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Poverty, Demographic Characteristics, and Public Policy in CIS Countries

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Abstract

The demographic characteristics of different regions in the former Soviet Union influence the nature of poverty in the newly successor independent states of the FSU. Despite a common policy inheritance, major adjustments are needed in the major social protection instruments to reflect differences in demographics along with a changing resource base.

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Summary

The demographic characteristics of different regions in the former Soviet Union influence the nature of poverty in the successor independent states. Despite a common policy inheritance, substantial adjustments are needed in the major social protection instruments to reflect differences in demographics as well as a changing resource base.

The states of the former Soviet Union represent two broad demographic archetypes. The first group of countries—which includes Belarus, Ukraine and the Russian Republic—is characterized by relatively low birth rates and a mature and aging population. Because of the extremely high loss of life, particularly among males in the European republics during the Second World War, many of the current retirees are single women. Countries in the second group, which includes, for example, the Central Asian republics of Turkmenistan and Uzbekistan, typically have lower per capita incomes, relatively high population growth rates, high youth-dependency ratios and relatively few retirees. Although countries will base their policy choices on these key characteristics when adopting permanent social security instruments, they are likely to need similar policy interventions during the transition period, involving as it does major changes in relative prices.

The concentration of people at relatively low income levels is a feature common to all of the Commonwealth of Independent States (CIS) countries and, in some, the reforms have increased the concentration of "vulnerable" groups. As a result, their options for reforming the social security instruments—in particular, pensions and allowances are limited. The differences in demographic characteristics will govern the emphasis to be paid to each instrument.

Although means-testing may be useful for restricting outlays, the distribution of incomes suggests that savings are likely to be small in the former Soviet Union. Moreover, administrative outlays may be substantial. It will take time to develop adequate local social assistance mechanisms in the CIS countries. One alternative is a combination of measures that includes targeted subsidies for essential goods, as discussed in Tanzi (1991).
I. Introduction

The demographic characteristics of different regions of the former USSR exert an important influence on the nature of poverty in each of the successor countries that now constitute the Commonwealth of Independent States (CIS). These factors also constrain the set of policy instruments that are relevant in the different CIS countries, despite the common inheritance from the USSR period.

There are at least two broad demographic archetypes amongst the CIS countries. The first is a group of countries, such as Belarus, Ukraine and the Russian Republic, with relatively low birth rates, and a mature and ageing population. Given the extremely high loss of life, particularly amongst males in the European republics during the Second World War, many of the current retirees are single women. The second group of countries, which includes the Central Asian Republics such as Uzbekistan and Turkmenistan, typically have lower per-capita incomes, and may be characterized as having relatively high population growth rates, high youth-dependency ratios and relatively few retirees. These are the main factors that will lead to differing policy choices when the permanent social security instruments are considered-- to alleviate poverty and cater for normal life-cycle risks. However, there are similarities in the policy interventions that are likely to be needed during the transition period, involving as it does major changes in relative prices.

In Section II we assess the main elements relating to poverty and living standards in the USSR and its constituent republics in 1991. These provide the setting for a discussion of policy instruments that have been used in the past. Section III assesses the consequences of the reforms of the USSR social security instruments that were instituted in 1991, and the inter-regional transfers that were necessary to maintain the system. Section IV concludes with a discussion of policy options for the independent countries that have emerged as part of the CIS.

II. Poverty and Social Security in the USSR

1. Policy and living standards

It is not straightforward to relate the extent of poverty in the USSR in the past to changes that are occurring in individual CIS countries at present. This is because of an extensive provision of goods and services without charge or at subsidized prices, the composition of which has been changing over time. Wages and transfers were also administratively determined, in relation to the in-kind or subsidized provision of items of consumption. The administratively determined wage structure was such that two wage earners were normally needed to support children. For instance, in 1989, 30 percent of single earner families with one child had per-capita incomes below the established poverty line of rub 78/month. And over half
of the two-child families with a single earner fell below the poverty line. 1/ The link between administrative price changes and wage adjustments has been ruptured, particularly since mid-1991.

