack of trust in government and often doubt that their contributions to social insurance funds will guarantee future returns. All these factors should be studied further and taken into account in developing long-term strategies for social protection.

A plurality of those respondents who admitted not paying taxes (39%) or not contributing to social insurance funds (42%) said this was because they could not afford the payments or found them too high. To illustrate the point, a 22-year-old deliveryman shuttling goods to and from a bazaar in Dushanbe said he does not buy a work permit, which costs 150-200 somoni per month, because it would eat up 40% of his earnings, leaving him with a monthly net of 200-300 somoni, or about 55-70 USD, “and that, as you know, is a very small income today”. Another Dushanbe resident, a 35-year-old divorcee with one child, said she cannot pay taxes or buy a permit because her job – selling cigarettes, sunflower seeds and “other trifles” from 8 a.m. to 6 p.m. daily – only offsets the cost of food, while she relies on a brother to pay her electricity and gas bills.

The survey also showed that informal labourers have a difficult time finding accurate information about required contributions and have little faith in official institutions. A 50-year-old mother of five who trades at one of Bishkek’s biggest bazaars said she went to a local office of the municipal administration “to find out what will happen to us when we get old, but they don’t know anything”. A 45-year-old mother of four working at the same bazaar said she could not afford medical care for her children, much less spare money to pay taxes to a government she does not trust: “As for pensions ... I don’t think we have a stable system. I don’t believe in our government, because anytime the laws can be changed”. A 35-year-old carpenter, also in Bishkek, said he and his wife have similar anxieties: “Money is really short, and we’ve got no trust in anyone. In a bank, money can disappear. If I ever become confident in a bank, then I’ll start paying for a future pension. I’m very scared for my future.”

Figure 4: Why Respondents Don't Pay Taxes

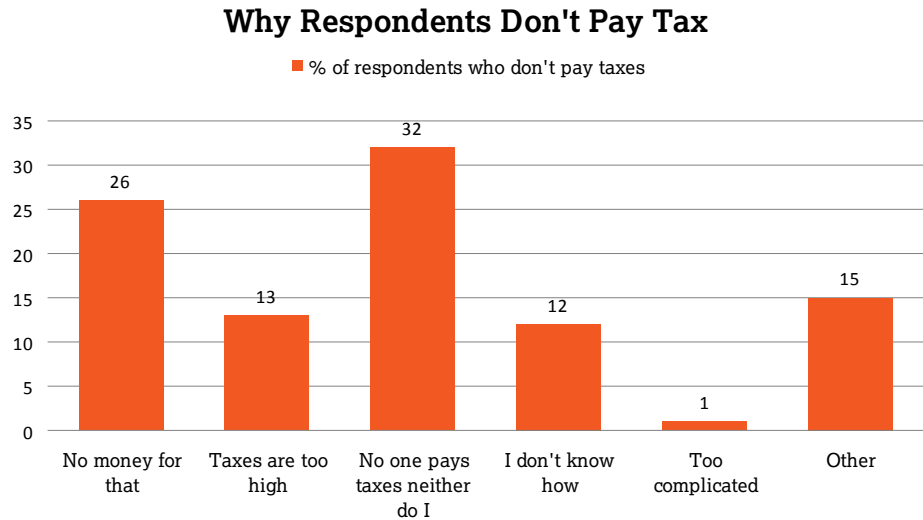
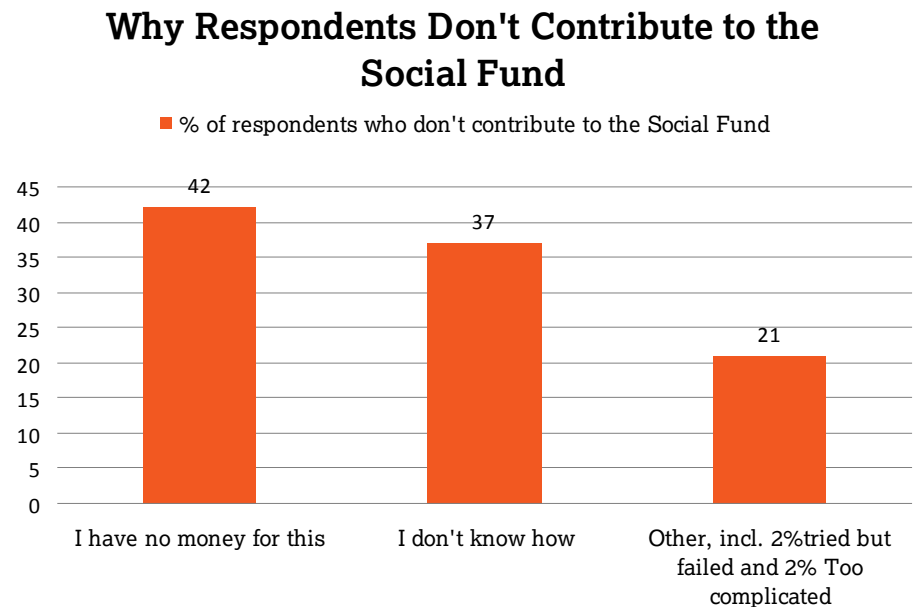


