TOWARDS A JOBS STRATEGY FOR KAZAKHSTAN

SOCIAL PROTECTION AND JOBS 2019 CORE COURSES

November 6, 2019
Jobs strategy being considered a challenging context

Slowing growth and contracting resource rents

Source: Data from Statistical Committee; World Bank Commodity Price Forecasts

Structural challenges: landlocked and sparsity

Source: World Development Indicators
JOBS DIAGNOSTIC: KEY FINDINGS
Kazakhstan has created jobs at a robust pace in recent years

- Over the decade, economy created jobs at a pace 16% above the rate of growth in the labor force, with 7.7% real annual wage growth
- In period 2010-14, almost 150,000 new jobs per year, while labor force grew by under 85,000 per year
But demographics create a medium-term challenge

- Labor force growth slows to around 0.7% from 2015-22
- But this will almost double in 2023-30, meaning economy will need to deliver 120,000+ jobs per year just to keep pace with new labor market entrants → but many more will be needed to facilitate a transition to quality jobs

Note: for working age population of 16+, assuming 72 percent labor force participation rate.
Source: Demographics projections from the Statistical Committee if the Republic of Kazakhstan
And jobs are being created in low productivity sectors

- 2.1 million workers – around ¼ of all workers – still in agriculture
- Growth mainly in lower productivity services:
  - 140,000 per year new services jobs (50,000 of which in public and social services; 25,000 in trade, and 70,000 in other services)
  - 33,000 per year new construction jobs
  - 7,500 per year new industry jobs + 5,500 per year new mining jobs

Source: World Bank calculations based on data from Statistical Committee
SME growth constrained by dominance of SOEs and informality

- SMEs account for just 20% of GDP and 28% of jobs → compared to a global average of 47% and 63% respectively
- SMEs face a host of barriers: finance, regulations, geography, etc… but is small firm growth also squeezed between informal and state-owned competition?
The productive employment challenge is about self-employment.

- As of 2015, around 500,000 workers considered ‘unproductively employed’
- Note: subsistence minimum extremely low → setting a relative benchmark for poverty at 25% of average earnings = 50% above current subsistence minimum
- Agriculture and trade also show significant leftward skews in their earnings distribution
- Women and youth significantly more likely to be self-employed

Source: World Bank calculations based on data from Statistical Committee
Self employment is also a spatial story

- Self-employment by region – productive and unproductive self-employment share of jobs (2014)
- Distribution of unemployed and unproductive self-employed by region (2014)

- Ranges from 5% in Astana to almost 50% in Zhambyl
- Concentration of unproductive self-employed in South – 60% in 4 regions
- Self employment = 18% of urban jobs but 45% of rural ones
- Regions with largest urban centers have least self-employment; but non-farm self employment also more likely urban areas

Source: World Bank calculations based on data from Statistical Committee
Spatial dimensions of both demand and supply challenges

- Private sector wage employment is in short supply in regions – in Zhambyl, Kyzylorda, and Mangistau ~70% of all wage jobs are in public companies (government or SOEs); public employment is above 50% also in West Kazakhstan, Almaty, and South Kazakhstan

- Strong correlation between the SME employment share and the urbanization rate. Astana and Almaty together had around 53% of all jobs coming in active SMEs in 2013

- Urban workforce has a 50% larger share of specialized vocational workers and more than twice as many tertiary educated workers

Source: World Bank calculations based on data from Statistical Committee
Barriers to internal mobility?

Wage differentials and cost of living (relative to Akmola) by region

- Large wage differences across regions are not reflected in the cost of living
- Workers are responding — evidence of migration away from self employment and toward higher relative wage regions → but migration not on a sufficient scale to equalize
- Part of the story is skills (tertiary educated much more likely to migrate) — but other barriers exist (information? Housing? Finance? Culture?)
- Intra-regional migration also important and constrained

Internal net migration and self-employment by region (2013)

Summarizing the challenges

**PRIMARY CHALLENGES**

- Transitioning away from low quality self-employment
- Managing an increasingly unfavorable environment

**SECONDARY CHALLENGES**

- Transitioning into and out of work
- Low wage public and social sector

**CHALLENGES**

- Narrow job creation with insufficiently diverse and dynamic SME base
- Spatial mismatch and mobility constraints
- Gaps in education quality and skills relevance
Jobs strategy framework

**Job Creation (‘More’) - The Fundamentals**
- Macro fundamentals
- Business environment and governance
- SME growth and productivity
- Trade and integration
- Foundational education and skills development

**Access (‘Inclusion’) - Support for Mobility**
- Technical skills and on-the-job training
- Information and intermediation
- Safety nets and social insurance

**Quality (‘Better’) - Targeting Structural Challenges and Market Failures**
- Connectivity, mobility, and service provision
- Regional development and secondary cities
- Integrated and strengthened local value chains and SMEs
- Optimized public infrastructure investments