It is common to use poverty lines and the head-count measure 2/ to establish inter-temporal comparisons of poverty. This is a hazardous procedure in the CIS countries because of the changing pattern of the subsidized provision, as well as the differential access of various groups to the items with administered prices. For instance, the well-connected and consequently better off groups tend to have better access to items in short supply. Others have had to purchase the same items at higher free market prices, or to queue interminably for uncertain supplies. Moreover, there has been a concentration of per-capita cash incomes within a fairly narrow band above the minimum wage, and minor adjustments in the poverty threshold can lead to major changes in the numbers classified as being in poverty. Given the uncertainty associated with differential access to subsidized goods, poverty lines and the associated headcount measures are likely to be fairly arbitrary, and if taken in isolation possibly misleading in the CIS context.

The cumulative distribution of per capita incomes provides a complete ranking of the full range of incomes. Thus, if a given distribution lies completely to the left of another, then the former could be characterized unambiguously as having a greater incidence of poverty, and this would be confirmed by a variety of indices including the head-count ratio [see Atkinson (1989) for a discussion]. A juxtaposition of the Turkmenistan (taken to represent the Central Asian group of countries) and the Russian income distributions for the second quarter of 1991 (see Figure 1) illustrates the greater poverty in the former. For the most part, the distributions for Turkmenistan and Russia are parallel as seen in Figure 1, and the steep slope of the distributions confirms the concentration of incomes within a narrow range. In Russia, in the second quarter of 1991, over 85 percent of the population fell below a per capita income of twice the minimum wage (taken to be rub 160 per month). In Turkmenistan a similar cut-off point would have led to 95 percent of the population being so classified.

Of course, given the higher incidence of poverty in Turkmenistan, one finds almost 50 percent of the population below a per capita income of rub 160 per month in Q2 1991, while only about 12 percent of Russians fell below this cut-off point. It should be kept in mind, however, that there are likely to be major regional price differences, particularly for items which are available in "freed" local markets, which would complicate inter-regional comparisons.

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2/ For a critique of the head-count measure of poverty see eg. Sen (1973).
Figure 1. The Cumulative Distribution of Income: Russia and Turkmenistan, 1991
Relying on estimates of poverty based on the head-count can be most misleading if, in addition to the points raised above, there is a rapid change in the price level. The recent Russian experience illustrates this point (see Figure 2). Distributions of per-capita income are expressed in terms of 1990 rubles. There appears to have been little change in the situation of the poorest groups in 1991 relative to 1990, and it is apparent that the higher income groups benefitted in real terms. However, the major price adjustments at the beginning of 1992 have led to a substantial concentration of real incomes (the reader may confirm that the cumulative distributions for January 1992 and Q2 1992 are to the north and west of the 1991 distribution). It would thus be somewhat hazardous to base a social protection policy for a period of substantive relative price change on a headcount based on the observations at an initial period of time.

A more meaningful approach to social protection would be to identify the major vulnerable groups and their characteristics, including age and employment status, and to assess the relevance and limitations of the "formal" social security instruments in protecting these groups against the effects of the "price shocks."

2. Policy instruments

While a fairly sophisticated and extensive system of social security instruments, including pensions and family allowances, had existed in the former USSR for a considerable period of time (see eg. Madison, 1990), the benefit levels had been set, as mentioned above, in relation to the basket of in-kind provision that was generally available. This subsidized basket covered the major items of consumption, including food, clothing, energy and housing. Prior to 1991, benefit levels were fixed in nominal terms, and adjustments were ad hoc and infrequent.

