JOBS SERIES
Issue No. 3

JOBS STRATEGY
KAZAKHSTAN

WORLD BANK GROUP
Jobs
ACKNOWLEDGMENTS

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The team worked with close guidance from David Robalino (Practice Manager, Jobs CCSA), Andrew Mason (Practice Manager, Social Protection and Labor), and Naveed Naqvi (Program Leader, Human Development and Jobs, ECCU8). Peer reviewers were Christos Kostopoulos (Lead Economist, Macroeconomics and Fiscal Management) and Roberta Gatti (Lead Economist, Social Protection and Labor).

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# ABBREVIATIONS

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<th>Abbreviation</th>
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<tr>
<td>AST</td>
<td>Assessment support tool</td>
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<td>CJG</td>
<td>Canada Job Grant</td>
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<td>CPS</td>
<td>Country Partnership Strategy</td>
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<td>DAMU</td>
<td>DAMU Entrepreneurship Development Fund JSC</td>
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<td>EC</td>
<td>Employment center</td>
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<td>ECA</td>
<td>Europe and Central Asia</td>
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<td>EPZ</td>
<td>Export Processing Zone</td>
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<td>ERM</td>
<td>Employment roadmap</td>
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<td>EU</td>
<td>Employment unit</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>ICT</td>
<td>Information and communications technology</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>JERP</td>
<td>Joint Economic Research Program (World Bank and Government of Kazakhstan)</td>
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<td>LMIS</td>
<td>Labor market information system</td>
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<td>NCE</td>
<td>National Chamber of Entrepreneurs</td>
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<td>NEET</td>
<td>Not in education, employment or training</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>OJT</td>
<td>On-the-job training</td>
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<td>PES</td>
<td>Public Employment Service</td>
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<td>PISA</td>
<td>Programme for International Student Assessment</td>
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<td>RK</td>
<td>Republic of Kazakhstan</td>
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<td>RM</td>
<td>Rennes Métropole</td>
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<tr>
<td>SETP</td>
<td>Skills Enhancement Training Program</td>
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<td>SEZ</td>
<td>Special Economic Zone</td>
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<td>SME</td>
<td>Small and medium enterprise</td>
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<td>SOE</td>
<td>State-owned enterprise</td>
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<td>TVE</td>
<td>Technical and vocational education</td>
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<td>TVET</td>
<td>Technical vocational education and training</td>
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<td>UB</td>
<td>Unemployment benefit</td>
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<td>WEF</td>
<td>World Economic Forum</td>
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EXECUTIVE SUMMARY

OVERVIEW

While Kazakhstan has enjoyed robust economic growth that has lifted many of its people out of poverty through better jobs and higher wages, the country faces significant challenges to provide quality jobs for all Kazakh people throughout the country. As a resource rich economy, the recent collapse in global oil prices underlines the increasingly urgent need for Kazakhstan to overcome structural challenges and diversify the economy, in order to deliver sustainable, quality jobs for the entire labor force, particularly for vulnerable groups. The paper presents an analysis of those structural challenges and a framework for organizing comprehensive responses to them.

SIGNIFICANT PROGRESS

Since independence in 1992, Kazakhstan has made rapid progress to become an upper-middle income country, with real per capita income growth of close to 7 percent and a consequential dramatic reduction in poverty. With many Kazakhs moving from agriculture into more stable and productive formal employment, labor force participation rates—for both men and women—are among the highest in upper middle income countries. Overall, Kazakhstan has seen significant improvement in the welfare of many its people, with growth in jobs, productivity, and wages being fundamental to these improvements.
OUTSTANDING CHALLENGES

But Kazakhstan continues to face significant challenges to its ability to provide good jobs for all its citizens. Most notably, low unemployment masks significant self-employment (29 percent of the active labor force), particularly low-quality, unproductive self-employment concentrated in agriculture. Several factors reflect structural weaknesses in labor demand, labor supply, and the labor market’s capacity to match jobs and workers. On the demand side, while there has been significant growth in services sectors, small and medium enterprises (SMEs) that can provide more formal jobs for those currently self-employed have not flourished, and the public sector and state-owned enterprises (SOEs) maintain a heavy role in the economy. On the supply side, there is a large and growing share of tertiary educated workers, but the quality of that education and especially its relevance to employers’ needs constrains their ability to translate this education into quality employment.

![Figure ES3](image_url1)

**Figure ES3**
Self-employment by sector

![Distribution of self-employment](image_url1)

**Figure ES4**
Productive and unproductive self-employment by region

![Productive Unproductive](image_url1)
But the central challenge is finding productive employment for lower skilled workers in non-metropolitan areas. Quality jobs are not being created where these workers live; moreover, they lack the necessary assets (skills, financial and social capital) to pursue opportunities that exist elsewhere in the country and are hampered by various barriers. Many of these barriers are structural; for example, the population is small and spread across expansive territory, which results in a lack of scale in local markets, poor transport connectivity, and constraints to information flow. These barriers hinder effective matching of workers with jobs. But weaknesses in policy and implementation, including public employment services, training, social services delivery, and trade policy, among others, also contribute to spatial mismatch in the labor market.

**SHORT- AND MEDIUM-TERM PRESSURES**

These structural challenges persisted during the impressive growth of the past decade. In fact, this period of growth has helped to reveal them, as workers who could take advantage of new opportunities did so, leaving those with weaker job market prospects stranded in low quality jobs. With the oil price collapse and a sharp slowdown in key regional trading partners expected to result in a ‘new normal’ environment of much slower growth in the coming years, attention needs to be focused on supporting these more difficult cases. Demographic trends may mitigate those short-term burdens, at least in aggregate terms. Between 2004 and 2014, the labor force expanded by around 130,000 workers per year, while 150,000 new jobs were created annually. Under reasonably optimistic growth scenarios, job creation should exceed the number of new yearly labor market entrants for the next half decade; however, with the growth slowdown now looking sharper and longer lasting than initially expected, short-term pressures on the labor market are likely to become a concern. An even bigger challenge comes in the medium term, as a demographic bulge of young people will begin to enter the labor market in increasing numbers in the early 2020s. This will put increased pressure on the economy to create more and better jobs.

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**Figure ES5**  
Growth requirements for steady-state employment over different levels of jobs-elasticity to growth

**Figure ES6**  
Job creation and job gaps in different growth scenarios
to stem a tide of potential unemployment and reversion to self-employment. This combination of increasingly acute short-term demand-side pressures under the ‘new normal’ low growth environment and medium-term supply side (demographic) pressures highlights the critical importance for Kazakhstan to address the underlying structural challenges of its economy—principally a lack of diversification, persistence of a state-led economy, and weak internal and external integration, aggravated by geography and policy.

**STRATEGIC FRAMEWORK FOR JOBS**

Given these short- and medium-term challenges, the paper proposes a framework for a jobs strategy in Kazakhstan organized under three pillars.

Figure E57

Kazakhstan jobs strategy framework

1. **The fundamentals (Job Creation):** Sustainable job creation relies on the growth of a diversified, competitive private sector—one that emerges by lowering the barriers to entry and investment across all sectors. Accordingly, this pillar focuses on the reforms needed to ensure an effective enabling environment at the macro and micro (business environment) level that will enable firms to invest, expand, and hire workers. At the macro-level, it includes preserving a sound macro-fiscal framework and maintaining the competitive real exchange rate that followed from the recent depreciation. At the micro-level it will require major and urgent efforts to address shortfalls in the regulatory environment, including around issues of competition, clientelism, and corruption that hold back SME growth and job creation. It will also be important to take better advantage of regional trade potential. On the supply side, the essential requirement is a skilled workforce in all parts of the country, which can only be achieved by improving foundational education and ensuring equitable access regionally.

2. **Support for mobility (Access and Inclusion):** This pillar focuses on ensuring workers have the education and skills to move into higher productivity employment and a system that supports labor market adjustment through effective public employment services, adequate safety nets and social insurance, and other measures to promote mobility across geographies and sectors.
3. **Targeting structural challenges and market failures (Quality):** This pillar focuses on strengthening firms and regional economies outside the metropolitan areas through development of key infrastructure and secondary cities, strengthening existing clusters, connecting firms to established national and global value chains, and optimizing public infrastructure investment. Together, this type of support can promote productive agglomerations, which will ultimately help create opportunities for sustainable job creation in non-metropolitan areas.

**TOWARDS IMPLEMENTATION OF A JOBS STRATEGY**

The Government of Kazakhstan is committed to diversifying the economy and promoting good jobs for its citizens. It has put in place multiple strategies to address issues highlighted in this framework. However, while those strategies show awareness of these short- and medium-term challenges, they remain separate strategies without a comprehensive view of interrelationships across these issues. Addressing the issues effectively and comprehensively will entail applying a ‘jobs lens’ to the country’s development trajectory.

However, prioritization and conflicting objectives among multiple, often fragmented programs may undermine the potential of such an approach, while implementation on the ground is not always effective. Given the challenge involved in coordinating a comprehensive ‘job lens’ approach, a practical step to move forward may be to conduct a pilot in a specific geographical area—ideally one where the jobs challenge is significant and representative of the national challenge, but also one with the potential to show results in the relatively short term. Based on certain considerations, including measures of poverty, unemployment, and low quality employment, as well as the existence of significant agglomerations and industry clusters, potential locations for piloting are: South Kazakhstan or Almaty in the south of the country; and Akmola or Kostanai in the north of the country.
1. INTRODUCTION

Context

Development and transition success, but jobs challenges remain

Since independence in 1992, Kazakhstan has made rapid progress in transitioning to an upper-middle income country. Since 2000, in particular, Kazakhstan has benefited from the global commodities boom to become one of the top 10 fastest growing economies in the world, achieving annual real per capita income growth of close to 7 percent (Figure 1). This sustained growth has enabled Kazakhstan to achieve rapid reductions in poverty. Measured by the national poverty line, the share of the Kazakhstan population living in poverty fell from 47 percent in 2001 to below 3 percent in 2013. Using the benchmark poverty line at the PPP-corrected US$5 per capita per day (which is more appropriate for countries with a higher level of income per capita), the poverty headcount in 2013 was higher—around 15 percent—although this is down sharply from almost 80 percent in 2001 and 54 percent in 2006 (Figure 2). Growth in jobs and wages has been fundamental to these gains. Kazakhstan enjoys labor force participation rates—for both men and women—that are among the highest in upper middle income countries. And unemployment has fallen dramatically over the past 15 years, to reach just 5 percent.

Despite these successes, significant challenges remain in the labor market. Most notably, Kazakhstan's low unemployment rates mask high levels of self-employment. More importantly, a substantial number of Kazakhs are unable to gain sufficient earnings from self-employment to allow them to move out of poverty and vulnerability. The prevalence of low-quality self-employment reflects structural weaknesses on both the demand and supply side of the labor market. On the demand side, the concentration of the economy in the minerals sector along with weak development of the private sector restricts the number of quality jobs created. At the same time, gaps in the supply of appropriately skilled labor are pervasive. Perhaps most importantly, both weak demand and lack of skills undermine the potential for quality jobs across vast areas of (mostly) rural Kazakhstan, adding a strong spatial element to the jobs challenge in the country.

Figure 1

GDP per capita (2000 versus 2013)

Figure 2

Poverty rate trends (2006–2013)

Source: left—WDI; right—World Bank (2015a)
BOX 1: KAZAKHSTAN’S DISTINCTIVE STRUCTURAL FEATURES

Kazakhstan is a unique country in a unique part of the world. Its uniqueness is important, as it shapes the opportunities and economic realities faced by the country, as well as the political responses to those challenges. Three of these unique aspects are summarized here, with a view to keeping them in mind as we consider the Kazakhstan jobs challenges and potential approaches to address them.

Resource wealth

Kazakhstan’s huge natural resource wealth, in the form of oil, gas, and minerals is a major blessing for the country, and has allowed it to grow, develop, and reduce poverty at an extraordinary rate. For most of the last decade, natural resource rents accounted for 40–50 percent of Kazakhstan’s GDP, a level substantially higher than most countries in the world, even resource-rich ones [Figure 3]. But the challenge for Kazakhstan, as with all resource-rich countries, is how to translate natural resource endowments into other productive forms of capital. Indeed, natural resource wealth often brings with it challenges that make achieving diversification, productivity growth, and job creation particularly difficult. This ‘paradox of plenty’ includes risks of volatility, an overvalued real exchange rate, weak governance, and institutional under-capacity. While Kazakhstan has managed its resource wealth admirably well, all of these risks are, to some degree, being realized in Kazakhstan, and are shaping the potential of the country to address the jobs challenges discussed in this note.

Internal and external geography

Kazakhstan’s jobs challenge is made more difficult by its extraordinary geographical position. The 9th largest country by land mass, Kazakhstan’s small population makes it among the world’s least densely populated countries, with just 6 people per square kilometer [SME Small and medium enterprise]. Moreover, Kazakhstan’s people are dispersed across the country, with its commercial capital, political center, and oil region separated by thousands of kilometers. This is compounded further by the harsh climatic conditions that limit connectivity and isolate parts of the country. So the internal geography of Kazakhstan acts as a significant barrier preventing the emergence of an integrated domestic market. This is reflected in findings from a recent survey of entrepreneurs, which showed that just 7 percent of businesses surveyed sold beyond local markets.

Figure 3
Natural resources rents as % GDP (1990–2013)

Source: Authors’ calculations based on data from WDI.

Figure 4
Population density—global and landlocked country comparators

Source: Authors’ calculations based on data from WDI.

1 World Bank (2013).
Kazakhstan’s internal geographical challenges are aggravated further by the country’s landlocked position, a factor that substantially raises the costs and challenges of trading in regional and global markets. And while Kazakhstan sits in a strategic geographical position (between China and Russia), regional markets with Central Asian neighbors are thin, and the core markets in China (east) and Russia (northwest), not to mention the EU, remain distant. These geographical challenges make it more challenging for Kazakhstan to compete in tradable sectors that can deliver the scale to support large-scale job creation.

Late-stage modernizer

Like most countries in Central Asia, Kazakhstan has gone through massive political, economic, and structural change in a short period of time. In the transition from a socialist to a market economy, some countries in the region implemented reforms more comprehensively or rapidly than others. Kazakhstan is considered a ‘late modernizer’, among a group of countries that have initiated reforms relatively slowly or unevenly, and therefore tend to be characterized by a less conducive business environment, a substantial role of the public sector in industry, less well-developed financial sectors, and a lower level of global integration. In Kazakhstan’s case, all of these characterizations reflect to a large extent the current situation, although the pace of reform in more recent years has been rapid.

The fact that many key reforms relevant for market economies still lag has significant implications for job creation, as many of the missing reforms, such as privatization and state-owned enterprise (SOE) reform, improving competition in product markets, and improving governance, have very significant implications for job creation, as they shape the competitiveness and incentives of private sector firms to invest and create jobs.

Private sector development, human capital, and inclusive growth are closely linked through the channel of productive employment: a vision of quality jobs for all Kazakh people throughout the country is a fundamental complement to an objective of sustainable, diversified economic growth. Achieving this objective will require building a more competitive private sector. This in turn will depend, among other things, on the quality and relevance of Kazakhstan’s human capital, particularly among the large number of youth entering the labor force for the first time. But diversified growth alone may not be sufficient to deliver quality jobs for all throughout the country, as adjustments accompanying new economic activities may accentuate spatial, skill, and demographic disparities. Therefore, a comprehensive approach to Kazakhstan’s jobs challenge will require complementary, focused efforts to support inclusive growth.

Adjusting to a ‘new normal’ of slower growth—challenges and opportunities for the jobs agenda

Addressing these challenges to quality jobs would be difficult enough in an environment of 7 percent growth that Kazakhstan has become used to over the past decade. But it will be much more challenging in the years ahead. Since the global financial crisis and particularly the more recent oil price collapse, macro-fiscal pressures have been mounting. GDP growth decelerated sharply to 4.4 percent in 2014 and to just 0.9 percent in 2015. The non-oil deficit has widened considerably to more than 10 percent of GDP.

This recent experience of significantly slower growth looks increasingly likely to become the ‘new normal’ for Kazakhstan and the wider region over the medium term. Oil prices are now expected to remain below US$50 per barrel through 2017. Moreover, Russia’s economy is not expected to experience any growth until 2017, and recent evidence from China suggests its slowdown may be deeper than originally anticipated. With such a weak external environment, growth in Kazakhstan is expected to remain subdued, growing around 1.1 percent in 2016 and 3.3 percent in 2017.3

In the short term, the external situation threatens to roll back some of Kazakhstan’s hard-won gains achieved over the past decade in expanding quality jobs and reducing poverty. However, data available through December 20154 does not indicate any significant labor market impacts yet; unemployment remains at 5.0 percent (unchanged from 12 months prior),

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3 World Bank projections.
4 Main indicators of the labor market (quarterly); Source: http://www.stat.gov.kz/.
although self-employment stands at 26.9 percent (down from 29.4 percent), the participation rate declined by 0.5% during the year and youth unemployment\(^5\) rose from 4.0 to 4.5 percent. One reason for this is that, unlike most of its Central Asian neighbors, Kazakhstan has relatively few regional emigrants and so the regional economic slowdown has not triggered large flows of Kazakhs returning to the domestic labor market. Further, the government has been fiscally able, and has shown the will to deploy significant fiscal stimulus to maintain growth, focusing that stimulus on job creation. Indeed, the government has initiated a major stimulus program, equivalent to 1 trillion tenge (US$5.5 billion) in 2014–15. But such stimulus will be increasingly unsustainable under the premise of oil prices remaining low in the medium term.

On the other hand, the prospect of a sustained decline in oil prices represents an opportunity not be missed. Substantial reductions in oil revenue will require the Government of Kazakhstan to make significant adjustment in the macroeconomic framework to ensure that the fiscal and external balances are sustainable. This, in turn, will require a significant reduction in the reliance on oil as a revenue source, which will necessitate much greater and more urgent focus on diversification of the economy, including the development of alternative export sectors and the generation of domestic demand. This will require a concerted effort that recognizes the mutually reinforcing links between diversification and jobs, and addresses the wide range of policies which support the private sector to invest in starting and expanding firms, developing skills, and innovating. Beyond this, it will require efforts to address the spatial factors that pervade the jobs challenge in Kazakhstan, including support to facilitate mobility but also targeted spatial and sectoral interventions to support quality jobs outside of the metropolitan areas.

**OBJECTIVES AND LINK TO PARTNERSHIP FRAMEWORK AGREEMENT AND CPS**

This note is part of a wider advisory services activity, which provides the basis for dialogue on the development of a national jobs strategy for Kazakhstan. The strategy, in turn, aims to enhance the impact of the Government’s policies, programs, and projects on the availability, diversity, quality, and sustainability of jobs. The activity seeks to inform the Government’s programs and policies specifically by:

1. Identifying the main constraints affecting the creation of jobs by private firms in diversified economic sectors, the growth of labor productivity and earnings, and access to jobs by different population groups;
2. Developing a framework for a comprehensive jobs strategy that addresses these constraints by bringing together economy-wide reforms with interventions targeting better job opportunities for specific population groups;
3. Conducting dialogues with key government counterparts around this framework to build consensus on the most effective approaches to eliminate constraints and support diversified jobs; and
4. Synthesizing the findings of these dialogues and recent JERP activities on jobs to identify how current government programs and policies would need to be adjusted and what new types of policies and investments would need to be considered in order to deliver quality jobs and diversified growth.

