PENSION REFORMS IN TRANSITIONAL RESOURCE-RICH ECONOMIES: IMPLEMENTATION AND EVALUATION ASPECTS

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ABSTRACT

This paper aims to examine the relationships among the three stages of public policy formulation, implementation, and evaluation. The analysis will be based on the case study of Kazakhstan's pension reform. At the beginning, the essay provides the essential terms with their definitions, and then continues with a discussion regarding the stages of public policymaking whilst demonstrating all of them (i.e., formulation, implementation and evaluation) in the context of Kazakhstan's pension reform. The successful implementation of the pension systems requires a number of economic, institutional and political pre-conditions. Besides the adequate legal and regulatory framework, the establishment of which can take time, there is one important pre-condition that Kazakhstan lacks an active financial market. The development of privately managed pillars would require at least rudimentary capital markets and an adequate regulatory framework to limit an investment risk.

Keywords: Pension, Reforms, Law, Transitional Economies.

INTRODUCTION

In general, academics data and evidence related to the issue. The dialogue sub-stage is an opportunity for the actors to express their personal views of the matter and possible solutions to it. In the formulation sub-stage, the policy-makers evaluate the different policy options. In the final sub-stage. The participating actors comment on the selected solutions and provide recommendations (Howlett et al., 2009).

Implementation of a policy is one of the most important stages of its development. Hill & Hupe (2002) stated that its shape and form differ based on individual features of a culture of institution. This notion is especially important nowadays, as the *"government"* processes have gradually shifted to *"governance"* processes. In order for implementation to start, a decision must be made regarding taking a particular action. Therefore, the implementation stage is one at which the policy options evolve into real acts (Howlett et al., 2009; Issakhov et al., 2018). Mazmanian & Sabatier (1983) defined policy implementation as accomplishing a policy decision that is often being a part of a statute, yet at the same time can be manifested as a significant executive order or a decision of the court of law. The process begins with the decision of a central authority-politician, bureaucrats, or other entities that are considered most capable of achieving the anticipated outcome. According to O'Toole (2003), policy implementation can be defined as the intermediate stage between the government's decision to take an action (or stop an action) and the effects that decision ultimately has throughout related spheres. Within the policy cycle, the implementation stage involves the actions government takes to enact policies (Giacchino & Kakabadse, 2003). Implementation can thus be described as a complex causal chain which eventually leads to achievement of pre-determined objectives.

At the policy evaluation stage, the desired results of a policy become the main point of interest (Jeffrey & Aaron, 1979).Evaluation has an important position within the policy-making cycle-it is the stage at which policy outcomes are gathered, examined, and interpreted. In other words, the instruments a policy utilized to attain the objectives of the public sector are examined and, in case of failure, the policy and the approach to the issue are subsequently reconceptualised (Howlett et al., 2009; Yerkin et al., 2019). Scholars have often emphasized organization and empirical basis as the key aspects of evaluation (Howlett et al., 2009). The objectives of a policy are in some cases uncertain. Therefore, Browne & Wildavsky (1979) stated that instead of seeking the objective truth, evaluation should try to identify the interests of stakeholders which were benefited and those which were not. Similarly, Nauryzbayeva (2004) stated that identification of all stakeholders whose interests are at stake due to the evaluation is the initial phase of the fourth generation evaluation. Their model suggested three stakeholder categories: agents, beneficiaries, and victims. However, the results interpretation of those performing the evaluation may vary, as no criteria exist to determine the proper evaluation methodology (Browne & Wildavsky, 1979). The last mentioned factor is one of the most important weaknesses of this phase. The objective of evaluation should be the provision of data which can contribute to improvement of the process of implementation and the future use of the knowledge gained from errors (Browne & Wildavsky, 1979). It is important to mention that evaluation can also have negative effects-if it comes to incorrect conclusions, it can terminate good policies, or in the worst case, even become an incentive of negative public opinion (Browne & Wildavsky, 1979).

Through evaluation, actions of implementers can be monitored. Such control helps reduce the risks resulting from the implementers' capability of redefining policies to a form which undermines the originally intended implementation methodologies and procedures (Jeffrey & Aaron, 1979). In the policy cycle, evaluation has a role which exceeds the scale of scientific evaluation studies. It occurs as a natural and vital element of political debate and process. Scientific evaluations therefore differ from administrative ones, which are commenced and supervised by the public administration, and political evaluation, which is conducted by various actors from the political sphere (Jeffrey & Aaron, 1979). Administrative implementation actors determine temporary and definitive rules which are vital for directing the process of implementation. The role of evaluation is to guarantee that they are adhered to. It is required in all phases of irnplementation.in order to ensure the, policy complies with the, objectives, goals, and aims determined at the formulation stage.