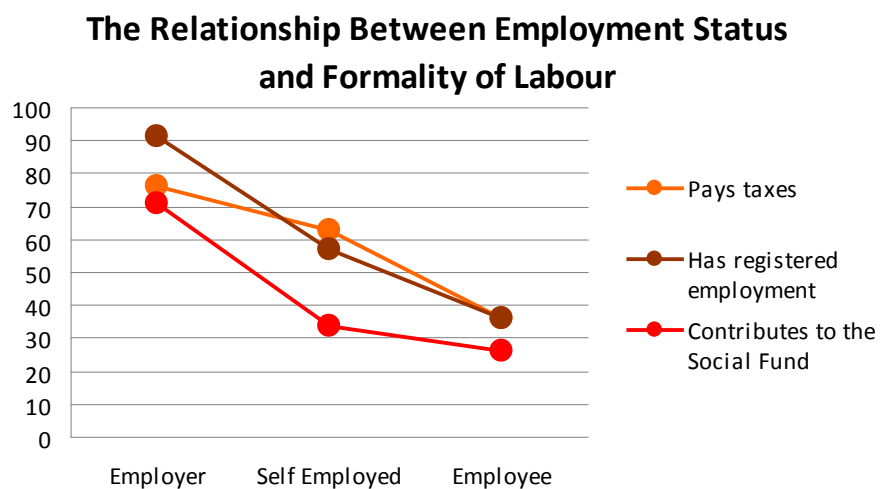
Figure 5: Why Respondents Don't Contribute to Social Fund



The survey also revealed a correlation between people's position in the work place and the formality of their participation in the labour market. Employers were much more likely to be officially registered, pay taxes and contribute to social insurance funds than were the self-employed, who, in turn, were more likely to do these things than hired workers. It would be useful to explore this trend in greater detail. One hypothesis is that employers themselves keep their employees off the books in order to avoid paying their share of the necessary social insurance contributions. Very often, employees are internal migrants or people with limited education and an utter lack of knowledge about systems of taxes and social insurance, so they rely on employers for information. For some, a measure of civic passivity may be a relic of Soviet times, when pension contributions were controlled entirely by the state and required little or no action on the part of individuals.

In any case, a number of respondents noted that taxes and other payments to the state were the responsibility of their bosses or partners. A 33-year-old mother of three in Khudjand, who sells children’s items together with a neighbour, explained that “the owner of the container knows about the taxes; he’s from Urumchi [in western China]. We just sell and get our wages. He resolves all issues himself”. Similarly, the 22-year-old Dushanbe deliveryman cited above said, “as for permits and taxes, I don’t have any and don’t plan to pay for any; let the bosses handle those”. In Bishkek, a 27-year-old divorced seamstress with two children, said that her earnings of 2,500-3,000 som per week (about 50-60 USD) are already “not enough” and a work permit would cost another 700-800 som a month; nonetheless, she added, “I would pay taxes if they were taken right out of my wages.”