The objectives of this advisory services product are aligned with those of the World Bank Group’s 2012–2017 Country Partnership Strategy (CPS) and the 2014 Partnership Framework Arrangement (PFA) between the World Bank Group and the Government of Kazakhstan. In the framework of the CPS, this report contributes to improved employment outcomes and hence, addresses directly the priority of ‘competitiveness and jobs’. It also contributes to the priority of improving governance and service delivery. Within the PFA, it contributes directly to the ‘skills and jobs’ pillar, but also supports the priorities of SME development and innovation.

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\(^5\) Measured for population aged 15–28 years.
APPROACH AND STRUCTURE

This note draws on a large body of recent and ongoing analyses carried out by the World Bank, the Government of Kazakhstan, and other partners. In particular, it builds on recent work carried out as part of the World Bank and Government of Kazakhstan’s Joint Economic Research Program (JERP), including Jobs—Sector Specific Analysis of Barriers and Opportunities JERP (P153621), and Develop a Strategy to Support Functioning of Labor Market Institutions JERP (P153622), as well as recently launched operations related to labor markets, skills, and private sector development.

The remainder of the note is structured as follows: Section 2 provides a detailed review of the state of jobs in Kazakhstan, reviewing recent progress and analyzing the nature of the challenges around self-employment; Section 3 introduces a framework for thinking about a jobs strategy in Kazakhstan, and provides an initial overview of the current situation and government response along each of its dimensions, as well as some potential policies for consideration; Section 4 concludes.
2. JOBS IN KAZAKHSTAN: PROGRESS AND CHALLENGES

This section sets out the main challenges facing Kazakhstan in terms of creating sustainable, quality jobs now and into the future. It outlines first the current state of the labor market and discusses the considerable successes the country has had over the past decade, as well as the primary challenges. Following this, it delves into more detail on the challenges, focusing specifically on the prevalence of low productivity self-employment. It concludes by assessing the trajectory of growth and job creation and setting out the challenges for the future.

SNAPSHOT OF THE LABOR MARKET IN KAZAKHSTAN

Figure 5 provides a graphical image of the main components of Kazakhstan’s labor market as of 2013 and highlights several areas where Kazakhstan stands out—for good and bad. On the positive side, labor market participation is high in global terms (Figure 6) and female labor force participation (around 70 percent) ranks in the top 5 globally among high and upper middle income countries, a full 17 percentage points higher than the Organisation for Economic Co-operation and Development (OECD) average. And few of those outside the labor force appear to be truly inactive. The share of individuals who are neither employed, attending school, or in training (NEET) is well below 10 percent for all age cohorts—including


Note: Self-employed include own-account workers, employers, farmstead workers, members of cooperatives and unpaid family workers. Wage workers are considered informal if: a) he or she does not have a written contract; or b) if their employer does not contribute to social insurance/the pension fund on their behalf.

According to data from WDI (ILO modeled labor force participation rate for 2013), only Korea and Iceland (among high income countries) and Botswana and Peru (among upper middle income countries) had higher levels of female labor force participation.
Moreover, unemployment is low, at just 5.2 percent of the active labor force in 2013 (and down to 5.0 percent as of April 2015).

The composition of employment in Kazakhstan also stands out, but in a less positive light. Self-employment accounts for close to 31 percent of the employed population in Kazakhstan (29 percent of the active labor force), far above the level in most peer countries (Figure 7) and nearly double the rate among OECD countries (16.8 percent). This can largely be explained by the high share of agricultural self-employment, which accounts for more than half of the self-employed in Kazakhstan. Moreover, the public sector stands out as a major employer, accounting for 2.5 million of less than 6 million waged jobs. Relative to peers, however, Kazakhstan does not appear to have an extraordinarily large public sector (Figure 8): its share of

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7 The 55–59 cohort has around 20 percent inactive and the 60–64 cohort around 60 percent. Note, however, that the male retirement age is 63 and that the female retirement age was 58 until the introduction of a 2013 law, which will increase the retirement age to 63 within a decade.
total employment is lower than most peers and its share of wage employment, although considerably higher, remains below that of Canada, Australia, Chile, and South Africa. Of course, a considerable share of private sector employment in Kazakhstan is accounted for by state-owned firms, so the public sector presence in the labor force remains considerable.

Overall, a first-glance view may somewhat overstate the health of the Kazakhstan labor market, with large-scale self-employment (particularly in agriculture) potentially masking what are effectively much higher levels of unemployment, or at least underemployment. It suggests that Kazakhstan’s primary challenge is to transition some of this self-employment into higher quality, private sector wage employment.

**AN OVERVIEW OF PROGRESS AND CHALLENGES**

Before delving into the details of Kazakhstan’s jobs-related challenges, it is important to place them in a historical and global perspective. Kazakhstan has made very significant economic progress over the past decade, so that, at least based on overall indicators, its labor market situation compares favorably with most other countries in the world, including many high income countries. At the same time, a large portion of the working population struggles in low quality jobs, and weak productivity growth risks continued progress on earnings growth. This section provides a brief overview of the progress and challenges in labor market outcomes and structural change in Kazakhstan.

**A decade of jobs, productivity, and wage growth**

Between 2004 and 2014, in a context of generally favorable global conditions in global commodity markets and high growth, around 150,000 net new jobs were created in Kazakhstan each year, in a market where the labor force expanded by around 130,000 each year (Figure 9). The level of job creation in waged employment was actually even higher, at 170,000 per year, or 30 percent above the level needed for stable labor market outcomes. As a result of this relatively strong job creation, unemployment declined rapidly over the decade and many workers shifted from self-employment (see later discussion). The unemployment rate, which was 10.4 percent in 2001 and 8.4 percent in 2004, fell steadily throughout the decade (even through the crisis period) to 5.0 percent by the end of 2014. As Figure 10 shows, this declining unemployment came primarily through a reduction in long-term (structural) unemployment, which fell from 7.6 percent in 2001 to 2.4 percent at the end of 2014. The cyclical component of unemployment varied between around 2.5 and 4 percent through this period, peaking at 4.1 percent during the crisis in 2009. The success in reducing structural unemployment is also evident by the rapid decline in the average duration of joblessness, which was cut in half from almost 15 months in 2004 to less than 7.5 months by 2013.

![Figure 9](image-url)

**Figure 9**
Labor force growth and job creation (2004–14)

Source: Authors’ calculations based on data from the Statistical Committee of the Republic of Kazakhstan (RK).

![Figure 10](image-url)

**Figure 10**
Unemployment trends (2001–14)

Source: Authors’ calculations based on data from the Statistical Committee of the Republic of Kazakhstan (RK).
Over that period, job creation was accompanied by relatively strong productivity growth. Value added per worker expanded by 4.3 percent per year in real terms between 2003 and 2013, and contributed more than 90 percent to Kazakhstan’s growth⁸ (Figure 11). Productivity growth in the period up to the crisis (2003–2008) was particularly strong, at 7.7 percent annually. This helped support a sustained rise in wages, with real wages more than doubling between 2003 and 2013 (and growing by more than 10 percent annually up until the crisis). This combination of rising employment and concomitant wage expansion was by far the most important factor contributing to the reduction of headcount poverty from 54 percent in 2006 to 15 percent by 2013⁹ (Figure 12).

**Improved outcomes for youth**

Following the global financial crisis, the gap in labor market outcomes between youth and older age cohorts has widened around the world. In Kazakhstan, however, the gap appears to be relatively small, and labor market outcomes for youth have improved considerably over the decade. As shown in Figure 10 and Figure 13, youth¹⁰ unemployment has been consistently below the rate for the labor force overall: it declined to just 4 percent in 2014. A significant increase in enrolment in tertiary education¹¹ explains this to some extent. But the share of self-employment improved significantly, accounting for almost half of all jobs among youth in 2003 but falling to just 31 percent by 2014. Thus the gap between the share of self-employed youth and total share of self-employed in the overall labor market fell from over 8 percentage points to just 1.4 percentage points during the decade. The reliance on self-employment among youth varies substantially across regions (Figure 14) as it does in the general population. The gap between youth and overall self-employment rates was highest in West Kazakhstan, Aktobe, and Karaganda (where self-employment overall is low). In some regions where self-employment is particularly low, including Atyrau, Pavlodar, and Astana City, youth self-employment rates were lower than in the general population.

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⁸ Growth is measured here in per capita value added.
⁹ Using the US$5/day poverty line.
¹⁰ Defined as the 15–28 age cohort.
¹¹ Tertiary enrollment (gross) increased from 29 percent in 2000 to 45 percent in 2012 (WDI).
Significant progress toward structural change

The decade-long expansion in jobs was shared across virtually all sectors in Kazakhstan, with the notable exception of agriculture, which shed on average 33,000 jobs annually between 2003 and 2013 (Figure 15). This left agricultural employment 14 percent smaller in 2013 than in 2003, while the employment in the rest of the economy grew by 42 percent. This suggests a significant structural change from agriculture to services, as might be expected in a resource-rich, landlocked country like Kazakhstan. The manufacturing and mining sectors together generated just 12,500 jobs per year, an annual expansion
rate of less than 2 percent. By contrast, the services and construction sectors together grew at an annual rate of 4 percent and generated on average 175,000 net new jobs each year.

These sectoral trends were, of course, not smooth across the decade. While the agriculture sector contracted throughout, job shedding was relatively limited up until the crisis; two-thirds of all jobs lost in agriculture came between 2010 and 2013. Construction and high value-added services sectors (financial and professional services) experienced rapid growth up until the crisis (9–10 percent annually), but since the crisis the growth rate halved and remained on this lower trajectory. Industrial sectors experienced particularly low growth in the pre-crisis years, but increased growth during and after the crisis (albeit to just 2.1 percent annually between 2008 and 2010 and 3.1 percent since 2010).

This structural change—the shift of employment from agriculture to industry and services sectors—contributed about 20 percent to the strong labor productivity growth presented in Figure 15, a significant proportion. Figure 16 compares Kazakhstan’s sources of growth—including the inter-sectoral shift and the within-sector productivity change for the agriculture, industry, and services sectors—against a set of peer countries. It shows that against a sample of 98 countries, Kazakhstan was in the 77th percentile in terms of the contribution of the structural change component to growth; against a set of 12 resource-rich peers it was in the 68th percentile. Indeed, where Kazakhstan’s growth performance was weakest in global terms was not in the transition out of the agricultural sector but rather: i) productivity growth within it (where Kazakhstan was only in the 46th percentile in the 98 country sample); and ii) the productivity of the services sectors into which agricultural employment is transitioning (29th percentile in the 98 country sample).

Figure 15
Average annual net job creation by sector (2003–13)

Agriculture
Mining
Manufacturing
Utilities
Construction
Trade
Transport
Hospitality
ICT
Financial services
Real estate
Professional and scientific
Public administration
Education
Health
Other service activities

Source: Authors’ calculations using data from Statistical Committee of RK.

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12 Resource-rich countries with a GDP per capita at + or – 40 percent of Kazakhstan’s.
The shift out of agriculture was also part of a wider structural movement toward waged jobs and away from self-employment. In the context of significant jobs growth between 2003 and 2013, self-employment fell by 0.5 percent annually—equivalent to a decline of almost 13,500 own-account jobs annually (Figure 17). By contrast, wage employment grew by 3.5 percent annually, contributing 170,000 jobs a year on average. As a result, wage employment grew from 60 percent in 2003 to 70 percent by 2014, while self-employment fell from 40 to 30 percent.

Moreover, the self-employed saw their average hours worked rise substantially (Figure 18): the median self-employed worker in 2006 reported working between 26 and 30 hours a week; by 2013 the median worker was full-time employed, working 36–40 hours a week. Underemployment among the self-employed fell from 55 percent in 2006 to 28 percent in 2013. Thus, earnings from self-employment are likely to have risen substantially over this period.
From low productivity agriculture to low productivity services

Despite this progress, Kazakhstan still faces significant challenges in ensuring the availability of quality jobs going forward. In absolute terms, of Kazakhstan’s active labor force of 9 million, more than 2 million—close to one-quarter of all those employed—are working in agriculture, the sector which offers by far the lowest average wages. Another 1.7 million workers outside the agricultural sector (3 million in total, including agriculture) are either self-employed (1.2 million) or informally employed in a wage job13 (0.5 million).

Figure 19
Sectoral contribution to job creation (2003–13)

Figure 20
Job growth and productivity by sector (2003–13)

Source: Authors’ calculations using data from Statistical Committee of RK; Note on Figure 20: x-axis crosses at Kazakhstan average annual jobs growth over period 2003–13 (2.1 percent); y-axis crosses at average 2013 output per worker level (1.32); size of bubbles indicates relative number of jobs; color of bubbles indicates broad industry.

13 Workers employed in wage employment but for whom the employer is not paying social security contributions.
Moreover, jobs growth over the decade has come overwhelmingly in non-tradable services. Industry and mining contributed less than 10 percent to new job creation, with more than 90 percent accounted for by construction and services (Figure 19). And within the services sector, the main contributors to job growth came in public and social services (public administration, health, education) and wholesale and retail trade. This growth dynamic means that while jobs are transitioning out of low productivity agricultural activities, they are shifting into services sectors, many of which also have low productivity profiles (Figure 20). The implication is that the corresponding wage gains from the transition may be relatively limited, and therefore many workers will remain in activities whose earnings potential may leave them vulnerable to poverty. On the other hand, it is important to put this into perspective—productivity in the agricultural sector is close to five times below the national average. So movement into any other sector, even relatively low productivity ones, represents a gain for aggregate productivity and for individual worker incomes.

Is weakening productivity growth a threat to quality jobs?

Finally, when considering the sustainability of wage growth across sectors, which is critical to maintain job quality, an important factor is weakening productivity growth. As noted earlier, robust productivity growth enabled rapid wage growth, lifting many Kazakhs out of poverty over the last decade. Even in the early part of the 2000s, wage growth outstripped labor productivity growth (measured as value added per worker), although the gap between wage and productivity growth was relatively limited, reaching 11 percent by 2008 (Figure 21). Since the crisis, however, this gap has grown considerably, rising to 38 percent by 2013.

Figure 22 shows that this gap between wage and productivity growth extends across all sectors. However, the biggest gaps exist in agriculture, education, and health, the very sectors where wages are still insufficient to deliver quality employment. In agriculture, real growth in output per worker increased a modest 4.2 percent annually up until the crisis, but has since stagnated to just 1.5 percent annually. Meanwhile, real wage growth has averaged 10 percent annually. The gap is also significant in construction, financial services, and (to a lesser degree) in manufacturing. For self-employed workers, trading mainly in local markets, the gap between productivity and wage growth may not be so critical, as earnings have been rising mainly as a result of derived demand from increased wages in other parts of the domestic economy. But across the broader economy, the productivity and wage gap is not sustainable in the long term (and in fact wage growth has recently slowed sharply). The results of this disparity will ultimately trickle down to smallholders and other self-employed workers. This suggests that delivering better quality jobs in a sustainable way will depend on raising productivity substantially across the economy.
THE CHALLENGE OF QUALITY JOBS

This section focuses on the main jobs-related challenges Kazakhstan faces: creating more quality jobs and raising the levels of productivity, particularly among the self-employed.

Defining quality jobs: Wage employment, earnings, and safety nets

So what is a ‘quality job’ (see Box 2)? In this note we take a rather narrow definition of job quality, focusing on earnings (particularly waged employment), as well as productivity levels and growth, which determine the scale and sustainability of earnings growth. From the perspective of relative earnings across the economy, the picture bears out the concern about the oversized agricultural sector and the increasing shift toward locally-traded services. Figure 23 shows that the average wage in the agricultural sector is only half the national average; by contrast, the mining sector delivers an average wage almost twice the national average. The areas of strong jobs growth show a mix of moderate wage (construction, trade, public administration) and low wage (education and health) sectors, with transport and professional services delivering relatively high wages, although fewer overall jobs.

But the question of job quality is perhaps more an absolute one—does the job deliver earnings that allow households to escape poverty and to reach and sustain a position in the middle class? The Government of Kazakhstan considers this issue (at least the poverty level) in its measures of the labor market. Specifically, the government measures the degree to which self-employment is ‘productive’ or ‘unproductive’, where ‘unproductive self-employment’ is defined to be employment that delivers earnings below a national subsistence minimum. In 2015, this level is set at 19,647 tenge per month per person. Even at this low level, 30 percent of the self-employed in Kazakhstan (around 700,000 workers) are classified as ‘unproductively self-employed’, and therefore are likely to be in households that are either poor or vulnerable (see Box 3).

Figure 23
Sectoral average wage index (relative to the national average)

Source: Authors’ calculations using data from Statistical Committee of RK.

14 It is worth noting that this similar concept is not measured for wage employment, as the national minimum wage is set above the subsistence minimum.

15 Source: Committee on Statistics of Kazakhstan, Ministry of National Economy.
BOX 2: WHAT IS A ‘QUALITY JOB’?—EVIDENCE FROM FOCUS GROUP INTERVIEWS IN KAZAKHSTAN

Job quality is a multidimensional concept. One important aspect is economic—the returns to employment, as measured by earnings and the potential for earnings growth. Another aspect is the work environment, including safety, working hours, and flexibility and autonomy. Somewhat bridging the two are factors like job security (nature of contracts), benefits, and the potential for training and upgrading of skills. How these various factors [and others] come together and are weighted to define a ‘quality job’ is subject to significant variation depending on the perspective of the policy researcher or policymaker.

Perhaps more relevant is to understand how workers themselves define a quality job. A recent World Bank study16 carried out a series of focus groups and interviews in 5 urban and rural communities in Kazakhstan to understand men and women’s perception of factors that influence economic mobility, access to the labor market, and entrepreneurship opportunities. A picture of how jobs and ‘quality jobs’ are perceived emerges. Not surprisingly, good income earning possibility and the potential for career and earnings growth stand out prominently among youth respondents, while a good work environment was identified as important by males (less so by females). In the wider surveys across all age cohorts, security of employment stood out as critical, as defined by full time jobs, in the formal sector, and (interestingly and particularly strong in rural communities) jobs in the public sector. On the other hand, self-employment was also rated favorably. And while working on a family farm (if paid) was considered by most to be a legitimate job, respondents indicated they did not consider ad hoc employment in construction as a ‘job’.

These findings suggest that, with some important variations by gender, Kazakhs generally define a good job as one that delivers security and substantial, consistent earnings.

Figure 24
Survey responses to questions about defining a job (left) and a preferred job (right).

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16 World Bank (2014b).
According to the methodology of defining the number of self-employed approved by the Statistics Committee (order #7, 22 November 2013), the group of “productive self-employed” includes:

1. Employers, independent of their average monthly income;
2. Members of cooperatives;
3. Employed on an individual basis (registered and actively working); and
4. Employed in a personal subsidiary plot producing products for sale (exchange)—with an average monthly income higher than the minimum subsistence level.