The minimum pension had been set at rub 70 per month in 1981, and this level remained unchanged in nominal terms through the decade. A maximum pension of rub 120 per month had been established in 1956 when the average wage was rub 73 per month. By 1990 the average wage exceeded rub 250, and the maximum pension remained unchanged. 1/ The average pension as a proportion of the average wage (or the average replacement ratio) in 1956 was over 60 percent, but by 1990 the average replacement ratio for pensioners had fallen to under 33 percent. Consequently, there had been a gradual deterioration in the living standards of pensioners which predated the reforms of 1990.

A similar pattern obtained for the other "vulnerable" groups in Soviet society, including large families. A number of allowances existed prior to 1989, but most were payable only to low income households. The level of cash benefits provided had also been relatively meager and, despite the provision of in-kind transfers, the extensive and overlapping systems of

social protection did not provide adequate protection against poverty in large families or amongst elderly pensioners (see Ahmad 1991).

The reforms of 1989/90 were designed to provide more effective coverage against life-cycle risks. The ceiling on maximum pensions was relaxed, benefits were made proportional to wages, and the minimum pension was linked to the minimum wage, which was determined on an all-USSR basis. The minimum wage thus became the standard reference for the payment of all transfers. Accordingly, the levels of the main family allowances were revised, and the main benefit payable to young children was set at the minimum wage for working mothers (and half for non-working mothers). Despite the attempt to rationalize the system of allowances, there were 18 separate allowances remaining in Russia after the 1990 reform.

One of the major objectives of the reform of the social security system in the USSR, undertaken during 1989/90, was to introduce social insurance principles for the financing of pension expenditures, and for this purpose an independent Pension Fund was created. The reform of the range of family allowances involved the establishment of a Social Insurance Fund. The abandonment of lifetime guarantees of employment was another major ingredient of the reforms, and this required the creation of an unemployment insurance mechanism, and the establishment of an Employment Fund (which would also cater for retraining job-search and provisions for the longer-term unemployed). Together these measures were designed to protect against income loss for contingencies that are likely to occur in any modern market-based economy.

In order to finance an increased level of benefits on a pay-as-you-go basis (PAYG) a standardized payroll contribution was imposed, for pensions and allowances, at 26 percent of the wage bill for 1991 (plus a 1 percent contribution by individuals). This contribution rate was set to rise to 37 percent from 1992 on, to cater for an ageing of the population in certain parts of the USSR [see IMF et al, 1991].

The special demographic characteristics in particular regions created some possibilities for the pooling of risks and resources, with higher levels of benefit in some republics than would have been otherwise possible, as well as some particular difficulties, including the abandonment of social insurance funding for pensions. As discussed in Ahmad and Schneider (1992), the major difficulty with implementing the reforms of the social security system was that an independent Pension Fund would have involved transfers from the poorer Central Asian Republics—which have young populations and relatively few retirees, so that surpluses are generated with the establishment of uniform contributions and benefit levels. Beneficiaries would have been countries such as Belarus, Ukraine or the Baltics, which have higher per capita incomes but also a higher burden in terms of caring for the aged. This dilemma was solved by a compromise which involved the inclusion of family allowances as part of the expenditures of the Pension Fund, which however also implied that social insurance principles for pensions had to be jettisoned. The allocation for the Pension Fund was
Figure 2. Russian Federation:
Changes in Income Distribution 1990-1992

Russian Federation

Distribution of Per-Capita Incomes

Cumulative Distribution %

100
90
80
70
60
50
40
30
20
10
0

Rubles per capita per month


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around four fifths of the total contribution, which covered all pensions as well as *inter alia* the payment of basic allowances for all small children (to age 18 months). This permitted a social security system to be established which did not depend on transfers from "poorer" to "richer" republics. The surpluses generated on account of pensions, in the Central Asian Republics for example, were used to cross-subsidize the expenditures on family benefits. However, for the overall social security system to have worked, as envisaged during 1991, inter-regional transfers across different republics were required to sustain standardized USSR benefit levels.