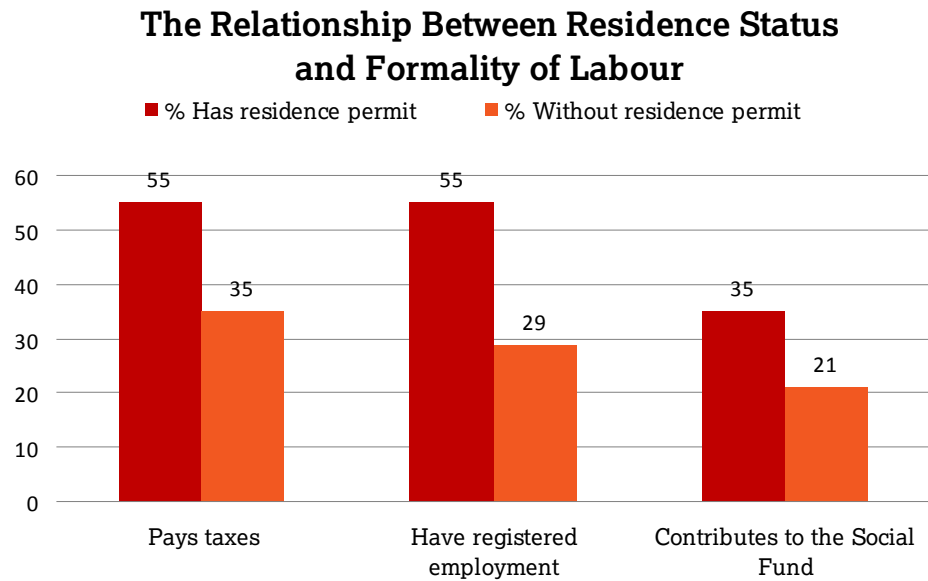
Figure 6: The relationship between employment status and formality of labour



Furthermore, the survey’s findings, together with accompanying research, suggest that the cumbersome and sometimes contradictory regulations governing residential registration, or “propiska”, in both Kyrgyzstan and Tajikistan might contribute to the growth of the informal labour sector. Since the early 1990s, people have been moving around inside their countries in search of work, but often, once they find a place with demand for labour, they are unable to secure official permission to live there. Without this permission, the migrants have restricted access to basic services like health, education and social protection. This increases their out-of-pocket expenditures on such services and makes them wary of interacting with any sort of official institutions.

Some people reported that they did not see the point in registering as they are not sure how long they will stay in one place; A 34 year old man from Naryn said: “In summer time some men from our village and I come to find a job. There is much work in Bishkek, Chui or even in Issyk-Kul regions in summer time. As for the residence permit, I am not going to register, as my family is left in the village and I always go back to the village in winter time”

Figure 7: The relationship between residence status and formality of labour



It is also worth noting that many of the professional activities now occupying a significant number of informal workers have become attractive as long-term work, not fly-by-night ways to earn money. Nearly a quarter of respondents (23%) reported that they have been working in the same sphere for more than ten years, and almost as many more (22%) said they had been doing the same type of work for over five years. Although the majority of respondents (54%) were unsure of how long they would be working in their present field of endeavour, 23% reported that they expected to be working in the same area ten years from now. Many among them are likely to be the self-employed, who are most often specialists in a narrow field.



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“In summer time some men from our village and I come to find a job. There is much work in Bishkek, Chui or even in Issyk-Kul regions in summer time. As for the residence permit, I am not going to register, as my family is left in the village and I always go back to the village in winter time”

Once again, it is important to understand why informal workers are not contributing to state revenue and social insurance programs. This survey has focused on people with relatively small incomes, not those who conceal enormous wealth while driving around in luxury vehicles. The findings indicate that many informal workers in Kyrgyzstan and Tajikistan genuinely cannot afford tax and social insurance payments or do not know the procedures for making such contributions. Furthermore, political instability, economic upheaval and corruption in both countries have severely undermined people’s faith in financial and government institutions. And finally, enforcement of the rules has been lax, creating opportunities for short-term gain among people struggling to make ends meet. As one 52-year-old widow and mother of two, a teacher-turned-taxi driver in Khudjand, asked rhetorically: “Why pay for a work permit, when you can work without one?”

6 Conclusions

As outlined above, Kyrgyzstan and Tajikistan face the simultaneous challenges of a ballooning informal labour force, an ageing population and pension systems that will have difficulty providing adequate social protection to future generations of older people, especially those without formal labour records. However, because both countries are still demographically young, they have some precious time to study these circumstances in greater detail and adapt policy to better cope with them. Below are a number of recommendations meant to help Kyrgyzstan and Tajikistan stave off the threat of dramatically increased old-age poverty in the coming decades.