The group of “unproductive” self-employed includes:

1. Registered and unregistered self-employed who are not working;
2. Employed in personal subsidiary plot producing products for personal consumption, independent of average monthly income;
3. Non-paid workers of family enterprises—indeed of average monthly income;
4. Members of cooperatives employed in a personal subsidiary plot producing products for sale (exchange)—with an average monthly income lower than the minimum subsistence level; and
5. Employed on an individual basis (registered and actively working), employed in a personal subsidiary plot producing products for sale (exchange)—with an average monthly income level lower than the minimum subsistence level.

The minimum subsistence level is fixed on the basis of consumption estimates. It amounted to 19,647 tenge in 2015, representing 16 percent of the average monthly wages and salaries (Statistical Committee of RK).


Figure 25 shows the degree to which average wages in different sectors of the economy deliver sufficient earnings to keep households above this subsistence minimum. Obviously household size matters, as does the number of earners in the household. Figure 25 shows clearly that the average agricultural worker is unable to earn enough to keep even a small household out of poverty without an additional income stream. Even an agricultural household with two earners would struggle to stay out of poverty. Moreover, these analyses are based on average income, and the majority of agricultural sector earners are well below the average. By contrast, jobs in industry and construction generally deliver wages sufficient to keep a household out of poverty, with the exception of large households with a single earner. Perhaps most notable in Figure 25, however, is that earnings in the education and health sectors (and to a lesser degree in public administration) are not significantly above the subsistence minimum, putting single earning households in these sectors at significant risk of poverty. As these sectors have very low levels of self-employment, they do not receive much attention in the government’s consideration of “unproductive employment”.

It is also worth noting that the measure of unproductive self-employment sets a fairly low bar for quality employment. For example, using a relative measure of low earnings at 25 percent of the national average earnings would result in a monthly earnings threshold for a quality job of more than Tenge 28,000—some 50 percent above the subsistence minimum. Figure 26 and Figure 27 show the distribution of earnings in productive and services sectors, respectively. It shows a very strong leftward skew (toward earnings well below the national average) of the distribution of earnings in the agricultural sector.

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17 On the other hand, these sectors tend to have relatively stable income distributions, so there are not likely to be large numbers of workers who earn well below the average.
The only other sector with a noticeable skew at the low end of the earnings distribution is commerce (trade), while sectors like education and health exhibit bias in the distribution below the national average, but not necessarily at the low end of the distribution (below 25 percent of the national average).

Figure 25
Wages and household earnings in selected sectors relative to subsistence minimum (2015)

Source: Authors’ calculations using data from Statistical Committee of RK.

Notes: Plots show household earnings as a ratio of the subsistence minimum (Tenge 19,647 in 2015) for household sizes of 3, 4, and 5 persons, with a single earner and for two earners; sectors are as follows: 1 = agriculture; 2 = manufacturing; 3 = construction; 4 = trade; 5 = public administration; 6 = education; 7 = health and social.
Locating low quality jobs: Where are they and who is doing them?

The discussion above identifies self-employment, and particularly agricultural self-employment, as being at the heart of the problem of quality jobs in Kazakhstan. Indeed, as Figure 28 shows, agriculture not only accounts for half of all self-employment in Kazakhstan, but it is also the sector where self-employment is most pervasive, accounting for two-thirds of all jobs. Trade represents the other major sector for self-employment, accounting for 26 percent of the self-employed and where more than half of all jobs are in self-employment. Transport and construction are the only other sectors where self-employment plays a significant role, accounting for 31 percent and 27 percent of jobs, respectively.

As in many countries, women are overrepresented among the self-employed in Kazakhstan. Overall, women represent 50.2 percent of the self-employed population, but given a labor force participation rate 10 percentage points below that of men, self-employment for women is relatively more important. Self-employment (like employment overall) shows significant gender variation by sector (see Figure 29). While women account for 55 percent of the self-employed in agriculture and 61 percent in trade, they have just 20 percent of self-employed jobs in construction and just 8 percent in transport. In considering gender variations of self-employment, women tend to be concentrated in lower wage sectors.

There is no particular age bias in self-employment, with the exception of the youngest and oldest cohorts. While the perception is that youth are much more reliant on self-employment and the aggregate data on youth employment appears to support this, in fact this is skewed by the cohort of workers aged 15–19, among whom only 38 percent of workers are in wage employment. However, less than 14 percent of this age cohort is actually active in the workforce, as the vast majority are still pursuing education. In the 60–64 cohort, there is a large reliance on self-employment (mainly in farmsteads), which may reflect decisions around retirement from the formal workforce. But for those in the middle of the age distribution, employment patterns are consistent, not just between wage and self-employment, but perhaps more surprisingly between agricultural and non-agricultural self-employment. Between the 20–24 age cohort and the 50–54 age cohort, the share of jobs in agricultural self-employment varies from a low of 8.2 percent to a high of 9.3 percent; for non-agricultural self-employment the range is similarly narrow, from 16.2 percent to 18.4 percent.¹⁸ This is important, as it suggests that agricultural self-employment is not

¹⁸ In both cases, the cohort with the highest share of self-employment has a rate just 13% above the rate of the cohort with the lowest share.
simply a demographic relic that will retire out of the labor market over the next generation. Instead agricultural self-employment is endemic to rural areas, where alternative employment opportunities are limited.

Indeed, self-employment shows a strong spatial pattern in Kazakhstan. It is concentrated in rural areas and outside the oil-producing and metropolitan regions. Self-employment accounts for less than 5 percent of jobs in Astana and less than 10 percent in Almaty city and Mangystau. Even Karaganda has less than 15 percent of jobs accounted for by self-employment. By contrast, almost half of all jobs in Zhambyl are self-employment, as are 45 percent of jobs in South Kazakhstan (Figure 30).

Figure 30
Self-employment by region—productive and unproductive self-employment share of jobs (2014)

Within regions, too, self-employment is strongly linked to rural areas. Figure 31 shows that, in almost all provinces, self-employment is severely overrepresented in rural areas. Overall, while self-employment accounts for only 18 percent of urban jobs, it accounts for 45 percent of jobs in rural areas. Moreover, many self-employment jobs in these regions are unproductive. In the extreme case of Zhambyl, close to half of self-employment (and 22 percent of all jobs) are unproductive (Figure 30). Unproductive self-employment is virtually non-existent in Astana and Almaty city. In absolute terms, the...
‘jobs problem’ (low quality jobs and unemployment19) is concentrated in the south and east of the country—Almaty, South Kazakhstan, Zhambyl, and East Kazakhstan account for more than half (600,000) of the unemployed and unproductive self-employed in the country, with Kostanai and Karaganda adding another 150,000 (Figure 32). Thus, low quality jobs are prevalent in both relative and absolute terms across the south and east.

Not surprisingly, low quality self-employment is also concentrated among the least educated segments of the population. While around 75 percent of wage employed workers have higher education (specialized vocational or tertiary), only half of non-agricultural self-employed and less than 36 percent of farmstead workers achieve this level of education (Figure 33).

Figure 33
Educational attainment by employment type (2014)

Source: Authors’ calculations using data from LFS.

19 There is very little regional variation in the unemployment rate—it ranges from a low of 4.8 percent in Pavlodar to a high of 5.5 percent in Astana.
Looking more broadly across sectors (Figure 34), the gap between agriculture and the rest of the economy is stark. Half of agricultural workers have general secondary education or less, and only 37 percent have completed vocational or tertiary education. Even in a low-skill, labor intensive sector like construction, 75 percent of workers have education beyond the secondary level, and 63 percent have completed vocational or tertiary education.

**WHAT IS BEHIND THE QUALITY JOBS CHALLENGE?**

Given Kazakhstan’s aggregate success in generating growth and reducing poverty, why are so many of its people still in low quality jobs? This section outlines briefly the proximate causes contributing to the challenge of jobs quality discussed above.

**Labor demand: Lack of dynamic, growth-oriented SMEs**

The economy of Kazakhstan has created a large number of formal, waged jobs over the past decade. This success has led to significantly reduced unemployment and progress toward higher quality jobs. But the continued prevalence of self-employment, and the scale of unproductive self-employment, reflects that the types of jobs created have not been sufficient to provide opportunities to people throughout the country and across educational and socio-economic groups.

Looking at the period 2010–14, Table 1 summarizes job creation by sector as well as the mix of waged and self-employment jobs. It highlights patterns of job creation and skills demand. Most notable is the dramatic decline in agricultural self-employment, although, as discussed earlier, this appears to be very much a phenomenon of the post-crisis era rather than a longer-term structural shift.\(^{20}\) In fact, this large decline in agricultural self-employment explains most of Kazakhstan’s aggregate shift from self-employment to waged employment.

\(^{20}\) Moreover, the rapid decline in self-employment in agriculture is not mirrored by waged employment in the sector, which has actually grown in recent years.
Despite the shifting patterns of agricultural employment, the level of waged jobs created for lower-skill workers has not been sufficient to both absorb new labor market entrants and support a stronger transition from self-employment. With roughly 85,000 net new entrants to the labor force each year between 2010 and 2014, around 25,000 of these will have entered the labor force with general secondary education or less. Based on the average educational attainment across sectors, waged job creation for low education workers outside of agriculture\(^{21}\) was around 30,000 annually. While this is marginally more than the rate needed to absorb the existing new entrants with low educational attainment, it is insufficient given the large spatial gap between the location of low-skill workers and the location of waged jobs for low-skill workers. Moreover, within each economic sector, the share of workers with low education is substantially higher in the self-employed than in the waged segment of that sector. For example, in the construction and trade sectors, close to 40 percent of self-employed workers have a general secondary education or less compared to less than 20 percent of waged workers; in transport, the comparable figures are 40 percent of self-employed and less than 15 percent of wage employed.

Thus, the actual number of waged jobs created for workers with a general secondary education or less was likely to be lower than that needed to absorb new entrants. Indeed, this is reflected in the sectoral trends. Jobs growth in the key sectors occupied by lower skilled workers has come largely through self-employment rather than waged jobs, suggesting there may be some barriers to the establishment and growth of small and medium enterprises (SMEs), particularly in more low-skilled labor intensive sectors (Table 1). In transport, 73 percent of all new jobs created between 2010 and 2014 came through self-employment; in construction and trade, 68 percent and 51 percent of the jobs, respectively, came through self-employment.

Table 1
Wage versus self-employment job creation by sector (2010–14)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Agriculture</td>
<td>49.8% 24,570</td>
<td>(133,053)</td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>20.7% 17,000</td>
<td>1,689</td>
<td>9%</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>13.2% 14,380</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>18.9% (5,629)</td>
<td>1,665</td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>17.6% 8,250</td>
<td>24</td>
<td>0%</td>
</tr>
<tr>
<td>Construction</td>
<td>24.9% 10,557</td>
<td>21,927</td>
<td>68%</td>
</tr>
<tr>
<td>Services</td>
<td>17.8% 140,341</td>
<td>36,576</td>
<td>21%</td>
</tr>
<tr>
<td>Trade</td>
<td>29.3% 4,273</td>
<td>4,479</td>
<td>51%</td>
</tr>
<tr>
<td>Transport</td>
<td>21.7% 6,281</td>
<td>16,867</td>
<td>73%</td>
</tr>
<tr>
<td>Hospitality</td>
<td>13,366</td>
<td>1,683</td>
<td>11%</td>
</tr>
<tr>
<td>ICT</td>
<td>5,140</td>
<td>(68)</td>
<td></td>
</tr>
<tr>
<td>Financial Services</td>
<td>6.8% 0</td>
<td>81</td>
<td>100%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>(3,806)</td>
<td>(3,882)</td>
<td></td>
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<tr>
<td>Professional and Scientific Services</td>
<td>2,503</td>
<td>812</td>
<td>24%</td>
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<tr>
<td>Administrative Services</td>
<td>10,840</td>
<td>331</td>
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<tr>
<td>Public Administration</td>
<td>10.6% 12,635</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Education</td>
<td>36,727</td>
<td>187</td>
<td>1%</td>
</tr>
<tr>
<td>Health and Social Services</td>
<td>22,819</td>
<td>335</td>
<td>1%</td>
</tr>
<tr>
<td>Other Services</td>
<td>12.6% 29,563</td>
<td>15,752</td>
<td>35%</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations using data from Statistical Committee of RK and LFS.

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\(^{21}\) The agricultural sector will have created up to an additional 12,000 new waged jobs each year for low skill workers; however given the huge shift out of self-employment in agriculture, it is likely that many if not most of these new waged jobs will have been absorbed by previously self-employed workers.
In the case of transport and construction, these shares of self-employed jobs are substantially higher than the sector’s average rate, indicating that key low-skill sectors are becoming increasingly reliant on self-employment.

Why has the economy not created sufficient waged employment to absorb lower skill workers? One of the principal reasons is likely to be the lack of a diversified private sector, and in particular a strong base of dynamic SMEs. As a resource rich economy, Kazakhstan’s labor market is characterized by relatively low employment elasticity to growth (a 1 percent increase in GDP leads to just a 0.23 percent growth in jobs) and a large share of jobs concentrated in the public sector. While public sector employment is in relative decline in Kazakhstan, the data from Table 1 indicates that close to 50 percent of all non-farm waged employment comes from traditional public sector activities. With sharply reduced government spending in the medium term, the public sector is unlikely to continue contributing to the growth of formal waged jobs. Therefore, Kazakhstan will need to ensure it establishes an environment that facilitates job creation by the private sector. This will need to come primarily through development of diversified sectors, due to the limited job creation potential in the oil, gas, and mining sectors. Key to this is increasing the role of SMEs as drivers of diversification and job creation.

Excluding the self-employed, Kazakhstan has more than 300,000 registered SMEs, although only around one-third of these SMEs is active. SMEs comprise 90 percent of all registered firms in Kazakhstan but they account for 18 percent of GDP and 28 percent of jobs, compared to a global average of 47 percent and 63 percent, respectively (Figure 35). While a relatively limited contribution from SMEs is not unexpected in a resource-rich economy, Kazakhstan’s SME contribution to employment is particularly low: for example, in Saudi Arabia SMEs account for just 20 percent of GDP but 51 percent of jobs, in the UAE they account for 30 percent of GDP and 86 percent of jobs. The Government of Kazakhstan has targeted to increase the GDP contribution of SMEs to 50 percent by 2050, but has not established a target for their jobs contribution.

Figure 35
SME share of GDP and employment—Kazakhstan versus international averages

Labor supply: Education quality gaps and skills mismatches

Education clearly pays off in the Kazakhstan labor market. While the overall unemployment level in Kazakhstan is low, the rate for those with a basic secondary education or less (9 percent) is double the average for those with a specialized vocational or tertiary qualification. But the link between labor market and educational outcomes is actually much starker, and

22 In the case of trade, the recent rate (51 percent) is slightly below the overall rate (54 percent).
23 Public administration, health and social services, education, and administrative services.
observable through the reliance of workers on self-employment. As noted previously, workers that end up in self-employment are most likely to have a general secondary education or less. Sixty percent of workers with less than a secondary education are in self-employment, with the majority in agriculture. This reliance on self-employment drops for those with a secondary education—but only to around 50 percent. Vocational education, especially specialized vocational qualification, reduces the role of self-employment substantially, down below 30 percent. Less than 15 percent of those with a tertiary education are self-employed, almost none in agriculture.

Better education largely determines access to better jobs. While higher levels of education increase the probability of both public and private wage employment compared to lower secondary education or less, the effect is most dramatic for those with tertiary education, who are 31 percentage points more likely to be in the public sector holding other characteristics constant (Figure 36).

These patterns linking educational attainment to job types are also reflected in wages. Relative to workers with lower secondary education or less, the wage premium for an upper secondary education is relatively limited—just 12 percent (Figure 37). But it jumps to 48 percent for a tertiary education. This lack of a significant premium for upper secondary education compared to lower secondary or less may reflect the quality of education.

Kazakhstan’s educational system faces a challenge both of quality and relevance. This is reflected in poor performance on international student assessments, such as the OECD’s Programme for International Student Assessment (PISA). While Kazakhstan’s performance on PISA has improved markedly since 2009, especially in math and science, its overall achievement as of 2012 remains significantly behind other countries with similar income per capita levels (Figure 38). Most importantly, Kazakhstan’s reading scores in 2012 lagged about one year of schooling behind the average for ECA countries and almost two years of schooling behind the OECD.

In addition, the quality of education at the secondary level also varies across groups, reinforcing existing disparities in labor market outcomes. A gap equivalent to 1.5 years of schooling exists between students from families in the highest and lowest socioeconomic quintiles. In addition, students in TVET schools are behind their peers in basic and general secondary schools and colleges by more than 1.5 years of schooling in reading and one year of schooling in math. Spatially, a study by the National Centre for Educational Statistics and Assessment revealed that Unified National Testing scores (which almost entirely determine eligibility for free university education) are correlated with the regional poverty levels; Astana and Almaty show the highest scores, while regions with high numbers of people living below subsistence level, score significantly lower on average.26

The impact of weaknesses in education quality on labor market outcomes is aggravated further by the poor relevance of education and training programs. The existence of skills gaps in Kazakhstan is well documented. As shown in Figure 39, employers in Kazakhstan perceive significantly higher constraints in terms of workforce skills than most peers. New entrants to the labor market are often seen to lack fundamental skills, despite formal credentials. The perception of skills constraints varies significantly across different types of employers, with medium and large employers significantly more likely to identify skills as a major constraint than small firms, and manufacturing employers more likely than services employers to identify skills as a constraint. Most notably, in the most recent World Bank Enterprise Survey (2013), exporting firms identified skills as a major constraint at a rate 2.5 times greater than non-exporters.

26 National Centre for Educational Statistics and Assessment (2012).
Figure 38
PISA scores: Kazakhstan versus international peers (2012)


Figure 39
Share of firms identifying skills as a major constraint to their business

Source: Authors’ calculations using data from World Bank (2014a) based on data from BEEPS.
Low relevance results from a predominately supply-driven orientation to skills development, weak linkages between education institutions and the labor market, and obsolete education standards and curriculum that are not based on occupational and functional analysis. The lack of a functioning and independent qualifications system exacerbates the challenge of reducing inefficiencies caused by the provision of unnecessary or irrelevant education and training.

**Spatial mismatch and barriers to mobility**

There is strong evidence of a mismatch between labor supply and labor demand in Kazakhstan, both in terms of the skills requirements for the jobs and, most importantly, where those jobs are being created relative to where the labor force lives. Although all regions of the country are expanding waged employment, the relative growth of quality jobs has been highly uneven geographically. Figure 40 maps the regions according to the growth of the active labor force and the pace of waged job creation. It shows a split between regions that are experiencing labor force growth, which are, for the most part, also experiencing robust growth in quality jobs, and regions where the labor force is declining (outmigration) and the creation of waged jobs is weak. The growth regions are the metropolitan and oil extracting regions, with the notable exception of South Kazakhstan, which tends to compare poorly on most labor market and poverty measures. The rest of the country, including the agricultural and industrial regions, is experiencing a decline in the labor force and/or very weak growth in quality jobs—in most cases, both. In East Kazakhstan, which has a labor force of 750,000, just 450 wage jobs were created annually between 2010 and 2014. In North Kazakhstan, just 1,150 annual wage jobs were created in a labor force of 330,000. And in Zhambyl, 2,500 wage jobs were created in a labor force of 550,000.

