

## Analysis of Labor Market and Unemployment Insurance in the Case of Republic of Kazakhstan

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### ABSTRACT

The research deals with the overview of recent Unemployment insurance structure of Kazakhstan. It focuses on the theoretical of impact of UB payments on workers incentives to be employed and discuss its influences on Unemployment rate. Moreover provides overview of current situation regarding labor market of Kazakhstan.

**Keywords**--- UB, SSIF, AME, Unemployment, Migrants, Insurance

### I. INTRODUCTION

As everybody knows one of the main indicators showing the degree of economic development of any country is related to human resources or simply to say, to the efficiency of the labor market. In a broad sense, the labor market is a system of socio-economic and legal relations in society, rules and institutions, to ensure the normal continuous process of re-production of labor power and the efficient use of labor force [1]. According to economic theory, which studies the adverse developments in the economy, including unemployment, unemployment is regarded as one of the main characteristics of the labor market. Currently, unemployment is present in all parts of the world in a variety of volumes, forms and duration. Almost all the countries, irrespective of developed, developing, or underdeveloped, in the world are suffering from unemployment [2]. To cut a long story short Social insurance system of any country could be used as a tool to solve illegal unemployment framework [3].

### II. UNEMPLOYMENT INSURANCE SYSTEM IN KAZAKHSTAN

Kazakhstan has a multi-level social security system including obligatory social security contributions and obligatory pension contributions, which are aimed at improving the welfare of a whole population. In 2005, the Republic of Kazakhstan (RK) introduced compulsory social insurance as a supplementary form of a social protection. With the transition to the new standards of social security, the State Social Insurance Fund (SSIF) was created in the form of a joint-stock company (JV) with 100 percent participation of the State. SSIF produces accumulation of social security contributions and payments to the participants of the obligatory social insurance system in respect of which occurred in case of social risk.

According to the Legislation of the Republic of Kazakhstan, each citizen is required to participate in social insurance system. Compulsory social insurance system is divided into the following types: Old-age disability benefits, sickness and maternity, work injury and unemployment. Our analysis will be mainly focused on unemployment insurance system.

The formula is as follows:

$$UB = AME \times IRR \times CPR \quad (1)$$

Where:

UB - Amount of the unemployment benefit

AME- Average monthly earnings, accounted as the subject for calculation of social security contributions, determined by dividing the summation of earnings for the last 24 months from which social contributions were paid by 24. Formula is as follows:

$$AM = \frac{\sum_{i=1}^{24} ME_i}{24} \quad (2)$$

ME- a monthly income counted as a subject for calculation of social security contributions  
 IRR- Income Replacement Rate, which is equal to 0.3.

Table 1: Variation of coefficient for the covered period

Covered period (in months)	6-12	12-24	24-36	36-48	48-60	60 and more
Coefficient of covered period	0,7	0,75	0,85	0,9	0,95	1,0
Duration of UB payments (in months)	1	2	3	4	4	4

Source: State Social Insurance Fund [6]

CPR- The coefficient of covered period, which is based on the length of time for making social contributions.

According to Table 1, the duration of the benefit depends on the period for which the insured was covered. The participant of obligatory social insurance system is entitled for UB for the following period:

1. One month - when social contributions for him was made from six to twelve months;
2. Two months - when social contributions for him was made from twelve to twenty-four months;
3. Three months - when social contributions for him was made from twenty-four to thirty-six months;
4. Four months - when social contributions from him was made from thirty-six months or more.

In case of receipt of social security contributions for the same month from two or more payers, monthly income from each payer should not exceed 10 times the minimum wage rate.

Similar to other emerging economies Kazakhstan is also sharing the unemployment problem (See fig 1).