Pension System in Kazakhstan

Kazakhstan is resource rich country (Karatayev et al., 2016) while country is facing environmental challenges (Karatayev et al., 2017). Nauryzbayeva (2004) claimed the term pension reform referred to a variety of societal, economical, and political problems related to distribution of income, social policy-making, generational equality, regulations of the financial market, mitigation of poverty, etc. When the Soviet pay-as-you-go (PAYG) system failed in Kazakhstan, pensioners initiated mass protests demanding thorough measures of both economic and political nature. Similarly to other post-Soviet states, between 1995 and 1997, Kazakhstan underwent a serious pension deficit crisis (approximately five months of pension payments in 1996). The countries of the former USSR faced a similar issue-a smaller number of workers were paying pension contributions whilst the number of retirees grew. Kazakhstan's system dependency ratio reached the value of 0.56. In other words, one pensioner received support from 1.8 contributors, In France, for instance, this value is 0.2 (i.e., 5 workers per pensioner). To address this issue, Kazakh government proposed an immediate and progressive pension reform, in addition to an effort to repay all the pension arrears. The parliament authorized the Pension Law in July L997 and it was enacted on January, 1, 1998. It provided the foundation for replacing the PAYG system with one dependent on personal investment accounts which were administered either by the State Accumulation Fund (a newly established organization), or private pension funds.

Based on Kazakhstan's legislation, specifically the Constitutional Law on the Government of the Republic of Kazakhstan, the government is responsible for determination of the objectives of social and economic policies, strategic and tactical means of its implementation, and national programs (Executive office of the President of the Kazakhstan, 2015). The pension reform programme initiated in November 1996, when a governmental working group was appointed by President Nursultan Nazarbayev, officially involving the Prime Minister, the Deputy Prime Minister, the Minister of Finance, the Chairman of the National Bank, the Minister of Labour and Social Protection, the head of the National Securities Commission, two private sector representatives, and two government officials. Apart from being responsible for the reform's design and execution, the working group also had the decisive veto right (Andrews, 2001).

The group was the sole proficient local proposal actor to receive considerable technical support from the World Bank, Asian Development Bank, and the USAID “providing both policy ideas and direct technical assistance” (Geurts, 2011). The group was composed of representatives from social security and financial sectors, the main actors in the discourse were the financial sub-groups-the National Bank of Republic of Kazakhstan, Ministry of Finance, and the experts the USAID and World Bank hired. Even two years after the reform was launched, the Minister of Labour and Social Protection's analytical and research capacities were insufficient.

Analysis of Pension Reforms

Officially, Parliament is the institution with the most important veto right. Its participation in the design and development of the reform program was insignificant. In other words, it made no proposals, had no veto power, and played no important role in the pension reform, evolution. It should be mentioned that the Parliament's capacity, both expert and technical, to examine the issue and propose alternative solutions was insufficient. The government officials were only able to provide "*an important deliberative forum*" (Geurts, 2011).

At that point, any extension of the reform process would incur extreme political cost. The crisis with pension arrears became a priority exceeding all other political agenda, and provision of instruments to cover the pension arrears was, one of the reforms most important political purposes. The government even received a 200 million USD loan form the World Bank to address this issue, and put great effort into convincing the Parliament members to approve of the concept proposed by the government. The Parliament proposed no concept that would fundamentally differ from the one suggested by the government (Nauryzbayeva, 2004). Even though the reform program was open for discussion, the society of Kazakhstan was not able to participate in that debate meaningfully. In this case, the only interest groups capable of influencing the process were the trade unions and the Pensioners Movement. The latter only spoke for those retired at that time, and did not invest very much effort into influencing the designing process of the pension scheme, since they would not be the ones to benefit from it. They mainly focused on coverage for pension arrears, adequacy of the current benefits, and increase of the retirement age (Nauryzbayeva, 2004).

The aid of technical character which the international agencies such as World Bank, Asian Development Bank, the Government of Japan and United States of America provided, played crucial role throughout the whole process of reform development, i.e., all phases from design to evaluation. The pension reform's essential framework was largely inspired by the ideas found in the World Bank's policy even in the earlier stages, i.e., before it provided the direct technical aid. Whilst the participation of World Bank's technocrats started at the stage when the reform's design has already commenced, the expertise and support provided by the international fanatical institutions (i.e., the World Bank and USAID) had already supported the design and implementation of the reform proposed by the government. In contrast, as the cooperation between the government and the international financial institutions, such as the World Bank or the Asian Development Bank, became closer, the reform's concept was significantly influenced by the technocratic perspective. Such course of development occurred regardless of the fact that there were other actors, for instance the International Labour Organization (a former advocate of the PAYG), who had both experience and sufficient expertise for addressing pension-related problems (Nauryzbayeva, 2004).