In many regions, the state of quality job creation is weaker than it looks on the surface, as a large share of the wage jobs created are in the public sector. For example, in Zhambyl, Kyzylorda, and Mangystau, around 70 percent of all wage jobs are in public companies (government or SOEs). The share of public employment is above 50 percent also in West Kazakhstan, Almaty, and South Kazakhstan. In fact, the only locations where there is a fairly strong creation of quality jobs mainly driven by the private sector are Aktobe, Atyrau, Almaty (city and region), and Astana.

![Figure 40](image-url)

**Figure 40**

Growth of labor force and wage employment by region (2010–14)

Source: Authors’ calculations using data from the Statistical Committee of RK.

Note: y-axis set at national average growth of wage jobs as share of labor force (2.0%).

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27 Note that all regions are growing the share and absolute numbers of waged jobs, so all regions are experiencing some growth in quality.
While the data from Figure 40 does not delineate more urbanized and rural regions, the main agglomerations of Astana and Almaty have been among the most successful parts of the country for creating quality jobs. Even with rapid in-migration to Astana and Almaty, the expansion of waged employment is keeping pace. Data on jobs in active SMEs—an important proxy for the health of the private sector as a generator of quality jobs—shows a strong correlation between the SME employment share and the urbanization rate. Astana and Almaty together had around 53 percent of all jobs coming in active SMEs in 2013\(^2\) compared to an average of just 26 percent in the rest of the country. Moreover, new job creation outside Astana and Almaty has come through growth in self-employment and employment in large firms and the public sector; while in Astana and Almaty new jobs are coming from SMEs and self-employment (Figure 41).

Spatial inequalities are also significant in terms of education and skills. Across most countries, more educated people tend to live in urban areas: cities have more jobs that require education, so people in cities get more education or educated rural people tend to move to cities. Figure 42 shows that in Kazakhstan half of the rural workforce has a general secondary education or less, compared to just 22.5 percent of the urban workforce. By contrast, the urban workforce has a 30 percent larger share of specialized vocational workers and more than twice as many tertiary educated workers.

Thus, while most jobs are being created in urban areas, particularly around the growth poles of Astana and Almaty (as well as the oil-producing regions), the workforce with the lowest stock of education and skills is predominately located in more rural regions. This indicates the existence of a strong spatial mismatch in the jobs market in Kazakhstan, and underscores the importance of mobility. However, significant constraints to mobility are prevalent in Kazakhstan, evidenced by a significant regional wage variation. Equivalent workers (i.e., those working in the same sector and with the same level of education) earn 51 percent more than the national average in Mangystau and 9 percent less than the national average in North Kazakhstan; these wage differences far outstrip differences in the cost of living across regions (Figure 43).

In a frictionless market, such geographical wage premia should be negligible, as workers move to take advantage of opportunities to earn higher wages. At least to some degree, this is happening in Kazakhstan. Figure 44 arranges the regions according to their average net annual internal immigration (i.e. immigration minus emigration) over the last five years and compares this to: i) the region’s wage premium from Figure 43; and ii) the region’s self-employment rate (as a proxy for job

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\(^2\) 48 percent in Astana and 56 percent in Almaty.
Figure 43
Wage differentials and cost of living (relative to Akmola) by region


Note: The effects are drawn from the overall regression, in which sectors are controlled for with a set of indicator variables, not sector specific regressions. Thus, the specification imposes the same differentials for all sectors.

Figure 44
Internal net migration and self-employment by region

Source: ERI/McKinsey, World Bank (2015b), Statistical Committee of RK.
quality. The relationships are similar and strong—people are moving from regions with lower wages and high levels of self-employment to regions with higher wages and low levels of self-employment. There are no significant outliers, although Almaty region has higher levels of self-employment than might be expected, and Karaganda is a net emigration region, despite having decent average wages and low self-employment.

People are responding to the market, though not enough of them are doing so, and only some of them are fully exploiting the potential of migration. Household mobility is, on the whole, rather low in Kazakhstan. On average just 2.2 percent of households migrate internally each year, compared to 11 percent in the USA, 14 percent in Canada, and 2.6 percent in Russia. Moreover, evidence suggests that migration in response to regional differentials is prevalent for tertiary-educated workers, but not for workers with a secondary education or below. Tertiary-educated workers clearly move from regions where returns to their skills are lower to regions where they are higher; workers with a secondary education or below, however, are found disproportionately in regions where the returns to their skills are relatively low.

Thus, significant barriers to mobility exist especially for lower-skilled workers. Constraints may be cultural/social, but they may also be related to information (lack of awareness of opportunities elsewhere in the country); connectivity (lack of efficient transport and ICT connections); finance (lack of financing to bear the upfront costs and risks of relocation; constraints on liquidating fixed assets); or social services (requirements for registration, constraints to accessing housing, education, and health, etc.). All of these act as barriers, although evidence from surveys in Kazakhstan indicate the particular importance of housing (which is costly), access to finance, and social networks. Moreover, as distance is a major barrier to migration, transport connectivity is a major determinant of migration potential.

Finally, it is worth noting that the supply/demand/skills mismatch is not operating only at the inter-regional level but also within regions, with opportunities for quality jobs being concentrated in regional agglomerations, while many of the least skilled remain in rural areas. Similarly, migration is not simply an inter-regional story. In fact, research shows that the majority of migrants to metropolitan areas within Kazakhstan come from the surrounding oblast; this pattern is particularly prevalent for secondary cities (e.g. Karaganda and Pavlodar) but also holds for Almaty and Astana.

LOOKING AHEAD AND SUMMARIZING THE CHALLENGES

This analysis of Kazakhstan’s jobs situation is based on data from the past decade or more. The future may well be quite different. This section looks forward to see how changing demographics and potentially changing growth patterns may impact Kazakhstan’s potential to address these jobs challenges in the future. It concludes with a summary of the main jobs challenges, structured into short- and medium-term challenges.

Changing demography

For jobs and labor market dynamics, demographic trends heavily influence outcomes. Like most post-Soviet states, Kazakhstan experienced substantial declines in fertility rates in the 1990s and 2000s. However, with rising incomes, a brief ‘baby boom’ began in 2005, peaking in 2010 at 2.5 children per woman. After 2010, however, fertility began to decline and is anticipated to return to the levels of the early 2000s (2.0 children per woman). This pattern of bust, then boom, then return to more normal levels has created an unusual demographic profile (Figure 45) with implications for the size of the labor force in the short and medium terms, and thus on the number of jobs that Kazakhstan’s economy will need to create.

In the next few years, Kazakhstan will continue to experience relatively slow growth in the labor force. While the labor force grew by 1.5 percent annually in 2003–2010, for 2015–2020 it is projected to increase only by 0.5 percent annually, or by less than 60,000 persons per year. This implies that pressure on the labor market should be relatively limited, depending obviously on the rate of economic growth (see discussion below). However, in the medium term, the growth rate of the labor force will begin to accelerate as the ‘baby boom’ generation enters the labor market, leading to a significant peak around 2030. In the period 2025–2030, the labor force will grow by as many as 135,000 people each year, double the rate of a decade earlier (Figure 46). While this will deliver demographic dividends to the economy, it also means the job creation challenge from 2025 will be substantially greater than Kazakhstan has experienced recently.

29 Source: ERI / McKinsey.
30 Danzer et al. (2013).
31 This assumes that the labor force participation rate remains steady at the current 72 percent. Given how high this rate is in international comparison, it is not expected to increase.
Projecting jobs scenarios

As a complement to this demographic projection, Kazakhstan’s recent job creation trajectory has implications for labor market outcomes in the future, in particular looking forward to the demographic peak of 2030. Figure 47 illustrates scenarios for maintaining a steady-state outcome in the labor market over several different time periods. Under these simple scenarios, there are two factors which shape outcomes: overall economic growth and the employment elasticity to growth. Looking at the next decade (2015–2025), the results show that under current employment elasticity rates, annual growth of around 3.5 percent would be required to maintain a steady-state outcome (and more would be needed to reduce further the high rates of self-employment). However, if Kazakhstan were able to shift to higher elasticity rates, which would come most likely from diversification of the economy away from a reliance on capital intensive activities, steady-state labor market outcomes could be achieved with lower annual growth—e.g. 2 percent growth would be sufficient if the elasticity rate shifted from the current 0.23 to 0.45.
In the period 2023–2030, however, substantially higher growth will be needed to offset the significant growth expected in the labor market. The results here suggest that at least 5.7 percent growth would be needed under current employment elasticity rates. Given the low likelihood that Kazakhstan will be able to maintain annual growth of 5 percent or more, this highlights the critical importance of diversification to more labor intensive economic activities.

An alternative approach is to analyze the implications for job creation (relative to labor force growth) of different growth scenarios, assuming no changes in jobs elasticity (Figure 48). From this analysis, with growth of around 2.5 percent until the early 2020s, Kazakhstan can maintain the current labor market situation of high labor force participation and moderate unemployment. But as the ‘baby boomers’ enter the labor force in the mid-2020s, growth would need to average closer to 4.5 percent to avoid rising unemployment and unproductive self-employment. In a 2.5 percent growth scenario, the jobs deficit in 2020 would be just 15,000; but by 2030 this would multiply to over 600,000. Of course, the government can attempt to close the gap through job creation schemes, but that obviously comes at a cost—likely reaching over 2 percent of GDP by 2030 in the low growth scenarios—and becomes increasingly challenging as the gap widens.

Finally, returning to the more positive scenarios that show Kazakhstan continuing on the past job creation trajectory, Figure 49 and Figure 50 present robustness checks on the sectoral job distribution resulting from the projections. That analysis suggests a realistic sectoral distribution in 2020 and 2030. Under a baseline scenario where sectors continue to grow (relative to each other) at past rates, the agricultural sector would decline from 24 percent of jobs in 2013 to 21 percent by 2020 and to 17 percent by 2030. Meanwhile, construction would rise from 8 to 10 percent, and the services sector as a whole would grow from 59 percent to 64 percent. These appear generally to be in line with peers, with the agricultural sector in 2030 still slightly higher than the sector’s current share in most peer countries. The only real outlier for Kazakhstan is the manufacturing sector, which would remain significantly undersized relative to peers, perhaps not surprising in a resource rich country.

The data from Figure 49 can also be useful in getting a sense of the demand for labor across sectors and how this will change over time. Looking at the longer-term projection through 2030, this would imply a decline in the demand for agricultural labor of around 22,000 jobs per year (or more than 300,000 jobs between 2016 and 2030). By contrast, demand for labor in services sectors could be expected to grow by over 1.2 million between 2016 and 2030, with substantial demand coming in trade (around 200,000), public and social services (440,000) and especially in other services (close to 600,000), including professional, financial, ICT, and other types of services. Demand for labor in the construction sector would also be expected

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32 This assumes a rough cost per job of US$5,000.
Figure 49
Projected sectoral distribution of jobs in 2030 at baseline scenario

Source: Authors' calculations based on data from the Statistical Committee of RK and WDI.

Figure 50
Comparison of Kazakhstan 2020 and 2030 jobs structure scenarios against peer countries (2013)

Source: Authors' calculations based on data from the Statistical Committee of RK and WDI.
to grow significantly—up to 300,000 new jobs could be expected to be generated in the sector by 2030. By contrast, based on the current growth path, demand for labor in the manufacturing sector would grow by just a few thousand annually, or around 60,000 by 2030, while demand for mining sector labor would be even weaker (growing by under 50,000 by 2030).

Such a sectoral distribution of labor demand would also have implications for spatial outcomes, in the absence of any shift in the structure of the economy. Indeed, it would aggravate current trends toward regional inequality as regions with large agricultural economies and those heavily reliant on industry would be expected to experience employment loss at the expense of more services-oriented regions.

A two-stage challenge: Adjusting to lower growth and transitioning to quality jobs

Kazakhstan has had very significant success in job creation over more than a decade. At the same time, there are a number of weaknesses in the existing labor market as well as challenges for future job creation. In summary, the note has focused on two primary challenges:

1. **Transitioning away from low-quality self-employment:** While waged employment is growing strongly and outpacing the growth of self-employment, high levels of self-employment remain, including a large unproductive segment, particularly in agriculture. Moreover, evidence suggests that the strong productivity growth that drove wage expansion over the past decade has faltered significantly across most sectors since 2009. In the absence of stronger productivity growth, wages will ultimately need to adjust, which could threaten the continued transition of hundreds of thousands of Kazakhs into the middle class.

2. **Managing an increasingly unfavorable external environment:** Kazakhstan’s job creation success since 2000 initially occurred in a highly favorable external environment. However, that environment has changed substantially in recent years with the onset of the global financial crisis. Looking to the future, it appears unlikely that the environment will improve anytime soon, and this will impact Kazakhstan. First, in the near term, with depressed oil prices, growth will be dramatically lower. But even in the medium term, with the commodity supercycle likely exhausted, it is not expected that Kazakhstan will return to the levels of growth which fueled its jobs successes over the past decade. Second, Kazakhstan’s unique demographic dynamic will mean that within 10 years, the number of (net) new workers entering the labor force each year will double. While this should have positive implications for the economy, including a declining dependency ratio, it also means that Kazakhstan will need to create twice as many jobs to maintain its current labor market position, and that will be difficult to achieve in the current external environment.

In addition, two secondary challenges have been identified:

1. **Transition into and out of work:** While Kazakhstan’s youth employment problems are modest in global terms, youth do fare slightly less well in obtaining quality jobs in the early age cohorts, and informality is relatively high among this group. The effects of the current slowdown also appear to be affecting youth disproportionally. At the other end of the spectrum, self-employment jumps significantly in the oldest age cohorts, indicating a combination of weaker job prospects and an insufficient safety net.

2. **Low wages in the social and public sectors:** While public and social sector wages have been rising relatively robustly in recent years, average wages, especially in education and health, are far below the average for private sector workers, including the non-agricultural self-employed. This is despite the sector having a relatively high skills profile. This not only indicates problems with job quality in a key formal, waged sector, but also raises broader questions about efficacy and governance in public and social services, particularly outside the metropolitan areas.

The main causes of the primary challenges have been identified as:

1. **Narrow job creation, with an insufficiently diverse and dynamic SME base:** While the scale of job creation has been significant, it has also been very concentrated, sectorally and spatially, with limited quality jobs being created for lower skilled workers, especially in rural areas. SMEs are clearly not making a sufficient contribution to output and jobs.

2. **Gaps in education quality and skills relevance:** The Kazakh workforce has a large and growing share of tertiary educated people, but the quality of that education and especially its relevance constrains their ability to translate this education into productive employment. And for those workers that have not attained higher education, quality jobs are increasingly difficult to come by.
3. **Spatial mismatch and mobility constraints:** Finding productive employment for lower skilled workers in non-metropolitan areas is Kazakhstan's central jobs challenge. Quality jobs are not being created where these workers live, and they lack the assets (skills, financial and social capital) and face other barriers to pursuing opportunities that exist elsewhere in the country.

In this context, Kazakhstan’s jobs challenge can be segmented into two distinct timeframes:

- **Short-term (‘adjusting to the new normal from 2015’):** The short-term challenge will be mainly about adjusting to substantially lower growth and ensuring that progress continues in transitioning workers into more productive employment.

- **Medium term (‘transitioning toward 2025’):** The medium-term challenge is ‘transitioning toward 2025’, when Kazakhstan’s ‘baby boomers’ begin to enter the labor market. This demographic is entering primary school now, and so, while the outcome is a medium-term one, the work needed to address this challenge must begin now, as significant structural reform will be required. It will involve fundamental reforms to ensure an environment that promotes private sector investment, builds relevant skills through basic education and on-the-job training, protects workers through appropriate labor regulation, and supports labor mobility. It will also require targeted interventions to support job creation at regional and sectoral levels.

These themes will be explored in the next section.
3. ADDRESSING THE CHALLENGES: INTRODUCING A STRATEGIC FRAMEWORK FOR JOBS IN KAZAKHSTAN

This section presents an organizing framework for addressing Kazakhstan’s jobs challenges in the short and medium term, based on the analysis of challenges presented in Section 2 of this report. Note that this section is not intended to provide a detailed strategy, but rather to organize the issue areas to address Kazakhstan’s jobs challenges. As such, it is intended to spur discussion about how to address each of these issue areas and to emphasize the importance of doing so in a comprehensive, coordinated manner.

STRATEGIC FRAMEWORK FOR JOBS—AN INTRODUCTION

The current approach in Kazakhstan

The Government of Kazakhstan has many strategies and initiatives to address the various components of the jobs challenge. The overarching strategy is Kazakhstan 2050, which targets Kazakhstan being among the top 30 most developed countries in the world by 2050. In reaching that ultimate goal, it sets out very ambitious targets with respect to diversification and structural change in the economy, development of human capital, and strengthening of national agglomerations. The targets for the economy are: i) 70 percent of exports comes from non-oil sources, ii) 70 percent of GDP comes from the services sectors, and iii) SMEs account for 50 percent of GDP. The strategy aims for a highly competitive business environment, ranked in the top 30 in the WEF Global Competitiveness Index and the top 20 in the World Bank Doing Business. In terms of human capital, the strategy targets being among the top 30 countries in PISA scores. It also aims for Astana and Almaty to become global world class cities with populations of 6 to 7 million.

In the shorter term, the Government has put in place a number of strategies to support diversification of the economy and to promote job creation in vulnerable areas. Among others, the key policies and programs are the State Program for Industrial-Innovation Development 2015–2019 (SPAIID) produced by the Ministry of Investment and Development, the Business Roadmap 2020 (Ministry of National Economy), the Employment Roadmap 2020 (Ministry of Health and Social Development), Single Industry Towns Development Program (Ministry of National Economy), and Agribusiness 2020 (Ministry of Agriculture).

It is clear that the programs targeted at diversification focus primarily on the business environment (mostly access to finance) and firm-level productivity support. Meanwhile, programs targeted at supporting job creation among vulnerable populations focus on information and mobility support, along with substantial programs of technical training. Many of the programs offer interventions that cut across various domains, including support for private sector development, as well as skills training and mobility support.

However, the link between the diversification and jobs agendas could be significantly reinforced. No comprehensive strategy exists to focus on the central role of productive employment in a diversified development strategy. There is no framework through which the government applies a ‘jobs lens’ to the many economic and social development strategies being pursued and the large infrastructure projects being implemented. And within many of these programs, the components that attack different parts of the jobs challenge are disconnected.
A proposed strategic framework for jobs

In the context of this existing approach and the challenges outlined in Section 2, Figure 51 illustrates a potential framework for a comprehensive jobs strategy for Kazakhstan. It is organized around the two stages introduced in the previous section:

1. **Short-term (from 2015) period**, where the focus is on adjusting to the ‘new normal’ lower growth. Here the priorities are getting the macro-fiscal priorities right in order to control volatility in the economy and to ensure the fiscal space is available to invest in stimulus programs and protect vulnerable workers; and

2. **Medium-term (up through 2025) period**, where the focus is on achieving the structural transition to higher quality jobs, and positioning the economy to absorb and deploy productively the larger number of new labor market entrants coming in a decade.