**Adjusting to the ‘new normal’ (from 2015)**

**Transitioning toward 2025**
Private sector development, diversification, and education are fundamental... but not sufficient

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<th>THE FUNDAMENTALS</th>
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<tr>
<td>Macro fundamentals</td>
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<tr>
<td>• Maintaining competitive real exchange rate</td>
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<td>• Banking sector reforms – addressing high level of NPLs</td>
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<td>Business environment and governance</td>
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<td>• Control of corruption</td>
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<td>• Addressing competition – reducing informality and state participation in sectors</td>
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<td>• Rationalizing industrial policy subsidies</td>
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<td>• Rationalizing and improving coordination of SME support programs</td>
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<td>SME growth and productivity</td>
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<td>• Reducing non-tariff barriers</td>
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<td>• Improving border trade facilitation</td>
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<td>• Development of logistics sector</td>
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<td>Trade and integration</td>
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<td>Foundational education and skills development</td>
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<tr>
<td>• State Program for Education Development (2011-2020)</td>
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<td>• National System for Education Quality Assessment</td>
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<td>• Reforms to financing models for schools to address spatial disparity</td>
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Supporting mobility of workers across locations and sectors

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<tr>
<th>Technical skills and on-the-job training</th>
<th>Information and Labor Market Intermediation</th>
<th>Safety Nets and Social insurance</th>
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<tr>
<td>• Diversify the network of providers in leveled playing field</td>
<td>• Create a public information system that regularly reports on labor market conditions for different occupations across sectors and regions and school to work transitions for different diplomas</td>
<td>• Expand the coverage of basic insurance programs (health and pensions) to the informal sector through incentive compatible redistributive arrangements</td>
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<td>• Standardize contracting and payment systems that reimburse providers based on results</td>
<td>• Strengthen ID and registration systems for job-seekers, as well as enforcement arrangements.</td>
<td>• Revisit the provision of unemployment benefits to facilitate labor market transitions by revising severance pay and moving to a system that combines risk-pooling and savings</td>
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<td>• Consider short-term subsidies to finance On the Job Training</td>
<td>• Diversify the network of providers of ALMPs (intermediation, counseling) using result based contracts</td>
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<td>• Facilitate investments in training within the firm through matching grants and contracts to address ‘poaching’</td>
<td>• Expand mobility grants</td>
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<td>• Diversify sources of financing by opening individual savings accounts for training and the use of social bonds</td>
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Targeting structural challenges and market failures (1 of 2)

Connectivity, mobility, and service provision

- Strengthen intra-regional connectivity, especially to largest accessible urban nodes
- Develop of national rural logistics strategy, including potential investment in networks of logistics / warehousing facilities, cold stories, etc
- Remove / reduce remaining restrictions on internal migrants’ access to public and social services (‘propiska’)
- Expand support to mobility programs, with a focus on access to housing
- Strengthen Public Employment Services including adopting innovative profiling methods and piloting of improved analytical methods for monitoring

Regional development and secondary cities

- Integrate Employment Roadmap program with broader regional development strategies – tailor support to different types of regions
- Macro-region (metro) approach to integrate rural hinterland into largest metro areas
- Establish functional regions in rural areas → expand local government borders / integrate and coordinate service delivery to expand access to services and markets (education, health, PES)
- Target SME support and investment in economic infrastructure in prioritized secondary cities
Targeting structural challenges and market failures (2 of 2)

Integrated and strengthened local value chains and clusters

- Targeted programs to promote agricultural value chain development (incl investment in post-harvest infrastructure) – piloting in rural regions with high potential and existing agri-food clusters
- Increase support for access to information to rural SMEs (market information, subsidized ICTs, etc)
- Expand channels for access to finance in rural areas including expanding micro-credits and ensuring credit is suited for agricultural activities

Optimized public infrastructure investments

- Put an explicit job creation strategy and regional development mandate on strategic infrastructure projects - ensure they link with complementary investments to connect rural areas (secondary roads)
- Ensure major transport projects include ICT roll out → leverage ICT for social service delivery
- Establish multi-use roadside service facilities linked to road corridor investments
Current approach and gaps

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<th>TARGETING STRUCTURAL CHALLENGES AND MARKET FAILURES</th>
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- Highly active → issue is not coverage but rather prioritization, design, delivery, and monitoring
- Four key principles:
  1. Consistency and all programs pushing in same direction – e.g. innovation and competition
  2. Integration of individual activities and complementarity – e.g. linking skills and sectoral work; linking infrastructure investments and supporting activities
  3. Implementation must be effective and well-coordinated
  4. Outcomes must be defined and measurable and progress monitored

** Diversification, productive employment, and regional development agendas must be more clearly aligned