III. The 1991 USSR Social Security System and its Effects

In this section we attempt to quantify the transfers that would have been needed in order ensure the intended functioning of the reformed social security system that had been introduced at the beginning of 1991. In fact, the disintegration of the USSR during 1991 ensured that transfers were not possible, and some republics in overall deficit on account of pensions and allowances had to make do by shifting expenditures on some of the family allowances directly to the budget, and curtailing some benefit categories.

The illustrations are based on data for the USSR and the constituent republics estimated for 1991. The demographic data are based on projections from the 1989 USSR Census provided by USSR Goskomstat. The average net wage for each republic is based on estimates for Russia for 1991 of rub 529.8 per worker per month. Using the inter-republican wage differentials as described in IMF et al (1991), we derive the average wages for each of the former USSR republics. The gross wage includes contributions made to the social security funds.

While the income distribution for pensioners in each republic is not known, we assume that the average pension in each republic is given by 1.3 times the minimum wage in 1991 (rub 160 in Russia), adjusted for the wage differentials across republics. This may overstate somewhat the average pension for some of the Central Asian Republics, in which case the corresponding transfer from the republic on account of pensions would be greater. The average replacement rate that is derived for each republic (equivalent to the average pension expressed as a proportion of the average wage) ranges from 37.7 percent in Russia to 46.6 percent in Tadjikistan. The overall USSR replacement rate for 1991 would have been 38.8 percent---an improvement over the pre-reform situation in 1990, but still somewhat short of the original objective.

To illustrate the consequences of maintaining a common USSR standard across republics for allowances, the myriad of allowances are expressed as a child benefit equivalent, set in nominal terms at rub 94 monthly per child under 16. This would have been equivalent to a family benefit equivalent to 58 percent of the minimum wage for each child.
In this section, the PAYG outcome for pensions across the constituent CIS republics is reviewed. This, together with the expenditure on allowances, would have determined the system of inter-republican transfers, in the absence of a recourse to republican budgets.

1. **Pensions**

The required PAYG contribution rate for pensions could be estimated separately for each republic, or at the USSR level. At each point in time, present contributions would need to equal benefits to be paid out during the period. The contribution base is the aggregate wage bill, \( W \), for the USSR as a whole. Let \( t_p \) be the standardized contribution rate set for pensions for the USSR as a whole, such that pension costs \( C_p \) are covered during the year. Then,

\[
 t_p W = C_p, \tag{1}
\]

where

\[
 C_p = N_p \cdot p. \tag{2}
\]

\( N_p \) represents the total number of pensioners in the USSR, and \( p \) is the average pension. The pension for individuals is set according to the USSR formulation of the statutory replacement rate, \( r \), applied to an individual's base income, \( w_h \). The ex-post replacement rate, given by the average pension \( p \) in relation to the average wage \( w \), is not necessarily equivalent to an individual's statutory replacement rate, given that formulation (3) below was subject not only to the minimum wage but in 1991 was also capped at the higher end of the scale by three times the minimum wage. Also, a pension may be no lower than the centrally determined minimum wage, \( w_{\text{min}} \):

\[
 p^h = r \cdot w_h, \tag{3}
\]

and

\[
 p^h \geq w_{\text{min}}. \tag{4}
\]

In the absence of transfers from the Union, the PAYG contribution rate for republic \( i \), \( t_p(i) \), would be given analogously by the aggregate pension costs for the republic and contributions collected. An estimate of the transfer involved for a republic \( i \), \( Y_p(i) \), is determined by the difference between the collections designed to finance pensions in the republic relative to those required for the pooled USSR system:

\[
 Y_p(i) = [t_p(i) - t_p] \cdot W(i), \tag{4}
\]

where \( W(i) \) is the aggregate wage bill in republic \( i \).

Note that in the above formulation we assess the inter-regional transfers involved in the pension system *per se*—thus excluding the...
"allowances" element inherent in the actual pension funds of individual republics as constituted in 1991. These allowances are treated separately, as described below. The empirical calculations are purely illustrative, as the system as designed was never fully implemented and very little was actually transferred from individual republics to the Union Pension Fund, or vice versa. Essentially what we observe are the consequences of USSR levels of benefits during 1991 for individual countries.