The framework is structured around three pillars:

1. **The fundamentals (Job Creation):** Sustainable job creation relies upon growth of a competitive private sector. Accordingly, this pillar focuses on the reforms needed to ensure an effective enabling environment at the macro and micro (business environment) level that will enable firms to invest, expand, and hire workers. It also requires foundational education and skills for a competitive workforce.

2. **Support for mobility (Access and Inclusion):** This pillar focuses on ensuring workers have the education and skills to move into higher productivity employment and a system that supports labor market adjustment through effective public employment services, adequate safety nets and social insurance, and other measures to promote mobility across geographies and sectors.
3. **Targeting structural challenges and market failures (Quality):** This pillar focuses on strengthening firms and regional economies outside the metropolitan areas through development of key infrastructure and secondary cities, strengthening existing clusters and connecting firms into established national and global value chains, and optimizing public infrastructure investment.

**Within each of these pillars are a number of broad areas for action.** Some are more relevant in addressing the short-term challenge, while others are focused on addressing the medium-term challenge. In most cases, they are critical for both. This note puts emphasis on the second and third pillars as particularly critical when looking at Kazakhstan’s challenges from a jobs perspective—beyond the foundational actions that are in any case required to support competitiveness, growth, and diversification of the national economy.

The remainder of this section discusses each of the pillars, including a review of each of the broad action areas with an emphasis on the second and third pillars.

**THE FUNDAMENTALS**

As a crucial pre-requisite for Kazakhstan to sustain the gains of the past decade, it will need to maintain macro-economic stability and prudent management of resource earnings. But it must also develop a more diversified and competitive private sector capable of delivering sustainable, quality jobs. While this is fundamentally a medium-term, structural process, the recent commodity price shock has also raised the short-term importance of private sector development. This will require a concerted effort that recognizes the mutually reinforcing links between diversification and jobs, and addresses the wide range of policies which support the private sector to invest in starting and expanding firms, developing skills, and innovating. It also requires interventions to ensure the foundations of a competitive workforce.

**Macro fundamentals**

**Why it matters for jobs**

As a resource-rich country (with reliance on oil and gas), Kazakhstan inevitably has to contend with the effects of commodity price volatility and Dutch disease, which affect the scale and focus of investment in diversified private sector activities. Volatility in oil revenues, if not managed effectively, can result in volatility in real exchange rates. These can have spillover effects on the tradables sector, reducing the predictability and stability of profits, and therefore lowering the incentives for firms to invest in growth. Dutch disease effects also contribute to a bias against investment in tradable sectors, narrowing the base of economic activity and jobs. Finally, substantial oil revenues flowing into the domestic banking sector can fuel credit expansion, which has the potential to increase investment and job creation in the short term. However, these flows may exacerbate Dutch disease effects and, unless managed well, can contribute to boom-bust scenarios with negative consequences for stable jobs growth.

**Current situation and government response**

Kazakhstan has put in place clear fiscal rules to manage oil revenues and avoid volatility. It has shown effective fiscal management over the past decade, with public spending stable and the non-oil deficit averaging about 3 percent of GDP. However, since the global financial crisis and the more recent oil price collapse, macro-fiscal pressures are beginning to mount. The non-oil deficit has widened considerably to more than 10 percent of GDP, and the National Fund has been used as a source of countercyclical funding, rather than being sequestered as a source for long-term investment. While this has helped smooth the macro situation, there has still been some volatility. GDP growth decelerated sharply in 2015 to 0.9 percent, and is projected to be just 1.1 percent in 2016. Active interventions by the National Bank have contributed to a 58 percent devaluation of the Tenge\(^3\) between January 2014 and January 2016. While this helped improve the competitiveness of exports, it also increases the cost of imports, contributing to rising inflation and tightened lending conditions, all of which dampen domestic demand and, therefore, growth of the non-oil economy. Going forward, maintaining the real exchange rate advantage that followed from the recent devaluation will be important to support diversification and the competitiveness of the non-extractive private sector.

Finally, the continued effects of the large non-performing loans that resulted from the financial crisis remain a serious barrier to private sector investment and, therefore, jobs growth. Non-performing loans, which stood at just 10 percent before the crisis, reached 37 percent by the end of 2012. While this does not pose major systemic risks, it has contributed to a

\(^3\) Relative to the US$. 

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much higher level of risk aversion in the financial sector, resulting in significantly less lending to the SME sector. While SMEs accounted for 22 percent of bank lending in 2009, this dropped to just 14 percent by 2012.

**Business environment and governance**

**Why it matters for jobs**

At the meso level, a competitive environment for firms to establish themselves and grow is critical to delivering sustainable private sector jobs. It is particularly important in facilitating the transition from self-employment and informality into formal enterprises, and the growth of micro and small enterprises. Where the regulatory environment is onerous, firms will have a disincentive to register (e.g., where there are high costs or bureaucracy to register a business, or where registration puts the firm in a position where they will face burdensome taxes and regulation, inspections, and corruption) and to expand (e.g., where accessing finance and land or obtaining construction permits is costly and burdensome). And of course the labor regime can present a significant barrier to employment or can skew job creation toward temporary workers.

Two main economic governance issues may have a significant impact on private sector job creation. These are: i) corruption and clientelism; and ii) planning and implementation of industrial support programs. Corruption and clientelism impact the growth of the private sector through transaction costs on firms and, more importantly, effects on allocative efficiency in the economy, i.e. through credit, contracts, and other favors being captured not necessarily by the most productive firms but by the most connected ones. It can have an enormous impact on smaller firms and acts as a significant barrier to investment and growth. The effects of governance on economic policy are much less nefarious, but can be equally distorting when they result in the shift of capital and other resources to less productive sectors and firms. They can also restrict employment creation directly, if they subsidize overcapitalization.

Overall, evidence shows that higher employment growth is correlated with better corruption control, better regulation, more government effectiveness, and greater voice and accountability. Better competition policy and improved governance lead to higher employment creation among late modernizers. Moreover, the evidence shows that targeted measures to address labor market rigidities and other labor market inefficiencies are more effective after these ‘first generation’ reforms have taken place.

**Current situation and government response**

Kazakhstan has a solid *de facto* regulatory environment to support firm establishment and expansion. However, the *de jure* situation is often less conducive to private sector development, and infrastructure and wider structural issues remain significant constraints. Figure 52 presents results from the World Bank’s Enterprise Surveys on the main business environment constraints facing firms in the manufacturing and services sectors. First, corruption is viewed as the single biggest problem for firms and the one area where Kazakhstan stands out as having a much worse business environment than peers in the ECA region and OECD. This finding is supported by other indices such as Transparency International’s Corruption Perception Index, which ranks Kazakhstan 126th out of 175 countries. Interestingly, the survey results also show significant regional variation within Kazakhstan, with corruption cited as a major issue in the South (more than 40 percent of firms identified it as the major constraint) and significant in the West, the two parts of the country delivering the most private sector expansion and jobs growth. The Government recognizes the challenge and has put in place programs and targets to improve the situation. It is worth noting that efforts to improve the general business environment, such as the moratorium on inspections of SMEs introduced in 2014–15, can have a significant knock-on effect of reducing corruption.

Outside of corruption, however, Kazakhstan compares well on many of the standard measures of the business regulatory environment, e.g., taxation, access to land, and licensing. One exception is access to electricity, which appears to be a significant problem in the East, North, and Central, although not in the more developed South and West. This suggests that regional public infrastructure may be an important factor shaping private sector development.

The regulatory environment for labor is cited as the least problematic among all the 15 issues covered in the survey—just 0.5 percent of firms in Kazakhstan identified it as a significant obstacle. By contrast, labor skills (see the Foundational education and the Technical skills sections on pages 48 and 49) was cited as the third biggest obstacle.

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34 World Bank (2014a).

35 Note that, in the Doing Business indicators, Kazakhstan also compares relatively favorably in most measures, although it ranks very poorly (154th of 189 countries) in ‘dealing with construction permits’ and 185th in ‘trading across borders’, although the latter is primarily impacted by structural (geographical) factors.
Concerns over informal sector practices is cited as the second biggest constraint facing firms. This relates to a wider issue of constraints to effective competition in the domestic market, which may serve as a significant barrier to the growth of formal firms (see Box 4). It often appears that formal small and medium-sized firms are squeezed between the large share of self-employed and informally operating enterprises at one end of the spectrum and the protected and subsidized state-owned firms at the other. Indeed, the majority of medium and large firms operating in Kazakhstan are state owned (Figure 53): in a number of regions the share of state-owned medium and large firms exceeds 70 percent, most likely occupying space that could support a competitive and job-creating private sector.
Access to finance is also a significant barrier to firms in Kazakhstan, although the situation does not appear to be substantially different from that of peer groups. The finance problem mainly affects the self-employed and SMEs. As noted previously, SMEs have suffered from banks’ credit rationing after the financial crisis, and now receive only around one-eighth of total loans extended to the private sector, despite having 90 percent of all registered firms. Lack of cash flow based financing, credit history, and high collateral requirements (on average 200 percent) constrain SME access to funding for working capital and expansion. This is exacerbated by insufficient managerial and business planning skills. As a result, 92 percent of entrepreneurs report mobilizing mainly personal and enterprise funds for investment, with the smallest companies relying most often on personal funds and larger firms most commonly accessing bank loans.36

Finally, in terms of governance of industrial policy, Kazakhstan has an extensive program of industrial support that channels large amounts of subsidies to firms, in the form of credit, inputs, and other supports. This support operates under the overall framework of the State Program for Accelerated Industrial-Innovative Development, 2010–2014 (SPAIID). Firms, of course, support such programs, but evidence suggests they create an administrative burden and an unlevel playing field, as not all firms are equally informed or have equal access to such subsidies. It also gives firms an incentive to focus on accessing subsidies rather than seeking growth through the market. Some enterprises have staff fully dedicated to being knowledgeable about, and applying for, government support. In the agricultural sector, expenditure from government to support essential public services and infrastructure is dwarfed by spending on production distorting and trade distorting support measures, with the latter representing 81 percent of spending by 2020. This focus on subsidies contributes to rent seeking and biases the distribution of benefits towards larger, commercial firms and farms.

36 ADB (2014).
SME growth and productivity

Why it matters for jobs
SMEs account for well over 95 percent of all businesses in the world, and up to 70 percent of all jobs. They also account for a disproportionately large share of new jobs. As such, they are critical as sources of dynamism for the economy—the existence of a healthy and innovative SME sector determines the sustainability of growth and job creation over the long term. While SMEs on the whole tend to be less productive than larger firms (that generate scale economies and tend to have higher levels of capital investment), productivity growth in the SME sector, most importantly the allocative effects of firm entry and exit, is vital to aggregate national productivity growth. Productivity also matters because it is fundamental to delivering higher wages, a key aspect of quality jobs. Productivity growth in SMEs is of particular importance to address the challenge of high levels of self-employment in Kazakhstan. Without growth in productivity on farmsteads and among the non-agricultural self-employed, wages will not rise sustainably at a rate sufficient to pull the self-employed out of poverty and vulnerability. Thus, the challenges of productivity growth and SME expansion are closely linked.

Current situation and government response
As discussed earlier in the note, the share of jobs generated in Kazakhstan’s SME sector is far below that in peer countries. Yet Kazakhstan has more than 300,000 of them, and the fastest growth of newly registered firms over the past decade comes from small, private sector firms (Figure 54). However, only around one-third of registered SMEs are active, suggesting that the death rate of SMEs is very high or that firms are being established for purposes other than operating a business (e.g. as tax vehicles or financing instruments). Other evidence from entrepreneurship studies37 indicates that Kazakhstan has a large number of ‘latent entrepreneurs’, but that the rate of business start-ups remains relatively low, and few firms transition from being small to medium-sized, and from medium-sized to large.

Kazakhstan’s SME sector is held back in large part by all the structural factors discussed in Box 1, including geography, scale, and the resource nature of the economy. However, with oil prices expected to remain low in the medium term, maintaining a lower real exchange rate should allow for a much more competitive macro environment for the emergence of a more dynamic and diversified SME sector. Taking advantage of this will require overcoming a host of other barriers holding back SMEs. These include informality, corruption and clientelism, red tape, lack of access to finance, and lack of professional and managerial skills.38 It also includes the nature of competition in Kazakhstan. Few of the firms that are in the medium and large categories have grown into that position from a starting point as small, private companies—instead most are or were state-owned. Indeed, the dominant presence of state-ownership among large firms across most sectors may well be one of the main barriers to the growth of the SME sector, and of the private sector more broadly.

Figure 54
Average annual growth in registered firms by firm size and type (2005–13)

Source: Authors’ calculations based on data from Statistical Committee of RK.

Figure 55
Annual sales, employment, and productivity growth by firm size (2013)


38 Source: ADB (2014).
As with private sector development more broadly, the government has long emphasized development of SMEs to support diversification of the economy. It puts significant resources into SME support, notably through the Business Roadmap 2020 (implemented through the DAMU Entrepreneurship Development Fund), which includes subsidized loans as well as technical support (e.g. business advisory, technical and management training, incubators, etc.). Despite significant resources devoted to the program, DAMU estimates that support from DAMU reached just 4.6 percent of active SMEs in the country in 2014. But there are also a large number of other programs supporting SMEs operating across many different agencies and institutions. In fact, given the significant resources devoted to SMEs, fragmentation in support and poor coordination across agencies may be a factor contributing to less effective outcomes.

Trade and integration

Why it matters for jobs
As Kazakhstan seeks to diversify its economic base as a mechanism for sustainable growth and job creation, it will be critical to develop external trade opportunities. Kazakhstan has a relatively small domestic market, so for firms to expand to a competitive scale and deliver substantial jobs and profits, they will need to serve wider markets. Further, trade offers firms access to technology and knowledge that drive productivity gains.

Finally, exports contribute significantly to job creation in Kazakhstan. As shown in Figure 56 and Figure 57, the overall labor content (and jobs) impact of exports is three times greater than the direct value of exports, when taking into account the other parts of domestic value chains that contribute to exports. Most of these jobs come through services, such as trade and transport.

Figure 56
Labor value added in exports by sector, including backward links (current US$)

Source: World Bank, LACEx database.

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40 Based on Cali et al. (2016) which uses input-output data from GTAP and UNIDO to measure the contribution of labor to the value added contained in a given country's domestic production and exports, as well as the number of jobs generated by exports, by sector/country/year and by skilled/unskilled workers. The data covers 24 sectors (6 services sectors, 3 primary sectors, and 15 manufacturing sectors) in about 100 countries over intermittent years between 1995 and 2011.
Current situation and government response

Kazakhstan’s export basket remains highly concentrated in oil, gas, and minerals. It is also relatively concentrated in terms of the markets to which it sells. Structural trends suggest that in the last decade Kazakhstan has gone through a steady, if relatively slow, process of specialization away from labor-intensive products toward natural resources- and capital-intensive products. The increasing product concentration does not appear to reflect a lack of experimentation by exporters. While the variety of products exported narrowed considerably, there have been several big successes in establishing specific exports, in particular in metals, chemicals, and food products. A significant share of exports came from new products or from those that grew from a very small base. However, experimentation seems to be dimmed by very low export survival rates, suggesting that market access or supply side factors may be impeding diversification and competitiveness.

Kazakhstan’s trade opportunities are being shaped by major trade policy moves, including the 2010 implementation of the Eurasian Customs Union (with Russia and Belarus) and the impending WTO Accession. Both have the potential to open up regional and global markets to support Kazakhstan’s export diversification. For the Customs Union, full realization of these benefits will require concerted efforts to reduce non-tariff barriers, improve trade facilitation, and reduce the costs of trading across borders in the region. For the WTO Accession, most of the gains are likely to come through improved competitiveness resulting from foreign investors’ access to the domestic services sector.

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41 For example between 2000 and 2008, almost 14 percent of export products and 6 percent of export value came from products that were not in the export basket prior to 2000; this is a high share relative to peer countries.
Foundational education and skills development

Why it matters for jobs
The creation of quality jobs depends critically on the levels and relevance of skills in the workforce. As discussed throughout this note, while Kazakhstan’s workforce has relatively high educational attainment, a significant share of the workforce remains low skilled. Moreover, while large numbers of graduates enter the labor force each year, the quality and relevance of their skills mix appears inadequate for the market. This set of activities focuses on the need to develop the overall human capital base as well as to improve the relevance of education and training to better match the needs of employers. It follows a structure that reflects the lifecycle approach to skills development (Figure 58).

Figure 58
The skills development lifecycle


Success in higher education is linked to the quality of the education system from pre-primary through secondary level. National qualifications systems aligned with labor market demands and linked back through each stage of the education system could ensure the quality and relevance of the skills being produced and contribute to better labor market outcomes. But while the education system should be aligned with employers’ needs, the nature of technology and global markets means these needs can change quickly. Thus, in addition to ensuring that workers enter the labor force with sufficient foundational skills, an emphasis on transferrable technical and life/socio-emotional skills development will ensure that the workforce can respond to difficult-to-anticipate labor market demands. Global evidence suggests that a range of socio-emotional skills are especially important to employers across countries: work ethic, interpersonal skills, honesty, teamwork, work attitude, integrity, life skills (negotiation, cultural diversity), punctuality, and responsibility.

As Kazakhstan’s ‘baby boom’ generation enters the educational system, now is a critical time to put in place these foundational skills that are essential for labor market success.

Current situation and government response
Kazakhstan spends close to 4.1 percent of its GDP on education, but with mixed results. The Labor demand section on page 23 highlighted some of the shortfalls in outcomes in the current education system, including issues of quality, equity, and relevance to the labor market. It also showed clearly that educational outcomes are strongly correlated with labor market outcomes, in terms of both employment and wages. Government is well aware of these challenges. A State Program for Education Development (2011–2020) was initiated in 2010. The Program has a strong focus on human capital development and improving access and equity in education at all levels. The specific objectives of the program are to: achieve universal pre-school education by 2020; and complete the transition to a 12-year model along with the introduction of the per capita financing scheme and Board of Trustees at the secondary level. In post-secondary education, the priorities are to: improve alignment of the three-level degree program of higher education with the Bologna principles; provide more autonomy to
the higher education institutions; and modernize vocational and technical education to increase workforce productivity and competitiveness.

Government has also been working for a decade on the development of a National System for Education Quality Assessment that includes institutional assessment across all levels, independent external assessment, and teacher performance assessment, as well as public dissemination of education information for transparency and accountability.

Finally, government has been considering various reforms to the financing of education (which is a local government responsibility). This includes a plan to pilot a per-capita funding model. Addressing these funding gaps and the broader gaps in quality and outcomes across regions (especially urban versus rural) will be one critical component in addressing the structural (spatial) dimension of the jobs challenge in Kazakhstan.

**SUPPORT FOR MOBILITY**

Successful implementation of the first pillar of the strategic framework would deliver continued, robust job creation in diverse activities where Kazakhstan-based firms can exploit comparative advantage and drive continuous productivity growth. But to maximize the potential opportunity this would present, Kazakhstan’s workers must have high quality, relevant skills and the flexibility to adjust to changing labor market conditions over time, including through mobility across geography and sectors. This second pillar of the strategy focuses on building a capable, adaptable, and resilient workforce; it covers three issues: i) Technical skills and on-the-job training to ensure jobs-relevant skills; ii) Information and intermediation through employment services to help link workers to jobs and promote labor mobility; and iii) Safety nets and social insurance to facilitate labor market adjustment.