Realistic projections: It is crucial to remember that policy must be made for the future, rather than the current situation. The social protection programmes required in ten years’ time are likely to be very different from those that may seem sufficient today. This will require thorough analysis of relevant data and trends, including but not limited to ageing, state revenue and employment.

Life-course approach: Ideally, the projections mentioned above should go beyond old age to encompass a “demographic vision”, as recommended by the expert group reviewing some of this report’s findings in Bishkek in February 2011. This requires a careful consideration of the risks facing people throughout their lives – pregnancy, childhood, illness, unemployment and so on – and contingency planning to protect citizens at all these times of risk.

Comprehensive, coordinated approach: The development of new models of social protection must be well coordinated and involve all the relevant stakeholders. In practice, this means at least two things. One is that policy should be shaped with input from a number of state agencies – including those responsible for health, finance, education, social welfare, labour, migration and employment – as well as civil society working closely with older women and men. The second is that social protection for older people should not be divided into two discrete parts, one focusing on contributory pensions for formal work and the other on social assistance aimed at reducing poverty (i.e. social pensions). This fragmented approach now exists in Kyrgyzstan, and to a lesser extent in Tajikistan, and one of the resulting problems is that international institutions providing support to the two governments do not collaborate; instead, one focuses exclusively on reforming contributory programmes like pensions and another on reforming social assistance programmes that are non-contributory. This delimitation of tasks risks exacerbating the problems facing the existing system rather than ameliorating them.

Institutional realities: In developing new social protection systems, it is crucial to build on those that exist already rather than aim to tear them down and build something from scratch. The history of systems and the culture around them is at least as important as “what works” on paper.

Learning from others: As mentioned above, numerous countries in Latin America and Eastern Europe have enacted pension-system reforms that could be instructive for the former Soviet Union, particularly in terms of ensuring far-reaching coverage and financial sustainability. It would be particularly useful to examine the results of reforms in those countries that have replaced social insurance schemes (which accomplish some degree of poverty reduction) with privatised individual accounts (which cannot do so). Argentina, Bolivia, Chile and Hungary are but some of the countries that could provide valuable case studies for Kyrgyzstan and Tajikistan.

Information and awareness: The survey results and the consultative roundtables held by HelpAge have made it clear that awareness of social protection programmes is very low, not only among the public but also among service providers. Many of the informal workers who had actively sought information found that local authorities were not able to provide it. Furthermore, the expert group consulted in Bishkek suggested that university teaching on social security and pension systems is not always up to date. This means that new, creative ways of disseminating information must be designed, both among private-sector workers (including hard-to-reach populations) and government employees. Perhaps this could include educational campaigns to improve social security literacy among young people, targeting them through the school system, starting at secondary level.

Innovation for increased contributions: As noted above, informal workers do not make all the payments required of them by law for a number of different reasons, and these specifics must be taken into account when devising ways to increase contributions. Stricter enforcement is understandably a popular political call; however, combining this with empowering incentives, such as tax breaks for new businesses and user-friendly information on the benefits of formal work, may accomplish more than just measures seen as punitive or judgmental. Moreover, enabling people to extend their working lives through life-long learning and training, tackling age discrimination in the work place and removing mandatory pension age so older people can work should they choose to do so are some practical mechanisms to encourage active ageing, delay entry to pensions and support tax revenues.

Restoring public trust: The mixed legacy of Soviet-era paternalism and post-Soviet chaos seems to have weakened any sense of reciprocal obligations between citizens and the state. And while there is a need to encourage a sense of civic responsibility, this will only be possible if governments can justify their citizens' trust by eliminating corruption, ensuring stability and designing fair rules that are enforced with consistency.

“as for permits and taxes, I don't have any and don't plan to pay for any; let the bosses handle those”.



Roza Rayapova/HelpAge



“I would pay taxes if they were taken right out of my wages.”