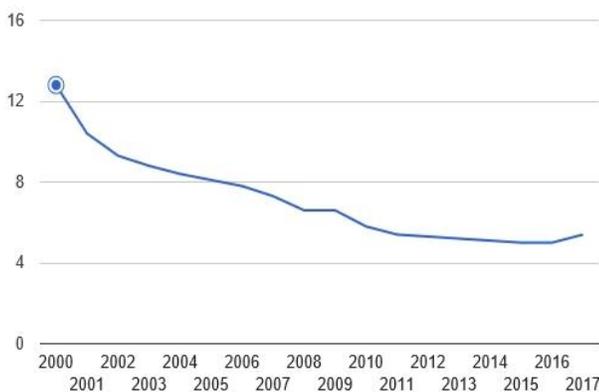


Figure 1: Kazakhstan – Unemployment Rate in percentage for 2000 - 2017.

Source: TheGlobalEconomy.com, The World Bank

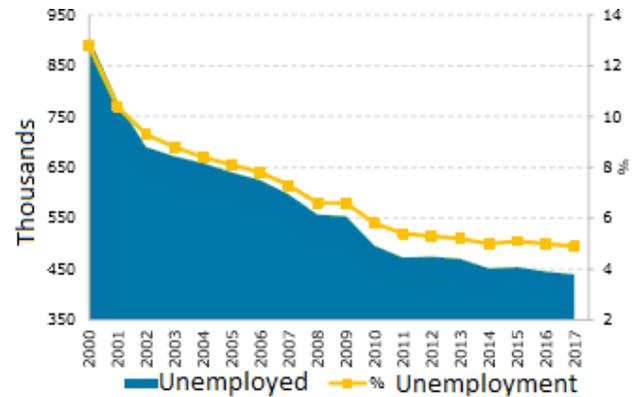


Figure 2: Kazakhstan – Unemployment Rate in thousands for 2000 - 2017.

Source: Ministry of National Economy of RK

According to fig.1 and fig.2, we can see that even if the un-employment rate is decreasing it is still at a high rate. The official rate of unemployment was equal to 5.2%, 5% and 5.4% in 2015, 2016 and 2017, correspondingly. The unemployment rate in Kazakhstan and other countries defined as the number of unemployed people as percent of the labor force. The labor force includes the people who are either employed or unemployed, i.e. who do not have a job but are actively looking for one. The labor force does not include people who are not looking for work, children, and the re-tired. In addition, unemployment is not only the problem that causes the emergence of illegal labor market in Kazakhstan.

Kazakhstan attracts attention of citizens from less developed countries. All kinds and forms of labor migration, with complex manifestations, are actively presented in Kazakhstan. The Republic of Kazakhstan is country of origin, transit and destination of labor migration. Large numbers of people move through this territory. According to the United Nations, report [5]. Kazakhstan is on 16th place among of countries receiving migrants. Simply, country possesses the entire set of problems linked with labor migration. Labor migration profile of the country is extremely interesting. Be-cause of the richness of natural resources and the need for technical workforce, become an attractive center. Informal employment is common among migrant workers. Nearly all forms of illegal labor migration can be seen in Kazakhstan [6].

According to the International organization inflow of labor migrants from neighboring countries in 2015-2016 has increased by 47-34% and has exceeded 1 million people, despite crisis time in the economy. It is connected with the geographical neighborhood with Russia as there was a reorientation of a part of migrants to Kazakhstan after recession in the Russian economy. About 80% of migrants prefer construction branch as the place of the planned work that speaks about their small competition with self-

employed which prefer spheres of trade and agriculture. In agriculture labor migrants are attracted for seasonal works both respectively more often and here they have possibly no significant effect on the market. But the number of the arriving migrants to Kazakhstan in comparison with the CIS countries remains at the high level.



Figure 3: Dynamics of people migration in Kazakhstan. Net Migration Rate (migrant(s)/ 1000 population), publisher edit

According to fig.3 [6], we can see the positive trend of people migration in Kazakhstan. In 2012, the migration rate increased by zero, 42% compared to 2011, and was relatively stable during the next four years. The net migration rate indicates the contribution of migration to the overall level of population change. High levels of migration can cause problems such as increased unemployment and potential ethnic strife (if people are coming in) or a reduction in the labor force, perhaps in certain key sectors (if people are leaving).