**Technical skills and on-the-job training**

*Why it matters for jobs*

Kazakhstan needs effective pathways to move youth into jobs and to transition the self-employed into wage employment. These pathways involve honing and upgrading jobs-specific skills as well as facilitating individuals’ integration into the working environment, through pre-employment technical and vocational education (TVE) and in-service training. These vocational training, pre-employment and national qualifications systems programs need to be aligned with labor market needs so that TVE graduates (and other workers) have higher quality and more relevant skills that are articulated to current local market needs. Such improved training systems should reduce the identified skills gap and improve worker productivity, ultimately leading to higher wages or returns to self-employment.

Once in employment, training for workers is critical to support enterprise-level productivity as well as raise and maintain the relevance of individual workers’ skills. Both of these should contribute to higher wages through productivity improvement, while also supporting aggregate growth and, ultimately, job creation.

*Current situation and government response*

As discussed earlier in this note, employers in Kazakhstan perceive significantly higher constraints in terms of workforce skills than most peers. Specifically, there is a perception that the skills being taught at universities and TVEs are poorly aligned with the needs of employers. Despite this, just 28 percent of firms offer formal training to their workers (Figure 59) and only 3.4 percent of workers undertook training, retraining, or upgrading courses in 2013. 42 This level of training compares poorly to regional and global peers across the firm size domain—while small firms are least likely to offer training (20 percent), it is medium (around 30 percent) and large firms (60 percent) that trail most behind peers. Moreover, training appears to be highly biased toward higher-skilled workers.

The problem of relevance results from a predominately supply-driven orientation to skills development, weak linkages between education institutions and the labor market, and obsolete education standards and curriculum that are not based on occupational and functional analysis. The lack of a functioning and independent qualifications system exacerbates the challenge of reducing inefficiencies caused by the provision of unnecessary or irrelevant education and training.

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Kazakhstan has a network of technical and vocational education establishments designed to enhance the jobs-ready skills of workers in Kazakhstan. That TVE system includes public and private vocational schools and colleges, including institutions nationwide. The private sector plays a significant role in that system: the majority of technical colleges are privately operated and there is significant private financing of student fees in public institutions. Together, these TVE establishments graduate 185,000 (2012/13) students per year. However, as with other elements of the education system in Kazakhstan, the quality of these institutions is highly variable. Overall, resources available to these institutions are insufficient, teachers are often inadequately trained, and there are only weak mechanisms to assess the qualifications of TVE graduates.

Recognizing these weaknesses and seeking to strengthen the skills base of its TVE graduates, Kazakhstan has sought to establish a national qualifications framework that engages employers and industry associations to establish occupational standards against which the quality of TVE graduates can be judged. Further, to improve the linkage of potential employers to skills training in the labor market, in September 2013, the National Chamber of Entrepreneurs of the Republic of Kazakhstan (NCE) was established with an explicit objective to promote human capital and skills of the workforce. It is leading the development of several regional industry-based clusters consisting of an industry/sector association, firms, industry certification centers, and public/private training providers. The goal of such clusters is to promote the training, retraining and qualifications upgrading of industry employees and to develop a new pipeline of qualified workers. While promising, at the moment these are very nascent initiatives.

**Policy options**

In this context, the following options may be considered in Kazakhstan:

- **Diversifying the network of training providers by leveling the playing field:** To improve competition in the market for training provision, it is important to level the playing field for private companies by ensuring that laws and institutions favor the presence of both public and private providers of training. This could foster competition and innovation in training programs, which is currently lacking. While there are private TVE institutions and private short-term provid-

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44 Sanchez Puerta et al. (2015).
ers operating in Kazakhstan, not much is known about the extent and quality of private workforce training providers. However, many employers comment on the lack of availability of domestic good quality training and often have to send their staff to train abroad (mostly to Russia). Reviewing the regulatory framework concerning workforce training provision and addressing any regulatory bottlenecks for expanding or improving the provision of relevant training could help establish a more contestable market for training provision, thus increasing quality over the long term.

- **Introducing contracting and payment systems that reimburse providers based on results:** Existing models of training provision typically pay providers based on inputs or outputs (such as the number of people trained) rather than on their performance or outcomes (such as the number of people who got jobs after training). Many OECD countries, however, use pay for performance approaches to achieve better results in a diverse array of services (healthcare, social work, employment services—see Box 5). Increasingly, performance- or results-based contracts are being used for training provision, even in low-income countries.45 While the design of performance- or results-based contracts varies greatly, usually a portion of pay

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**BOX 5: PERFORMANCE-BASED APPROACH TO EMPLOYMENT SERVICES IN THE UNITED KINGDOM**

In an effort to improve outcomes of job placement programs, the United Kingdom adopted a performance-based approach to employment services contracting. That means that the government focuses more on the final outcomes—job placement, quality, and sustainability—than on how the providers achieve these results. This approach is more flexible and allows innovation and experimentation, but it also requires the careful design of incentives for providers. In the United Kingdom, for example, payments are higher for more difficult-to-place workers. Moreover, the payment structure incentivizes not only job placement but also job sustainability. The government pays a small fee when a service provider starts working with an unemployed worker, but it pays for a job placement only after six months on the job. Payments for sustained job placements continue for up to two years.

**Figure 60**

United Kingdom payment scheme for employment service providers

![United Kingdom payment scheme for employment service providers](image)


Note: £ = pounds sterling.

*Source:* Based on Marra et al. 2015.

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45 World Bank (2014c).
is withheld until a training provider can demonstrate that the student who has completed the training is in gainful employment 3 or 6 months after the training. Special incentives usually are introduced to encourage the providers to work with the “hard-to-serve” (those with potential additional difficulties in finding and maintaining a job).

- **Considering short-term subsidies or matching grants to firms to invest in on-the-job training (OJT):** Given the need to improve the skills of the workforce and thus productivity and earnings, OJT has a crucial role to play considering that a substantial part of one’s human capital is accumulated through post-school investments. However, it has been shown that, despite significant potential returns to OJT to both firms and workers, firms in most countries, including Kazakhstan, are under-investing in training their workers. To address under-provision of OJT, many countries provide short-term subsidies or matching grants to firms to incentivize them to invest in training of their employees (see Box 6). Such grants could be targeted to firms with growth potential, such as young innovative start-ups, rather than focusing only on firm size. Firms usually have higher incentives to provide their workers with training for job and firm specific skills, while generic skills training, such as communication and presentation skills or problem-solving, are less likely to be provided by firms, as there is a higher risk of trained workers leaving the firm and applying these newly acquired generic skills in other firms. Therefore, specific subsidies to generic skills could be designed in order to reduce the risk taken by firms in investing in this kind of training.

- **Diversifying sources of financing by opening individual savings accounts for training:** Since the government financing for training is ultimately limited, introducing ways to encourage individuals to save to finance their training is another policy option to consider. Traditional government-financed Individual Training Accounts (ITAs) have been used in the United States, for instance, to provide job seekers with vouchers they can use to get training by eligible training providers. ITAs give individuals the freedom to choose the training providers that match their requirements. In the future, ITAs could benefit from more cost-sharing between the government and individuals, by incentivizing individuals to pay for a part of their training. This means they would become more selective about the type of training they undertook and training providers they used. This could be modelled after Individual Development Accounts (IDAs). These are matched funding accounts for low-income households that provide an opportunity to save for post-secondary education or training. In Canada, the Canada Job Grant (CJG) program was introduced by the Government of Canada in 2014 to make public training expenditures more demand-driven and help address skills shortages. The CJG program enables employers to make decisions about who gets training and what type of training, ensuring that training is better aligned with job opportunities and thereby helping employers fill vacant positions or prevent job losses. Under the CJG program, businesses can apply to cover up to 66 percent of third-party training costs to advance the skill-set and employability of their workforce. There is a maximum of $10,000 per trainee in grant funding to cover expenses, such as tuition, textbooks and student fees, but no overall cap on the number of trainees that can receive CJG grants. Trainees involved in a CJG-funded training initiative should receive a wage increase, a new job title, an avoidance of job loss, or be a newly hired employee. The cost-sharing aspect is intended to bring the amount of employer-provided training closer to the socially optimal level.

This program is open to incorporated Canadian businesses of all sizes, but the CJG program was designed to provide additional flexibility to meet the needs of small employers. For instance, small businesses can benefit from flexible arrangements, such as the potential to count wages as part of the employer contribution.

**Source:** OECD (2014).
savings accounts for low-income people, which can be used to purchase a home, start a small business, or pursue further education or job training (Sanchez Puerta et al. 2015).

Information and intermediation

Why it matters for jobs
Jobs represent a handshake between employers who are looking to find workers with specific skills to produce outputs, and workers that have those skills and are willing to work on the terms that employers offer. But matching labor supply and labor demand requires that firms are able to make potential employees aware of these job offers and, conversely, that potential employees are able to make their skills and availability known to potential employers. For labor markets to work, information about job opportunities, wages, and necessary skills need to be made available. Further, there need to be mechanisms to facilitate workers’ transitions from school, out of the labor force, unemployment, or from unproductive to higher productive work. Information and intermediation systems help provide those mechanisms.

However, as noted above, in Kazakhstan, there are significant regional wage variations, employers that find it difficult to find appropriate workers, and unproductively self-employed workers interested in improving their work conditions. While this note has laid out possible explanations for several of these gaps, one additional element is the possibility that information and intermediation processes can be improved in Kazakhstan to produce better matching.

Current situation and government response
The Public Employment Service (PES) in Kazakhstan consists of two bodies: Employment Units and Employment Centers. Employment Units (EUs) are part of the regional and local administration structure. Employment Centers (ECs) were established in 2011 to implement the Employment Program 2020 and Employment Roadmap (ERM) 2020 at the regional and local levels. Only a small percentage of unemployed people in Kazakhstan are served by either ECs or EUs. Through March 2015, of the 455,000 unemployed people identified in the Labor Force Survey, only 56,100 (12 percent) were registered at ECs, suggesting that the ECs did not provide services that were viewed as valuable. The number of registered vacancies was as low as 11,200, signifying that potential employers do not find that ECs provide a valuable service to help them fill their vacancies. Perhaps most importantly, until recently self-employed workers received only limited support under the ERM 2020. This significantly limits the effectiveness of PES in supporting those most in need of employment services and is likely a significant constraint to the mobility of workers into formal employment.

The institutional capacity of the PES is weak. There are 209 ECs in Kazakhstan, with almost 2,000 staff; a similar number of EUs are distributed across the country. However, most of the functions of the EUs, including registering the unemployed, have been transferred to the ECs with the new Employment Law, which became effective in April 2016. Labor market intermediation consumes a large portion of PES staff time as they match job seekers with available vacancies. Employment services are provided by low capacity staff with a labor market information system (LMIS) that is not exploited to the fullest. Assessments of that LMIS system suggest that it includes good information on job seekers, but there is little incentive for firms to use that system to identify potential employees. Further, an effective LMIS system would provide information both about the skills that potential employers are seeking, a function hindered by the lack of employers’ use of the LMIS, and information about training providers that offer high quality skills training.

Policy options
In this context, the following options may be considered in Kazakhstan:

• Improving the labor market information system and making information available to jobseekers, students, and employers. Currently, there is limited information on labor market trends and outcomes available to different actors in the labor market: jobseekers, employers, students, training institutions, and finally, policymakers. This inhibits decision making about career choices, labor market intermediation and policymaking. Expanding the public information system to report regularly on labor market conditions for different occupations across sectors and regions as well as on school to work transitions, including wages for different diplomas (in order to inform students on the potential employment implications of different academic choices), would help address some of this lack of information (see Box 7). This would include such measures as: i) improving the LMIS at the rayon and city levels to include information about the economy
and the labor market; ii) strengthening labor market analysis capacity; and iii) developing a regular platform including employers, sectoral organizations, trade unions, NGOs, and training institutions to discuss on a regular basis the challenges for the local labor market. Finally, the information that is available on the outcomes of different active labor market programs and education and training programs needs to be made regularly available to the general public.

- **Diversifying the network of providers of employment services (intermediation, counseling) using result based contracts**: Similar to training provision, introducing performance- or results-based contracts and attracting private sector providers can help improve outcomes of jobseekers. This is especially so if providers are allowed room to innovate (using the principle of a “black box” approach implemented in Australia and the United Kingdom, where the government pays for certain outcomes without prescribing what assistance the jobseeker should receive) while providing sufficient oversight and incentives to assist the hard-to-serve.

- **Developing capacities for labor market policy evaluation**: Finally, in order to have a better evidence base on outcomes of various interventions and inform design, structure and volume of active labor market programs, it is recommended that evaluation capacities be developed within government institutions. For instance, on the basis of pension contribution data, an analysis of the long-term impact of the Employment Roadmap 2020 on employment in the formal economy can be made.

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50 Duell and Imanbekova (2015).
Using existing data (pension contribution data) to make evaluations about the effectiveness of the different programs is one approach. Specialized evaluations including tracer studies can also be conducted periodically to assess a wide range of outcomes (beyond employment and wages).

**Social protection [safety nets and social insurance]**

*Why it matters for jobs*

Social protection programs are a crucial part of a well-functioning labor market, allowing for people who are not currently working or are in a difficult economic situation to maintain sufficient earnings that they can productively find new jobs. The existence of social protection, including social insurance, social pensions and social safety net programs, can change the incentives of those in the labor market, in that these programs can help the general population to be less risk averse, even when not availing themselves of the social protection programs themselves. Thus, a well calibrated social protection system can support growth of a more entrepreneurial, mobile labor force, supporting more smooth transitions from informal or self-employed work to other higher productivity jobs.

*Current situation and government response*

Existing programs in Kazakhstan are not particularly well developed or effective in providing needed social protection, with a very meager pension, very limited unemployment benefits, and limited formal support for the poor. 2.8 million workers, or 32 percent of the total population, are not eligible for social insurance benefits because they do not contribute to the insurance scheme. This is a large group of vulnerable workers, who are at an elevated risk of poverty. Although everybody who reaches the retirement age is eligible to a flat rate base pension in Kazakhstan, regardless of their employment history and contribution record, the amount of the pension is currently only 50 percent of the minimum wage/subsistence level.

The largest group of workers who lack social insurance coverage is the self-employed, so that there is evidence that self-employment is a coping strategy that substitutes for a safety net.

The extent of financial support to the unemployed is currently very low. Those who contribute to the social insurance fund for at least 6 months are eligible for a modest unemployment benefit (UB) equal to 30 percent of average monthly insured earnings in the last 24 months. However, the amount and duration of payment are dependent on the length of contributions, with those contributing for 6 to 12 months eligible for just 70 percent of the payment amount for one month. The maximum benefit duration is 4 months for those with 3 years of contributions or more. As a result of lack of coverage and limited benefit duration, the number of persons receiving UB is very low (18,846 people in 2013 compared to approximately 471,000 unemployed in that year). While this design is unlikely to create disincentives for job search by the unemployed, it is also likely to leave some of the unemployed more vulnerable, especially those with short job tenures (first time jobseekers and/or youth, in particular) and facing difficulties in transitioning from one job to another due to the need to relocate or complete training or retraining, etc.

Moreover, the design of the social protection system does not provide sufficient incentives for workers to contribute, and thus supports informal employment. In particular, the low-income self-employed workers do not gain much in terms of social security benefits by paying contributions. This is because for such workers the difference between non-contributory universal social assistance and contributory social insurance benefits is small. In this case, strengthening the incentives for formal employment would require widening the gap between social insurance and social assistance benefits while ensuring an adequate level of social protection for the whole population.

Furthermore, the main social safety net program (Targeted Social Assistance) for the particularly vulnerable (households with an average per capita monthly income below 40 percent of the subsistence minimum) has extremely low coverage and low

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51 These are primarily subsistence farmers working on personal farmsteads (Rutkowski, 2011). While technically the self-employed are meant to contribute to the social insurance fund, some may prefer not to do so if the cost outweighs perceived benefits. In particular, the minimum payment is calculated on the basis of minimum wage. While it is low (19,966 tenge or approximately $60 per month), those who mainly work for subsistence do not have much disposable income and may find the contributions prohibitive.

52 Rutkowski (2011).

53 Generally, systems with contributory unemployment benefits should provide a replacement rate at no less than 50 percent of previous earnings in case of full unemployment (Kuddo et al. 2015).

54 While there are no universal standards for the duration of benefit reception and the level of the replacement rates, the ILO suggests at least 13 weeks of benefit reception within a period of 12 months as well as replacement rates of at least 45 percent of the previous earnings of the beneficiary (Kuddo et al. 2015).

55 http://www.gfss.kz/ru/statistic/569/52831/
generosity. As of February 2016, only 14,400 people were receiving assistance and the average monthly benefit per recipient was just 3908.3 tenge (US $11.6). The government has been interested in reforming the program by both increasing the coverage and generosity, while at the same time introducing social contracts and obligations of beneficiaries to participate in active labor market programs with the goal of helping beneficiaries into gainful employment (an approach called “activation”). The new program called Orleu was first piloted in February 2014, but the early stages of implementation revealed significant weaknesses in activation measures and the need for stronger integration of service provision by welfare offices and employment centers. The government is likely to proceed with consolidation of several cash benefits into the new means-tested Orleu program with increased coverage and activation measures. This policy reform is especially critical for the rural poor who are in particular need of a safety net and activation measures.

Policy options
In this context, the following options may be considered in Kazakhstan:

- **Expanding the coverage of basic insurance programs, such as pensions, to the informal sector through incentive compatible redistributive arrangements:** Kazakhstan has already instituted many reforms and policies that are designed to strengthen the incentives to contribute. Further reforms to increase coverage can be concentrated on attempts to increase the differential between the benefits of those who do not contribute (social assistance) and the benefits for those who do (pensions and other social insurance benefits) while minimizing benefit guarantees, i.e. making the redistribution currently implicit in the pension system more explicit. Since the level of social assistance benefits cannot be reduced without jeopardizing the gains in poverty reduction, attempts should be made to increase contributory pensions. More explicit redistributive arrangements would allow social insurance programs to focus public resources on those who need them the most; better control the unintended effects on behaviors; and reduce reliance on pay-roll taxes, thus reducing perceived tax-wedges and improving incentives for formal work. To eliminate implicit redistribution, benefits would need to be linked to contributions. Explicit and integrated subsidies can then be used to top-up the contributions and/or benefits of individuals with low or limited savings capacity regardless of where they work.

- **Revising the provision of unemployment benefits to facilitate labor market transitions by moving to a system that combines risk-pooling and savings:** Most countries offer some form of income protection to workers in case of dismissals or when individuals leave their jobs. Unemployment benefit (UB) schemes guarantee income protection to unemployed workers, usually combined with measures that support jobseekers in returning to work. As indicated earlier, Kazakhstan currently offers only a very limited protection in case of unemployment. It would be important to align the existing program (unemployment benefit) with recommended parameters (Kuddo et al. 2015) to ensure the program offers meaningful protection to those at risk of unemployment. Those who do not contribute should have access to some other assistance, such as a means-tested cash transfer program combined with active measures (such as the planned nationwide Orleu program). Additionally, a ‘hybrid’ system may be considered, combining traditional risk-pooling as in UB schemes and individual savings accounts (Box 8).