Currently, Kazakhstan has two systems. The first one, the original PAYG pension system, concerns all retirees who contributed to it until 1998 (The Ministry of Healthcare and social development of the Republic of Kazakhstan, 2015). It does not accept newcomers. Workers with benefits accrued during the active period of the previous system kept what they were entitled to. As for their pensions, a part will be covered from the remainders of the old system (as long as it remains in action) and a part from the new one. The new systems fully replace the old one between 2045 and 2050 (Sabatier, 1991).

Essentially, Kazakhstan's new, pension system is similar to one that the World Bank introduced in its publication, averting the Old Age Crisis (1994). It suggests a system combining the system funded and the pay-as-you-go pension systems. The World Bank stated three elements a multi-pillar system should comprise (Wesolowsky, 1999): Pillar 1 includes a compulsory pay-as-you-go public pension system tailored to facilitate provision of basic income for all pensioners; Pillar 2 is a compulsory pension system which will be financed and administered privately and at any time, its reserves need to surpass all the liabilities in form of future pensions; Pillar 3 includes a system with voluntary participation that will also be financed and administered privately whilst being significantly regulated by the government.

Even though other post-Soviet states chose pension reforms that approached the issue more cautiously, Kazakhstan's new pension scheme has eliminated the Pillar 1 (Andrews,2001), Hungary, Poland, and Latvia, for example, established a system which combines state sustained funding with components from the private sphere (Andrews,2001). In contrast, Kazakhstan's system is fully state-funded with pre-defined contribution accounts, thus completely relying on the Pillar 2. The system's institutional framework comprises three important elements: pension funds, pension asset management companies, and custodian banks. There are fifteen private funds currently operating in the country in addition to a single state accumulation fund. Nine pension asset management companies currently represent the market, determining the investment of assets, In addition, they regularly re-evaluate the assets. Each of the funds retains the assets in one authorized custodian bank which is responsible for all transactions, allocation of the portfolio and investment revenues, and reports on these activities. These banks pay the pensions and accept deposits. The above described framework was established in order to clearly separate accounts and responsibilities, resulting in the system's ability to detect any abuse or fraud through checks and balances. The national Bank has designated department which oversee each element of the *"triangle"*.

The results of the establishment of Kazakhstan's pension reforms have not been sufficiently assessed. Its evaluation, together with appraisal of the World Bank's role in the process, was published by Sabatier (1991). The assessment started with an overview of the country's background and pension data, and provided an outline of the pension reform. It then discussed the technical assistance the World Bank has contributed to the process and, in the final part, evaluated the performance of both the Bank and the country together with a set of recommendations and feedback. In 2001, the paper "Kazakhstan: an Ambitious Pension Reform" was published by Andrews (2001). The author come to practically identical conclusions regarding the effectiveness of the pension reform. Sabatier stated that if sufficient time had been devoted to the preparation phase, the implementation would have netter utilized the accessible resources. The implementation stage required extensive preparation.

Likewise, the Asian Development Bank stated that the proportion of private funds raised from below 20% (1998) to nearly 80% (2015). The evaluation phase provides data that can be utilized in the future and contribute to improvement or in case a reform or program continues, corrections and modifications at the new implementation phase.

CONCLUSION

In conclusion, it is stated that Kazakhstan's pension reform has evolved through three phases-formulation, implementation, and evaluation. For instance, the analysis has revealed that policy examination is performed prior to the formulation process in order to provide the policymakers with vital information. The selected policy options were subsequently enacted in practice. The findings of evaluation have suggested that significant changes of certain objective of the policy were required. The case study therefore indicates that the structural elements of policy-making process-formulation, implementation, and evaluation have no distinct boundaries. The phases often combine and cannot be strictly separated. From the logical perspective, the stages must take place in order (e.g. it is impossible to evaluate something that does not exist yet). The policymaking cycle is a gradual process involving several inseparable stages.

In terms of practical reality and challenges, the government has no other tools (in addition to the very introduction of the funded pillar) to elicit an increase in the compliance, i.e. tools to constraint utility level of agent. The change in power structure in favour of the government can eliminate Pareto-inefficiency. It is worth to note that such a change in power structure can be unfavorable for individuals. Because if the government can constraint their utility levels, it may have a power to reduce the utility further down and made individuals worse off. So even though the outcome is Pareto-inefficient it can be more favorable for individuals to have some inefficiency with the freedom, rather than to be squeezed by the self-interest government in the Pareto-efficient way.

The successful implementation of the pension systems requires a number of economic, institutional and political pre-conditions. Besides the adequate legal and regulatory framework, the establishment of which can take time, there is one important pre-condition that Kazakhstan lacks- an active financial market. The development of privately managed pillars would require at least rudimentary capital markets and an adequate regulatory framework to limit an investment risk. The move to a funded system also can impose a heavy fiscal burden on the transitional generations, which would have to save for their own retirement and contribute to the old system. In addition, contributors face considerable risk, as pension benefits can fluctuate markedly and an adequate replacement rate is not guaranteed, since the funded systems do not have a redistribution component.

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