Appendix 1 – Social insurance systems

| Kyrgyzstan | |
|---------------------------------------|--|
| Labour age | Begins at 16; ends at 58 for women and 63 for men. |
| Eligibility for contributory pensions | Women need 20 years of contributions to qualify for a full pension and men 25 years. |
| Pension calculation | Three components: 1 = basic pension (determined by state) + 1st insured (calculated on basis of any five years of work prior to 1996) + 2nd insured (calculated on basis of all contributions after 1996) 2 = obligatory (2% of earnings to individual account) 3 = voluntary additional contributions by worker and/or employer |
| Employer/employee contributions | Employers are required to contribute 17.25% of gross wages for each employee to the Social Fund: 15% to pension fund; 2% to health insurance fund; 0.25% to a fund for improving the health of the working population. Employees are required to contribute 10% of gross wages: 8% to pension fund; 2% to individual pension accounts. The self-employed are required to contribute 9.25% of gross earnings to the Social Fund and to purchase work permits (called “patents”). Those who work in agriculture are required to pay only a very small land tax. |
| Social pensions | Handled by the Ministry of Social Protection of Population of the Kyrgyz Republic. |

| Tajikistan | |
|---------------------------------------|---|
| Labour age | Begins at 15; ends at 58 for women and 63 for men. |
| Eligibility for contributory pensions | Women need 20 years of contributions to qualify for a full pension and men 25 years. |
| Pension calculation | In 2010, Tajikistan passed the law “On insurance and state pensions”, which will come into force in 2013. Until then contributory pensions for fully eligible older people are calculated as follows: Monthly pension = 55% of the most recent monthly salary + 1% of monthly salary for each full year of work in excess of 20 years for women and 25 years for men (pension cannot exceed 75% of salary) For those who worked without interruption in the same enterprise, institution or organization or in one system for 20 years for women and 25 years for men, monthly pension = 60% of the most recent monthly salary + 1% of monthly salary for each full year of work in excess of 20 years for women and 25 years for men (pension cannot exceed 80% of salary) |
| Employer/employee contributions | Employers are required to contribute 25% of gross wages for each employee to the Agency of Social Insurance and Pensions. Employees are required to contribute 1% of gross wages The self-employed are required to pay a social tax of 20% |
| Social pensions | Handled by Agency of Social Insurance and Pensions. |

Appendix 2 – Glossary

Adapted from a 2005 publication by the International Labour Organization

- Active contributors: Insured individuals who have made at least one contribution or on whose behalf at least one contribution has been made
- Actual social insurance contribution (employer): Cash payments by employers to social security schemes to secure entitlement to social benefits for employees, former employees and their dependants
- Registered persons: Persons who are insured with social protection scheme. This includes persons who are active contributors and persons who have not made any contributions or on whose behalf no contributions have been made but who are still protected by the scheme and would ensure eligibility for a benefit should a need arise
- Beneficiary: Individual or household receiving benefits at a specific point in time/during a period of time
- Benefit transfer (in cash or kind): Benefit provided to an individual or household on the basis of an entitlement or need
- Contributory benefit: Entitlement to a benefit based on contributions from insured persons and/or their employer
- Defined benefit schemes: Contributory schemes, e.g. old-age pensions, where the link between individual contributions and benefits is weak and the level of wealth distribution is high therefore supporting equality and poverty reduction
- Defined contribution schemes: Contributory schemes in which the benefit is directly linked to contributions the beneficiary has made previously and redistribution is low
- General government contribution: Contributions from tax revenue by the government in order to finance the cost of goods and services provided to protected persons in the form of means-tested benefits, as well as payments to social security institutions to cover deficits and to support expenditure related to guaranteeing minimum benefit levels
- Informal sector: The informal sector or informal economy is the part of an economy that is not protected, taxed or thoroughly monitored by any form of government
- Means-tested benefits: Benefits that are granted only upon proof of need
- Minimum guaranteed benefit: Minimum benefit granted to beneficiaries whose benefit entitlements would otherwise not reach a specified minimum level. These can be contributory or non-contributory
- Non-contributory benefit: Entitlement to a benefit is not based on the previous payment of contributions but on other criteria. Non-contributory benefits are usually financed out of general taxation
- Non-means-tested benefits: Benefit that is granted on the basis of contributory periods or other rights; eligibility is not dependent on an assessment of the beneficiary's means (i.e. income, capital earnings, etc.)
- Old-age pension: A periodic benefit that replaces earned income after retirement age
- (i) Contributory pension refers to an old-age pension available on the basis of previous years of formal employment
- (ii) Social pension in Kyrgyzstan and Tajikistan refers to a non-contributory cash transfer that is available for those reaching retirement age without labour record required for contributory old age pension
- Poverty line: Threshold of income typically defined by the government to determine whether a household or individual is considered poor or not



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