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57 Funded pension system reform, reinstatement of earnings-based benefits from State Social Insurance Fund, gradual decompression of social assistance, minimum pension and average pension levels, and introduction of minimum wage income tax exemption are all good examples of such policies (Rutkowski 2011).

58 The best ways to do it without further widening of the tax wedge, include: i) Improving regulation and deepening domestic financial markets in order to raise the profitability of pension fund investments; ii) Introducing matching pension contributions which do require State support but strongly incentivize people to contribute; expenses for the Government in this case are mitigated by lower cost of minimum pension guarantees in the future; iii) Improving youth employment opportunities and introduction of policies to reduce gender gap in employment rates and wages; iv) Increasing female retirement age (implemented in 2013) (Rutkowski 2011).

59 Pages, Rigolini, and Robalino (2014).

60 Severance pay is the most prevalent form of protection in case of unemployment in most low-income economies and in middle-income economies that have not implemented unemployment benefit schemes yet (Kuddo et al. 2016). In Kazakhstan, there are also provisions for severance pay in case of redundancy dismissal, but the payment required is one of the lowest (4.3 weeks of salary regardless of length of tenure). Source: Doing Business.
BOX 8: DESIGNING UNEMPLOYMENT BENEFIT SYSTEMS

Policymakers, in consultation with social partners, have to make a choice between two arrangements when designing the unemployment benefit system.

- **Traditional unemployment benefit (UB) systems** usually rely on risk-pooling arrangements. In these arrangements, benefit levels may be linked to workers’ previous earnings or set as fixed amounts. While the financing of UB schemes usually comes from contributions, general tax revenues can play a complementary role.

- **In the case of unemployment individual savings accounts (UISAs)**, workers receive their savings, which accumulate through their own contributions and those of their employers, if required. In general, there is no guaranteed minimum replacement rate or guaranteed benefit duration, as is the case in UB schemes, and therefore are not in line with international social security standards. UISAs have both proponents and opponents. The main advantage over unemployment insurance, as emphasized in the literature, could be that since benefits are financed out of the individuals’ savings, workers have better incentives to seek and take a job. The main shortcoming is that they do not provide adequate protection to workers, particularly low-skilled and low-income workers who need protection the most. These workers usually have shorter periods of contributions and more frequent periods of unemployment. The fact that benefits are often paid as a lump sum can also be problematic, as there is a risk that they will run out before the individual finds a job. In addition, since benefits are financed only out of savings, contribution rates are usually high, which could reduce incentives to join the system.

The goal should be to find a better balance between efficiency and workers protection. This is likely to be achieved by a ‘hybrid’ between UB and UISAs. The starting point would be to define the mandate of the program, that is the level of benefits (replacement rate and minimum benefit) to be offered at different levels of income and their duration. The question is then how to finance the deficits that accumulate in some of the accounts. There are four alternatives: (i) a pay-roll tax paid by employers; (ii) a tax on wages paid by workers; (iii) a tax on accounts with positive balances; and (iv) general revenues. Pay-roll taxes and taxes on wages can reduce formal employment (the latter can also be regressive relative to a tax on savings). Relying only on general revenues, on the other hand, can be considerably costly, while taxing savings at a 100 percent rate can reduce incentives to search and take jobs. The best option therefore seems to be to rely on a combination of a tax on savings (below 100 percent) and general revenues (e.g., revenues from a consumption tax, or a tax on wealth).

*Source: Kuddo et al. (2015); Robalino and Weber (2013).*

TARGETING STRUCTURAL CHALLENGES AND MARKET FAILURES

The jobs challenge in Kazakhstan is not a broad-based one. Most people living in the right locations and with the right level of education have done well in the labor market and should continue to thrive even in the face of lower aggregate growth. The focus of the jobs challenge should therefore be to support those people in rural areas with less education. In this respect, broad reforms that unlock private sector investment may not be enough. Private sector firms following comparative advantage may well invest in sectors where employment intensity is limited. Competitiveness (productivity growth) may involve a shift of labor to capital and/or a demand for a higher skills composition. The pursuit of agglomeration economies may shift more activities toward the core cities. Thus, diversification will bring with it both cyclical and structural adjustment processes and related distributional impacts.

In this context, interventions aimed at meeting the needs of specific population groups—facilitating mobility to bring workers to jobs, bringing job opportunities to regions, addressing sector-specific issues, and removing barriers to individuals accessing available opportunities—will be an important complement to the agenda of diversification and broad skills development. This pillar of the jobs strategy will, therefore, focus on initiatives to improve accessibility of jobs to vulnerable people and rural areas, by improving connectivity and agglomeration, and strengthening and integrating local value chains; it will also include optimizing public infrastructure investments, not only to address cyclical needs but in a more comprehensive way to maximize both short- and long-term jobs potential.
**Connectivity, mobility, and service provision**

**Why it matters for jobs**

Jobs growth in Kazakhstan is distributed unevenly across the country, with oil extracting regions and major agglomerations winning and rural regions losing. Within regions, the same pattern is replicated on a smaller scale, with job creation increasingly concentrated in the largest towns, while small towns and rural areas experience stagnation. And while people are migrating in response to these spatial disparities, they do so on a very limited scale. While these lagging areas need to take advantage of job creation potential wherever it exists, Kazakhstan also must facilitate workers' ability to access job opportunities where they are being created. This matters for growth and jobs in the longer term, as innovation-driven economic growth (which is at the heart of Kazakhstan's industrial policy under SPAIID and SPIID) thrives in economic agglomerations.

For individuals, several factors inhibit mobility, including skills, financial assets, social networks, culture, and risk appetite. However, physical and social infrastructure can be a critical determinant of worker mobility. Good transport networks, which increase physical, social, and knowledge flows, expand the geographical scope for daily commuting, seasonal working, and even permanent migration. Access to social services is also critical. Where housing costs are particularly high or access to social housing restricted (through insufficient supply or regulatory barriers), migration will be constrained. Similarly, where access to education and health services is restricted, workers may not be in a position to move to where the jobs are.

Connectivity is also critical to ensure that communities outside of large agglomerations can support competitive firms and farms. Transport and ICT connectivity play critical roles in improving access to markets and reducing transactions costs, although it will also bring increased competition to local markets (with potentially negative consequences on local firms and employment in the short term).

**Current situation and government response**

Research in Kazakhstan shows a particularly strong effect of distance on migration—an increase in distance of one percent reduces the flow of migrants by roughly 1.3 percent. This distance disincentive effect, which is stronger than has been seen in other countries, including Russia and China, may reflect relatively weak infrastructure, both connecting rural areas to regional centers and linking the regions to Astana, Almaty, and the oil regions in the West. With a huge landmass and vast distances across regions (e.g. 2,500 km from Astana to Aktau, and 1,200 km from Astana to Almaty), Kazakhstan has one of the least extensive road systems in the world, with a road density of just around 3.5 km per 100 square kilometers. When coupled with a limited public transport network, it is clear that transport is a significant barrier to worker mobility. The high cost of housing, particularly in Astana and Almaty, is also seen to be a significant barrier preventing workers from migrating. Finally, regulatory barriers exist with regard to registration requirements for internal migrants. These requirements have implications for access to social services.

Similarly for firms, the limited available evidence suggests that poor internal connectivity fragments domestic markets. For example, just 5 percent of SMEs in the country sell beyond their local markets. And a recent study of prices across 19 basic commodities in the region found very weakly correlated price movements between Almaty and Shymkent.

The government is investing heavily in major transport projects, particularly in building road corridors to connect the main agglomerations of the country and to integrate into regional transport networks. The government also started a program in 2015 to roll out broadband access to rural villages. But much of the rural population remains relatively disconnected from larger agglomerations, with poor local roads (especially during winter) and limited ICT capacity.

**Policy options**

In this context, the following options may be considered in Kazakhstan:

- **Strengthening intra- and inter-regional connectivity, especially to the largest accessible urban nodes:** As noted previously, the largest share of internal migration in Kazakhstan takes place not across regions but within them. In peripheral

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61 In this respect, improved connectivity should also raise the competitiveness of firms in the regions by reducing transport costs and improving market access, contributing to higher job creation in the regions. It should also raise the returns to self-employment workers, especially farmers, by improving market access and raising returns.


63 Aldashev and Dietz (2011).

64 It may also reflect geographical limitations to social networks and the relative importance of these networks in Kazakhstan.

65 ADB (2014).

66 ADB and CAREC (2014).
As part of an effort to overcome substantial access challenges, South Africa implemented a rural transport strategy in 2003. The strategy focused particularly on addressing access between rural villages and the nearest town centers, covering both access to services (education and social services) as well as access to product and labor markets. As part of the latter, the strategy included specific efforts to develop the rural transport and logistics system.

The strategy included a coordinated set of nodal and linkage development initiatives with the following components:

- Development of feeder or access roads associated with key nodes and linkages
- Development of sustainable road maintenance and off-road spot improvement programs
- Facilitation of transport brokering and special needs transport services
- Piloting of combined passenger and freight transport services
- Containerization and logistics support for rural freight operations
- Development of appropriate rural public transport and subsidization options
- Development of infrastructure for non-motorized transport, and
- Promotion of animal-drawn carts and other intermediate means of transport.


regions, workers seeking jobs and producers seeking markets tend first to seek out local agglomerations. Connectivity to the main national metropolitan areas is important, but not necessarily a priority in peripheral regions. Moreover, experience from lagging regions in the European Union and elsewhere highlights the risks that such central connectivity poses through hollowing out local economies. An approach that supports natural agglomeration tendencies and helps ensure scale for specialized labor and product markets is to strengthen nodal links within regional economies—particularly connecting to secondary cities, including within regions and to neighboring regions.

- Developing a national rural logistics strategy, including potential investment in networks of logistics/ warehousing facilities, cold storage, etc.: Limited accessibility in many of Kazakhstan’s regions is compounded by sparsity of population (markets) and of producers. Moreover, most producers are small. This creates a significant scale challenge not only in production but, critically, in transport to markets, where shippers face high costs due to small shipping sizes. Exploiting scale thus requires coordination across many actors. Overcoming these coordination externalities, and more broadly strengthening the competitiveness of producers in rural value chains, would benefit from the development of a national rural logistics strategy. Such a strategy could develop mechanisms to promote scaling up of demand and coordination of shipping. It could also support investments in common user infrastructure, including cold storage and other warehousing, as well as processing and transport facilities (see Box 9).

- Removing/reducing remaining restrictions on internal migrants’ access to public and social services: While Kazakhstan formally abolished the propiska system, migrants are still required to register (within 10 days) at any permanent or temporary address. The registration process can be difficult and bureaucratic and requires support from a landlord, who may not always have the incentive to disclose the fact that they are renting property. In the absence of registration, migrants lack access to critical public services, including healthcare, education, and employment services, among others. It places a significant restriction on the possibilities for migrants to access formal labor markets. Restrictions could be removed by making access to services dependent not on location of registration but by citizenship or residency alone. Alternatively, the registration process itself could be made less onerous through more effective use of

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67 Propiska refers to an internal residence registration system inherited from the Soviet Union. Propiska largely continues to determine access to social services and benefits administered at the local level.
IT systems. Indeed, with more effective use of IT systems, tracking of demand to ensure the supply of public services is directed toward where it is most needed would eliminate much of the need for formal registration.

- Expanding support to mobility programs, with a focus on access to housing: Kazakhstan already provides direct support to mobility in the Employment Roadmap 2020 program, including through provision of information on labor market opportunities and relocation subsidies. However, the program reaches only a small share of potential migrants. Expansion of these mechanisms may support greater mobility. Housing is also addressed through the Employment Roadmap program, mostly through public works to build and repair public housing stock. Greater efforts may need to be made to overcome mobility barriers created through the housing markets, both in terms of high costs of housing in large metropolitan regions as well as weakly functioning markets outside these regions (see Box 10).

- Strengthening Public Employment Services (PES), including adopting innovative profiling methods and piloting of improved analytical methods for monitoring: Expanding access to PES and improving the effectiveness of the services provided can be critical to facilitating labor mobility, both across sectors and geographies. The limitations of Kazakhstan’s existing PES has been discussed previously in this note and elsewhere, and a number of reforms are ongoing to improve its effectiveness. Among the main policy recommendations proposed are the merging of the functions of the Employment Units and the Employment Centers to i) avoid duplication and improve effectiveness, ii) develop a more strategic approach to service provision that differentiates between the needs of rural and urban areas (in particular, in rural areas, the focus would be on facilitating transitions between the informal and formal economy), and iii) improve the service orientation of activities in the Employment Centers, both for jobseekers and employers. This would include strengthening capacities for vocational and career guidance, setting up individual action plans, and conducting intensive follow-up of hard-to-place jobseekers based on prior profiling of the unemployed. In addition, there would be greater dialogue with and support to employers, including offering pre-selection of candidates and improving efficiency in matching vacancies and jobseekers. Critical to achieving this is improving the information systems and tools used to profile jobseekers and monitor service provision and outcomes (see Box 11). In the absence of systematic profiling and prioritization, matching jobseekers with the active labor market programs that are most needed becomes almost impossible, and selection becomes simply a queueing system.

Box 10: Housing and Mobility—Reforms to Chile’s Housing Policies

Like many South American countries, Chile has a long history of housing policies designed to support low income residents. Central to this policy, for at least two decades, was a combination of promotion of home ownership through subsidies and public housing construction, the latter typically targeted to locations of the most extreme poverty. While these programs provided important support to the poor and significantly improved access to decent housing, they also acted as barriers to mobility, contributing to Chile’s persistent regional inequalities despite rapid aggregate economic growth. Subsidized mortgages and public housing targeted to locations with limited job opportunities, particularly when combined with regulatory or market barriers to renting or selling, creates a significant barrier to the migration of low income residents to locations that offer greater employment opportunities.

In part to address these policy distortions, in 2014 Chile was the first country in the region to adopt a national rental subsidy program. The Programa de Subsidio de Arriendo de Vivienda is a means-tested earmarked temporary rent subsidy directed at low- and middle-income young households. The objective is to accommodate the mobility needs of young households who do not own a house and whose housing needs are likely to change in the short term. Recipients receive a monthly subsidy of US$135 (with a cap on the subsidy to rental ratio) for up to 5 years. Initial results suggest positive take-up and effective targeting, although the limited size of the national rental market remains a challenge. It is also too early to say how this policy will impact patterns of internal migration.

Sources: OECD (2016); Navarro (2005).

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See World Bank (2015d).

68 A recently launched World Bank financed “Jobs and Skills project” will support the upgrading of the existing Labor Market Information System (LMIS) and also the Ministry of Health and Social Development in introducing jobseeker profiling to improve provision of active labor market services.
Regional development and secondary cities

Why it matters for jobs
Cities around the world have historically proven to be a magnet for workers, firms, ideas, and innovation. Jobs were created in cities as a result of productivity gains as firms were closer to the labor market, to other firms, and to the market. Such productivity gains led to better jobs through increased wages, creating larger consumption externalities and further attracting firms—triggering a virtuous circle of urbanization. These economies of agglomeration suggest a tendency to geographic concentration of jobs in the larger cities, which may be geographically distant from the rural areas where most poor people are concentrated. In this context, the secondary city (town) development may play an important role in overcoming this mismatch. Indeed, evidence on migration (including in Kazakhstan) indicates that most migrations take place within relatively proximate geographical areas, while most non-proximate migrants to the largest metropolitan areas come from residents of secondary cities.

Jobs nearby in rural towns or secondary cities often generate a higher return than what could be earned on the farm, even though typically not as much as the city wage. But city jobs may be out of reach, while jobs nearby may be easier to find and access, and be more attuned to their skill levels. The latter also offer the possibility for the rural poor to make within-household migration choices, where one household member migrates and stays connected with his or her rural household, with the potential eventual migration of the entire household. Secondary cities also offer the possibility of establishing direct economic linkages with their rural hinterlands through value chain integration (e.g., agri-processing and distribution activities in secondary towns linked to primary production in rural areas).

Current situation and government response
Kazakhstan faces a unique challenge of geography, being one of the most sparsely populated countries in the world, with its three areas of economic concentration located at large distances from each other. Moreover, many of Kazakhstan's secondary cities emerged as mono-industrial towns in the Soviet era, with few links to their rural hinterlands or to other agglomerations in the country. These mono-industrial towns also tended to focus on capital intensive industrial activities (mining and processing of minerals, metals, and chemicals) that failed to generate large-scale employment, and have been in steady decline for the past two decades due to lack of competitiveness. As a result, secondary cities have been sources...
of outmigration, particularly of young and skilled workers, rather than sources of regional agglomeration, job creation, and rural-urban linkage.

The government adopted a new Regional Development Program in 2014, which consolidated a number of existing programs. Among the top priorities of the program is the development of urban agglomerations through an integrated approach towards infrastructure development and modernization, human capital strengthening, and a more favorable investment climate.\(^{70}\) The program focuses on four ‘first-level’ agglomerations: Almaty, Astana, Aktobe, and Shymkent (South Kazakhstan). It also identifies ‘second-tier cities, which are the administrative centers of 12 regions, plus two cities identified as having broader regional importance (Semey, East Kazakhstan and Turkestan, South Kazakhstan). The government sees these locations (especially the first-level agglomerations) as growth poles for the economy and aims to concentrate investment in and connections between these agglomerations. The programs appear to be extensive, covering all aspects of infrastructure (economic and social) as well as the business climate and support for investment and development of businesses (through existing instruments like Business Roadmap 2020).

**Policy options**

In this context, the following options may be considered in Kazakhstan:

- **Integrating the Employment Roadmap program with broader regional development strategies, and tailoring support to the specific challenges of different regions**: Kazakhstan's Employment Roadmap 2020 has been effective at the micro-level in providing palliative support for the most vulnerable in the labor market, particularly in more peripheral parts of the country. As it looks towards supporting sustainable, productive employment creation, the program would benefit from being explicitly linked to regional development strategies, so that the services and opportunities it seeks to support derive directly from planned development strategies. This would help to ensure more joined-up training and micro-enterprise development support.

- **Integrating the rural hinterland into the largest metropolitan areas through macro-regional planning and institutional arrangements**: Some of Kazakhstan’s largest concentrations of the poor and unproductive self-employed are not remote but rather adjoining (albeit at some distance) the larger metropolitan areas of the country. Evidence of the spillover effects from leading regions to adjoining lagging ones suggests a focus on policies designed to better integrate lagging regions into the sphere of leading metropolitan areas. This would happen through a combination of infrastructure investment, public transport services, as well as integration of social services and labor markets (see Box 12).