While analyzing existing literature, we identified negative relationship between UB and UR, if the benefits too generous, extensions of UB contributed to an increase in the un-employment rate by 1.2 percentage [7].

Therefore, it was decided to graphically illustrate the trend of UB receipts and amount of payments with the aim to visually track the development of UIS in KZ (see fig. 4)

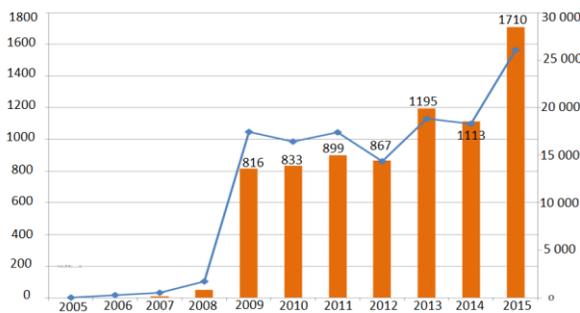


Figure 4: Dynamic of recipients and unemployment insurance benefits amount from state fund of social security for period [6], publisher edit

The fig.4 shows bond between amount of recipients and unemployment insurance benefits from state fund of social security for period 2005-2015 yes. There is the slight increase in numbers from 2005 until 2008 years. For the next period, we can observe dramatic growth and

then we can observe stable little fluctuations for the 2009-2011 years due to economic recession. Again growth in 2013, 2014 years till the year when number increased wildly in 2015 year.

In addition, (see fig. 4) it was decided to see the relationship between the change in UR and change in UB paid.

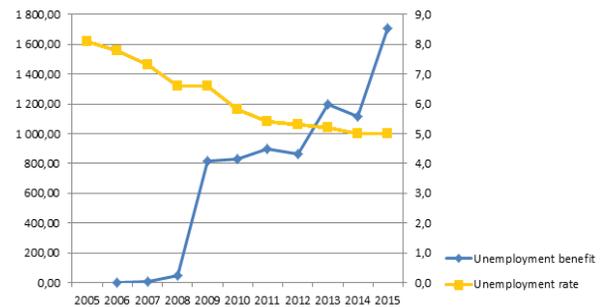


Figure 5: Relationship between UR and UB in KZT [6], publisher edit

The fig. 5, above shows the number of Kazakhstan’s un-employment people in recent years. It shows a steady downward trend for the period of 2005-2015. Unemployment Rate in Kazakhstan averaged 5.73 percent from 2003 until 2018, reaching an all-time high of 9.70 percent in March of 2003 and a record low of 4.90 percent in July of 2015 [9].

It can be observed that our findings contradicting theory stated by Nakajima [7]. The reason can lay in the fact that unemployment benefits are not high in Kazakhstan.

However, based on this analysis we cannot derive the ex-act conclusion about the impact of UB on UR. Therefore, it was decided to use job search model to identify optimal UB scheme by using moderating effect as incentives of unemployed people to find new job through CPS.

### III. CONCLUSION

Unemployment insurance system of any country are relatively complicated process which required detailed analysis and knowledge in legislation, one of the main reasons for that is dependence of compulsory insurance program types from each other and opportunity to move from one program to another (ex. From unemployment to disability). Another important issue, particularly for UIS security in Kazakhstan is that several social payments paid from 5% of social contributions made by employer based on monthly income of employees. Simply to say Kazakhstan is steel faces some difficulties in unemployment insurance system.

As a result, governments need to guard against benefits that are too generous, which can discourage job

searching. Governments also need a system for monitoring job search intensity, to reduce negative side effects on the unemployment rate and job creation.

Therefore, it was decided to use job search model to identify optimal UB scheme by using moderating effect as incentives of unemployed people to find new job and to conduct surveys and questionnaires among population of the RK.

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