2. Family Benefits

Whereas pensions involve inter-temporal choices that would justify financing on the basis of contributions out of wages by workers (or employers) the case for PAYG payroll-based financing of family allowances is not evident, although this system had been introduced in the USSR and constituent republics as a result of the reforms in 1990. While large family size is one of several causes of poverty, and family allowances are a feature of most social security systems in industrialized countries, the USSR pattern of financing appears to have been based primarily on expediency: the avoidance of adverse interregional transfers, as well as the safeguarding of what was seen as essential social expenditures in a period of uncertainty. Although we would not recommend a reliance on a system of payroll contributions to finance family allowances in the longer term, it is possible to assess the extent to which there would have been transfers across republics for allowances with standardized benefit levels and payroll contributions. Of course, while many republics attempted to vary benefit levels and their sources of financing when it became clear after the events of August 1991 that inter-republican transfers were going to be limited, the benefit structures across republics remained remarkably similar at the end of 1991. Thus the estimation of the effects of a standardized level of benefit for 1991 would probably not be too much at variance with the eventual outcomes, but at the same time the calculations below should be seen as purely illustrative.

Total expenditures on benefits would depend on the number of claimants, and the nationally determined benefit level, \( b \), 2/

\[
C_b = N_b \cdot b. \tag{5}
\]

Since

\[
b = \alpha w_{\text{min}} \tag{6}
\]

we express the total sum of family benefits as a ruble equivalent per child, that is assumed as constant across republics—to highlight the consequences of a "standardized system" across different republics of the USSR. As in

1/ Family allowances are equivalent to income tax credits for households that are liable to tax.

2/ In practice there were a number of benefits in 1991, and individual republics had the discretion to provide more extensive benefits than nationally determined minima for particular contingencies.
above, the implicit transfer involved across the USSR for the system of family benefits, \( Y_b(i) \), would depend on the actual and statutory PAYG contribution rates for benefits, \( t_b(i) \) and \( t_b \) respectively,

\[
Y_b(i) = [t_b(i) - t_b] W(i).
\]

3. **PAYG outcomes**

The simulated outcome for both pensions and allowances for 1991 is roughly consistent with the contribution rate of 28 percent that had been envisaged by the USSR authorities. As seen in Table 1, the PAYG system with standardized benefits as stipulated above would have been in equilibrium for both pensions and allowances, with an overall 28.5 percent contribution rate for the USSR, of which 15.8 percentage points would have been needed for pensions during 1991, and the rest, or 12.7 percentage points should have been allocated for other family benefits.

A most interesting pattern of implicit inter-regional transfers would have appeared in 1991. As expected with the standardized contribution, the Central Asian Republics collected more than was necessary on a PAYG basis for pensions, but much less than needed for the range of family allowances. The European Republics, including inter alia Russia, Belarus and Ukraine, would have clearly benefitted from a pooling of pensions, with positive transfers involved in a standardized contribution for pensions--although the pooling of family allowances would lead to a negative set of transfers for allowances from this region. The overall balance, however, would have been a positive transfer to each Central Asian Republic, including Uzbekistan, Kyrgyzstan, Tadjikistan and Turkmenistan. For Kazakhstan, the positive transfers on account of family allowances would not have counterbalanced transfers out of the republic on account of pensions. Georgia and Armenia are the only two Republics that would have had positive net transfers for both pensions and family allowances. In countries such as Belarus, Ukraine, and Lithuania, the positive transfers for pensions would have exceeded the negative transfers on account of family allowances. For Russia, Latvia, and Estonia, there would have been negative net transfers overall.

As a consequence of the cessation of inter-republican transfers with the demise of the Union, the republics receiving positive net transfers needed to find these resources through the budget, or by increasing the overall contribution rate. For instance, in Tadjikistan, the required 1991 PAYG payroll contribution rate, in the absence of budgetary expenditures, would have been 36.7 percent--of which the pension component was only 8.4 percent, or half the standardized USSR PAYG pension contribution rate.