- **Targeting SME support and investment in economic infrastructure in prioritized secondary cities**: A national strategy for agglomeration has already been designed. It identifies categories of cities, including the prioritization of key secondary cities, which are mainly the largest cities in each of the regions. As the government seeks to deliver support to economic development and job creation outside of the primary cities, it will be important to link effectively the strategic support for economic development with this agglomeration strategy, in particular through concentrating key infrastructure and demand side interventions in these high priority secondary cities. Such targeting could involve support to SMEs

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**BOX 12: RENNES MÉTROPOLE**

Rennes Métropole (RM) is an agglomeration community (Communauté d’agglomération) made up of Rennes and 37 surrounding municipalities. The total Métropole area covers a population of 400,000, although outside of Rennes the municipalities range from just 700 to 16,000 inhabitants and engage mainly in agricultural activities. RM was established as a formal inter-municipal structure. Critical to the rural-urban integration of the Métropole is a detailed approach to spatial planning at the macro-regional level. This planning forum covers both land use and multi-modal transport, along with social housing provision, contributing both to regional economic integration as well as supporting social cohesion between the urban and rural areas.

*Source: OECD (2013).*

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\(^{70}\) World Bank (2015c).
**BOX 13: SPECIAL ECONOMIC ZONES AS A REGIONAL DEVELOPMENT POLICY TOOL—INTERNATIONAL EXPERIENCE**

International experience has shown clearly that the location of a special economic zone (SEZ in a country—in particular, its proximity to major trade gateways [ports and airports] and the country’s largest metropolitan areas—is critical to its success. This is particularly important for zones that depend on manufacturers who require access to imported inputs, business services, large pools of labor, and transport networks. But it also holds true for knowledge-based zones (e.g., IT parks), which may have less need to access ports but require proximity to population centers to access specialized labor and business services, as well as high-quality backbone services [utilities]. Still, most countries continue to use SEZs to try to attract investment and create employment in remote and lagging regions. In just about every case, these efforts have failed to deliver on their objectives. Below are just two examples from countries with otherwise successful SEZ programs:

- **Bangladesh:** While the first two export processing zones (EPZs)—in the main cities of Dhaka and Chittagong—and the recently established zones along the Dhaka-Chittagong corridor have been highly successful in attracting investment, three zones in the northern (Uttara EPZ) and western (Ishwardi and Mongla EPZs) parts of the country sit almost empty, despite significant additional incentives offered to investors. These three zones are all located more than 600 kilometers from the international port and hundreds of kilometers from Dhaka; the poor transport infrastructure makes it difficult to get goods in and out. In addition, availability of reliable electric and gas supplies is a major problem, and these remote locations lack manufacturing clusters, making access to supplies problematic.

- **Dominican Republic:** The Dominican government has long attempted to promote investment in the depressed regions along the Haitian border and has provided a number of investment incentives through the SEZ program, including an extension of tax holidays, preferential loans, and relaxed regulations. Yet despite these benefits, only two zones are in operation in these provinces, and both are public parks (while most of the country’s industrial parks are invested in by the private sector). Together, they house only six firms and provide only 3,500 jobs.

With lagging and peripheral regions it is critical to understand what opportunities for investment are realistic, the specific constraints holding back investment, and whether SEZs are the most effective instruments to address these constraints.


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to SMEs and links to rural value chains (see the following section). It should also include concentration of investment in critical economic infrastructure, including transport corridors as well as industrial infrastructure, such as warehousing, and potential industrial/economic zones. An important caveat on investment in large-scale economic infrastructure in peripheral regions is that it should only go forward where sufficient market potential exists to justify it (see Box 13).

**Integrated and strengthened local value chains and SMEs**

**Why it matters for jobs**

Unproductive self-employment in the regions is particularly prevalent in rural Kazakhstan. With poor access to national and international markets, farmers and livestock holders are forced to operate on a subsistence level or trade in thin local markets where returns are suppressed by low demand. Developing stronger and more integrated value chains could offer the potential to create jobs in rural regions. Value chain integration also has the potential to deliver ‘better jobs’ as measured by increased earnings, both to wage earners and the self-employed (smallholders and microenterprises).

Successful integration into established value chains should deliver more jobs in absolute terms. Value chain integration also has the potential to deliver ‘better jobs’ as measured by increased earnings, both to wage earners and the self-employed (smallholders and microenterprises). Links to established markets provide significant opportunities for producers in peripheral regions to gain access to deeper markets.

**Current situation and government response**

While livestock is the largest value chain reaching deep into rural regions in Kazakhstan, a number of other value chains also have potential importance for rural jobs and earnings, including agriculture (e.g., horticulture and fodder), fishing, minerals,
and tourism. At present, value chains are very poorly developed in Kazakhstan. Lead firms (e.g., retailers and processors) have weak backward links, particularly to small-scale suppliers. There are a large number of barriers to deeper integration, most notably the lack of competitiveness and quality of the small-scale suppliers, poor transport links, and problems deeper in the supply chains (e.g., in the case of livestock, access to cost competitive fodder).

The government, under SPIID (2015–2019) is planning an intensive program for the development of territorial clusters that will support industrial development and increase competitiveness. The program will be supported by a capacity building effort under the World Bank’s SME Competitiveness project. The project also includes a Supplier Development project to support market linkages between SMEs and large firms in Kazakhstan. None of these programs, however, has an explicit regional focus or is linked directly to addressing the challenges of low quality employment.

**Policy options**

In this context, the following options may be considered in Kazakhstan:

- **Targeting programs to promote agricultural value chain development:** Strengthening the competitiveness of agricultural value chains, particularly in horticulture and livestock (including dairy), is critical to providing sustainable, productive earnings opportunities for households outside of the metropolitan areas. This requires not only competitiveness of the value chains overall, but critically, supporting the links between small producers and lead firms in the chain. It also requires facilitating opportunities for value addition (processing). Comprehensive value chain development strategies could be piloted in specific regions, including, for example, interventions to raise skills and productivity at the farm level, investment in post-harvest and logistics infrastructure and services, access to finance, and market access support (see Box 14).

- **Increasing support to rural SMEs for access to information, networks, and finance:** Rural SMEs tend to face a double challenge of distance from markets and small size. This is compounded by lack of access to critical services that support market access and the exploitation of scale economies. In Kazakhstan, while rural SMEs are not restricted from access to finance, their options are often limited only to what is available from DAMU, while SMEs in urban areas enjoy access to a much wider variety of financial products. Similarly, while urban SMEs can take advantage of multiple information networks that flow from urban agglomerations, SMEs in rural Kazakhstan tend to be dislocated from such information and business networks, and often lack the ICT infrastructure to access information through alternative sources. Thus, supporting rural SMEs will require targeted support for market information and access to finance that may be qualitatively different both in the nature of the service and its delivery. Relevant interventions may include subsidized access to ICT, innovative platforms for information delivery (through multi-purpose nodes), opening up new channels for SME finance, ensuring the availability of products that are relevant to rural business needs (e.g. agriculture), and promoting business networks that will connect rural SMEs not only to each other but to relevant networks across the country.

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**BOX 14: APPROACHES TO SUPPORTING RURAL AGRICULTURAL VALUE CHAINS—CHINA AND INDIA**

China reported the establishment of a special agricultural vertical integration fund to support ‘dragonhead’ enterprises, which are established by government authorities with both commercial and regional development objectives. The companies contract with farmers to procure produce with specific attributes, often providing seed, fertilizer and other inputs, as well as operating loans and technical expertise. The company processes the raw materials and sells them under a brand name often associated with the locality. One such enterprise is Fujian Sunner Development Co. Ltd, which is located in a very poor region of Fujian, without modern industry and very small land holdings averaging less than 0.5 ha. The company has grown out of a small chicken operation to one with a turnover of US$190m, supplying restaurant chains and hotels. This case shows how even in isolated areas farmers can mobilize to participate in modern agri-food systems.

In India, the state is investing in ‘mega food parks’—a central government initiative, through which six parks are being established, each spreading over 50 hectares at an initial cost of US$40 million. The land is provided by government and the private sector provides the investment in infrastructure and equipment. These mega parks are commodity collection, grading, storage and processing points. Farmers can enter into individual contracts with the private sector and sell their products.

*Source: Vorley, Lundy, and MacGregor (2008).*
Optimizing public infrastructure investments

Why it matters for jobs
Public infrastructure has long played a role in job creation mainly through public works programs targeted at specific populations (poor, unemployed, youth, etc.), particularly during economic downturns. Public works programs and wider ‘employment guarantee’ programs generally provide temporary or part-time employment and support workers through a transition period where the labor market is unlikely to provide job opportunities. Employment guarantee programs provide a base income for the poor who have little prospects for participating in the labor market. Programs that support labor intensive public works techniques (e.g., using more labor than machinery in road building) generate the most jobs. Public works programs do not necessarily need to be limited to standard public infrastructure and services jobs, but can encompass a wider range of activities and services, including social services, and can be multi-sectoral programs integrated with efforts to support the development of local communities, particularly in disadvantaged areas. When administered well, public works programs have proven useful as short-term, targeted safety net support, providing necessary earnings to poor and vulnerable groups. Further, they can be a useful means to improve local public infrastructure, particularly when there is effective local involvement in choosing the focus of the public works programs. In temporary times of decreased labor demand, they can provide valuable countercyclical support. However, there is not a great deal of evidence of the long-term effectiveness of public works programs to build workers’ attachment to labor markets or enhance the stock of employable skills. These programs should be viewed as a useful component of a jobs strategy, particularly in the short term during an economic slow-down.

Beyond viewing infrastructure in terms of public works programs during economic downturns, however, the potential exists to better leverage large public infrastructure investments to support both short- and long-term job creation. This comes not only through targeting the planning, construction, and operational activities to local communities, where possible, but also through coordinating and supporting investments to ensure that local communities and local firms can take advantage of the market access and productivity-enhancing potential of these investments. Figure 61 provides a framework for how a large transport infrastructure investment might be used to support job creation, access, and productivity.

Figure 61
A framework for maximizing the jobs potential of infrastructure investment (roads example)

**Current situation and government response**

Kazakhstan has significant public works programs already in place, through the labor market bodies of the Public Employment Service (PES): the Employment Units (EU) and the Employment Centers (EC). In the EUs, which are part of the regional and local administration structure, public works are the main direct job creation measure targeted at the long-term unemployed, particularly those with no formal vocational education. The work opportunities are temporary (usually 1–2 months; up to 6 months), require no specific skills, and pay roughly the minimum wage. They help to provide public infrastructure, but also a wide range of community services, such as cleaning and greening of public spaces, assistance for the disabled, work with drug addicts, and security guards. During 2013, about 96,700 people participated in public works, nearly all of whom were unemployed. The majority of participants came from rural areas (61 percent), with women accounting for around 70 percent of participants. The ECs were established to implement the Employment Roadmap 2020, under which projects in the infrastructure, housing, and utility sectors would be implemented to create jobs for the unemployed and unproductively self-employed.

Beyond public works, Kazakhstan has a well-established program design to promote local content sourcing for public investments. However, there are no comprehensive efforts to maximize the employment impacts of infrastructure beyond this.

**Policy options**

In this context, the following options may be considered in Kazakhstan:

- **Setting an explicit job creation strategy and regional development mandate for strategic infrastructure projects:** Large, strategic infrastructure projects like transport corridors clearly derive from strategies for national and regional economic growth. Yet, while investments are themselves typically tied to broader strategies of growth and job creation, explicit efforts are seldom made to exploit the growth and job creation options linked to these investments. In the case of Kazakhstan, public infrastructure investments have local content requirements and may be linked to short-term public works jobs targeted at the vulnerable, but they could go further. A more comprehensive approach might include some of the following elements: i) skills development and certification to improve the employability of public works program participants and other lower skilled construction workers; ii) support for SMEs in the catchment areas to exploit business opportunities arising from the infrastructure investment; iii) complementary investments to connect rural areas including secondary roads, ICT infrastructure, and other industrial or economic infrastructure; and iv) skills development targeted at populations within the investment catchment area to provide them with the capabilities needed to exploit new job opportunities that may arise from the investment. Moreover, linking such targeted interventions to a broader regional development strategy may identify synergies, both in programs and delivery, which would otherwise go unnoticed.

- **Establishing multi-use roadside service facilities linked to road corridor investments:** Kazakhstan’s large road corridor investments offer significant opportunities to exploit necessary roadside service facilities for jobs. Outside of general road maintenance, roadside corridors represent the largest opportunity to generate direct employment for communities along road corridors. Such approaches involve designing enhanced roadside service stations to serve the needs not only of road users but also local communities (see Box 15). This will be particularly important in Kazakhstan, where road corridors traverse mainly very small, rural communities with limited, established private sector employers. A comprehensive approach to roadside service stations can: (i) offer an opportunity to provide services to a wider range of users including local residents; (ii) improve access to basic services such as sanitation, health, and even education; and (iii) ensure they are located in areas to target local communities and designed to support opportunities to connect these communities to markets. Thus, a well-planned roadside services station can become a hub of local economic development, supporting job creation and earning enhancement.
**BOX 15: APPROACHES: JAPAN’S MICHI-NO-EKI**

Japan operates a network of 1079 Michi-no-Eki (Roadside station in Japanese) along its major motorways. These roadside service stations are designed not only to provide rest and refreshment services for road users but have an explicit objective to support job creation and address the social needs of local communities along the motorways. Key features of the Michi-no-Eki include: 1) they are designed with the help of local communities and provide stronger links between local communities and road users; 2) they provide business opportunities for local residents; and 3) they provide possible venues for provision of public and social services (health, education and training, culture).

Many of the Michi-no-Eki are designed as public-private partnerships (PPP) with local communities (usually the head of the local municipality) taking the ‘prime mover’ role and being involved in the design from the outset. The service stations are constructed not only to be accessed through the motorway but also, for local communities, from secondary/rural roads. Typical Michi-no-Eki include facilities that enable local producers (usually agriculturally-oriented) to market their products; they also often include shared spaces for basic processing and packaging. Some service stations include incubation centers for local businesses. These economic services are often combined with social ones, including facilities to access health and other social services, libraries, training centers, employment services offices, etc.

4. TOWARDS IMPLEMENTATION OF A JOBS STRATEGY

This note has laid out a comprehensive diagnosis of the challenges that Kazakhstan faces in the short and medium term. It has also presented a framework for organizing responses to those challenges, both to assess current strategies and activities and to identify ways that those strategies can more effectively be knitted together. Through structured dissemination and discussion of these issues, the World Bank anticipates that the strategies can be deepened and a comprehensive set of activities can be generated to address these challenges. This brief, final section sets out some general principles for approaching a jobs strategy and its implementation and outlines some priority areas.

KEY PRINCIPLES FOR DESIGN AND IMPLEMENTATION

As will have become clear from the previous section, Kazakhstan, like all countries, already has strategies and programs under implementation across many if not all of the areas outlined in the strategy. Thus, the issue is not about coverage per se but rather about what is prioritized, how the programs are designed and implemented, and how they are coordinated. In this context, the following key principles are emphasized:

1. The overall program of actions must be consistent and all pushing in the same direction: For example, actions that focus on building skills for a knowledge economy should not be undermined by industrial policies that work against innovation. Similarly, programs and policies designed to support mobility to agglomerations should not operate in parallel with subsidies that give individuals, firms, and/or farmers the incentive to operate in uneconomic locations.

2. The individual actions must be integrated in the design and delivery to be explicitly complementary: Actions should be integrated across programs so that synergies can be realized. For example, national curriculum and skills development pilots should target similar sectors in their pilots, connective infrastructure investments should be supported by complementary actions to unblock constraints to accessibility and mobility of firms and workers located near the infrastructure.

3. Implementation must be effective and well-coordinated: While strategies and programs are often well-articulated, implementation can be much more challenging and requires effective coordination across a wide range of government agencies and ministries at both horizontal and vertical levels.

4. Desired outcomes must be clear and measurable and progress must be monitored, with a specific emphasis on jobs: Strategies should be clear on what they intend to achieve towards the creation and sustainability of quality jobs. These objectives should be measurable and tracked so that government is always in a position to know where they stand in regard to meeting their jobs goals.

PILOTING A COMPREHENSIVE STRATEGY—TARGETING A REGION

With these principles in mind, it seems likely that integration and coordination will be the biggest challenges facing the Government of Kazakhstan. Delivery of an effective strategy entails integration across the broad range of sectors concerned, and this, in turn, requires coordination: i) at the horizontal level, involving ministries that deal with industry and trade, transport and other infrastructure, labor and social protection, education, and housing and social services; and ii) at the vertical level, between central and local governments. The government tends to be relatively effective in the vertical coordination, with national programs rolled out more or less consistently across regions. It is less effective, however, in coordinating horizontally, as the sequencing and priorities of responsible ministries often take priority, and the individual programs and investments typically have a variety of objectives beyond the focus on jobs and earnings.
For this reason, consideration should be given to piloting a comprehensive approach to a jobs strategy in a specific geographical area—ideally one where the jobs challenge is significant and representative of the national challenge, but also one with potential to show results in the relatively short term. While there is insufficient data available to us to carry out a micro level geographical assessment of priority areas for the jobs challenge in Kazakhstan, we can at least explore it at the oblast level. Table 2 sets out the five oblasts with the highest levels of poverty, unemployment, and low quality employment. It reinforces the fact that the poverty and jobs challenge is fairly extensive from a geographical perspective. It is really a rural-urban phenomenon, which crosses the country. A closer look at the data, however, shows that while many oblasts exhibit intense challenges on some of these measures, the scale and depth of the challenge is particularly concentrated in South Kazakhstan and Zhambyl—adjacent oblasts with relatively large populations71 in the south of the country.

Other considerations to include in selecting a pilot are:

- Existence of significant agglomerations, including secondary and tertiary cities
- Existence of established and latent industry clusters
- Regions with large-scale infrastructure investments, particularly major transport corridors, that can be exploited for job creation

Based on these considerations, several regions stand out as potential priorities for piloting, including: South Kazakhstan or Almaty in the south of the country; and Akmola or Kostanai in the north of the country.

**AREAS FOR FURTHER RESEARCH**

There are several questions that have emerged from this analysis that would be worth exploring in greater detail, beyond the Technical Assistance already envisaged through the World Bank program. For instance:

- While the analysis presented in this paper benefits from detailed data on the supply side of the labor market, it lacks similarly discrete data on the demand side. We still have little understanding of what types of firms are creating jobs—larger versus smaller firms, new versus well-established, more productive versus less productive. This has important implications for understanding the efficiency of the private sector for growth and job creation, and for targeting measures to promote growth and employment.

- Understanding better the potential to deepen domestic value chains and the degree to which the current self-employed and microenterprises could participate in these value chains may have important implications for sustainable job creation.

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71 Although South Kazakhstan is significantly larger (2.6 million population versus less than 1.1 million) and has much greater population density (around 22 per square kilometer versus just 7).
• Given that self-employment is such a prevalent work category, it would be worth gaining a better understanding of the work behaviors, consumption patterns, and risk coping strategies of the self-employed. It would also be useful to understand how self-employment substitutes for formal safety nets and what options exist for improving those safety nets.

• This job-focused stocktaking has also highlighted regional wage differentials, a phenomenon worth exploring further, particularly to understand the current impediments to geographic mobility.
ANNEX: SUMMARY ASSESSMENT OF GOK PROGRAMS AGAINST JOBS STRATEGY FRAMEWORK

Table A1

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