The calculations above are based on pension benefits which were realized during 1991, with a resulting effective average replacement rate of under 40 percent. Had the realized benefit levels been higher, say with average replacement rates of 50 percent, or even 60 percent as in the past, the resulting PAYG contribution rates would have needed to be considerably higher. For the USSR taken as a whole, a realized 50 percent replacement
Table 1. **USSR and Constituent Republics, 1991: Pensions and Allocations, PAYG system**

<table>
<thead>
<tr>
<th>Wage index</th>
<th>Initial gross wage</th>
<th>Average net wage</th>
<th>Pension contribution rate</th>
<th>Pensions and Allocations contribution rate</th>
<th>Total contribution rate</th>
<th>Pension transfer</th>
<th>Allocations transfer</th>
<th>Total transfer</th>
<th>PAYG pension contributions effective average replacement rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>rub/month</td>
<td>percent of wage bill</td>
<td></td>
<td></td>
<td>rub million/month</td>
<td>0.5</td>
<td>0.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USSR</td>
<td>0.99</td>
<td>606.2</td>
<td>482.4</td>
<td>15.8</td>
<td>12.7</td>
<td>28.8</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
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<td>Turkmenistan</td>
<td>0.92</td>
<td>567.7</td>
<td>451.3</td>
<td>8.4</td>
<td>21.0</td>
<td>29.5</td>
<td>-81.5</td>
<td>91.8</td>
<td>10.3</td>
</tr>
<tr>
<td>Russia</td>
<td>1.08</td>
<td>658.7</td>
<td>529.8</td>
<td>16.0</td>
<td>11.0</td>
<td>27.0</td>
<td>146.0</td>
<td>-1166.3</td>
<td>-1020.3</td>
</tr>
<tr>
<td>Ukraine</td>
<td>0.91</td>
<td>553.9</td>
<td>446.4</td>
<td>18.4</td>
<td>11.9</td>
<td>30.4</td>
<td>489.9</td>
<td>-148.7</td>
<td>341.2</td>
</tr>
<tr>
<td>Lithuania</td>
<td>1.02</td>
<td>622.5</td>
<td>500.4</td>
<td>16.9</td>
<td>11.9</td>
<td>28.9</td>
<td>17.8</td>
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<td>510.2</td>
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<td>27.9</td>
<td>11.7</td>
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<td>683.1</td>
<td>549.4</td>
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<td>6.5</td>
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<td>-9.4</td>
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<td>579.0</td>
<td>466.0</td>
<td>18.1</td>
<td>12.1</td>
<td>30.2</td>
<td>90.4</td>
<td>-25.1</td>
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<td>Moldavia</td>
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<td>32.6</td>
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<td>-36.9</td>
<td>120.8</td>
<td>83.9</td>
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<td>Kazakhstan</td>
<td>0.97</td>
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<td>475.8</td>
<td>13.6</td>
<td>13.6</td>
<td>27.2</td>
<td>-130.8</td>
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<td>24.5</td>
<td>33.9</td>
<td>-412.9</td>
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<td>341.3</td>
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<td>402.3</td>
<td>11.1</td>
<td>20.1</td>
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<td>84.7</td>
<td>30.5</td>
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<td>482.9</td>
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<td>28.3</td>
<td>36.7</td>
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<td>183.6</td>
<td>96.3</td>
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</table>


Note: All other variables are estimated. The last two columns present the pension PAYG contributions resulting from an effective replacement rate of 0.5 and 0.6 (as against a realized average replacement rate of 0.39 for 1991).
The payroll contributions needed for pensions per se during 1991 ranged between 16 and 18 percent for the European countries of the former USSR, and for the Central Asian countries, the range was typically between 8 and 11 percent. The typical allocation to the Pension Fund, however, was 21.6 percent, an indeterminate (albeit small) portion of which was to be allocated to family allowances. If current ex-post replacement rates are maintained in the European countries (such as Belarus, Ukraine and Russia), it may not be necessary to increase contribution rates allocated for pensions much above 20-25 percent of the wage bill (taking into account the need to build-up a small reserve to smooth contribution rates due to the ageing of the population). However, if there is a dramatic increase in the...
realized replacement rate (such as through a sharp increase in the minimum pension, together with a revaluation of existing pensions that has been proposed in many countries), then as suggested above it is likely that overall contribution rates may need to be increased considerably more than the 37 percent of the wage bill that currently obtains in most republics (excluding individual contributions, and those for unemployment insurance, and special levies such as for Chernobyl relief as in Ukraine and Belarus). Excessively high payroll contribution rates may have a deleterious effect on activity levels in a period when output levels are stagnant or declining, and could also worsen the shedding of labor in restructuring industries.

In addition to the allocations for the Pension Fund, 5.4 percent of the wage bill in 1991 was to have been allocated to the Social Insurance Fund in most countries, to meet a range of expenditures on allowances and benefits. With the disintegration of the Union, the state budgets in many countries picked up the tab for some of the family allowances. It would thus appear that, in the Central Asian countries in particular, the allocations were inadequate for allowances. USSR levels of family allowances are clearly excessive in the context of the Central Asian countries. As suggested above, the structure of allowances needs to be overhauled in the Central Asian and Caucasus regions to take into account the demographic realities, including the high youth dependency ratios and rapid population growth rates. Higher family allowances are more appropriate in countries such as Belarus, where the population is still below pre-1945 levels and birth rates are low, although these levels would clearly be constrained by resource availability. Substantial family allowances, which encourage population growth, are not needed in countries such as Turkmenistan where the population growth rate is already as high as 3.8 percent per annum. Care must also be taken not to increase overall contribution rates excessively and this would preclude a major increase in allowances, since budgetary constraints are binding in most cases.

Funded pensions provide an option which could eventually lead to a reduction of contribution rates, and would also obviate the need for adjustments to cater for an ageing of the population. However, in an investigation for the CIS countries, Ahmad and Schneider (1992) argue that this option may not feasible in the medium term, as it requires positive real rates of return exceeding the rate of growth of population for funded options to be preferable to PAYG systems. It was argued that alternatives need to be sought to protect the living standards of the vulnerable elderly and large families from falling below acceptable levels during the phase of major relative price adjustments. Options include social assistance mechanisms in countries where these are administratively feasible, or the provision of limited in-kind or cash compensation which is provided directly by the budget. This issue has been discussed extensively elsewhere (see Ahmad, 1991, and 1991a).

It will take time to develop criteria and administrative mechanisms for social assistance based on means testing, and such assistance will eventually only be feasible at the local level. Despite local
administration and financing, many of the eligibility and financing criteria should be centrally coordinated, and this will require considerable further work. The verification of household or per capita income levels and assets are the essential ingredients of a means-test—the wage level of an individual member of a household is an important but by no means sufficient element in a proper means-test. As discussed in Section 1, the issue is complicated by the extreme concentration of incomes at a low income level that has resulted from the reforms. Despite the difficulties that are associated with setting up social assistance mechanisms, it is possible to use categorical targeting as a method of providing social assistance. For instance, participation in public works at a low wage, could be thought of as a self-targeting assistance mechanism. The low wage, together with the works test, combine to target the assistance through self-selection to those who really need help.

The differences in demographic patterns will lead to considerably different combinations of social security instruments in the Central Asian countries of the CIS in contrast to the European countries. However, the similarities in the distribution of incomes, and particularly the concentrations at relatively low levels underlines the need for a fairly wide-spread social safety net for the duration of the transition period in most CIS countries. This safety net would be distinct from the permanent social security system that also needs to be restructured to suit the specific demographic characteristics in each country in a cost-effective manner.
References


