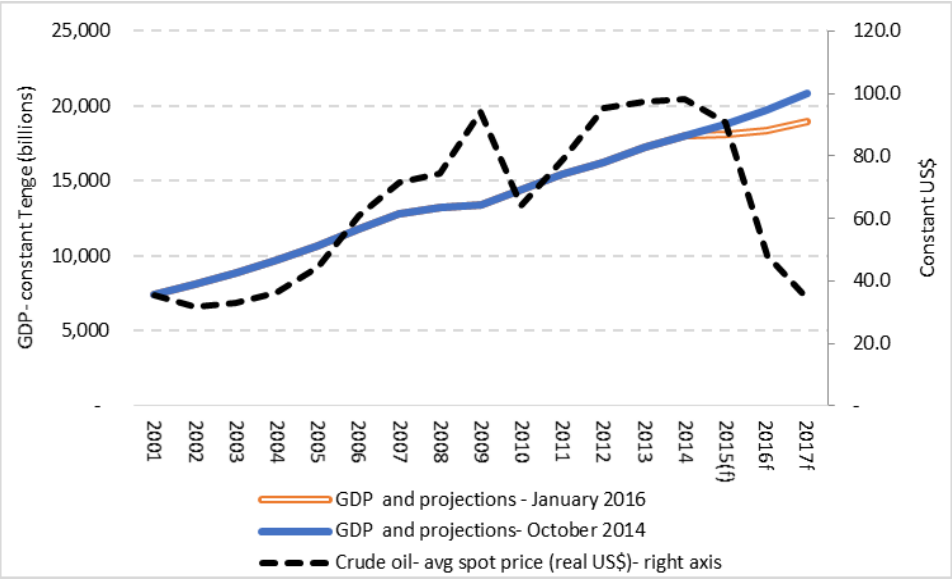
TOWARDS A JOBS STRATEGY FOR KAZAKHSTAN

SOCIAL PROTECTION AND JOBS 2019 CORE COURSES

November 6, 2019

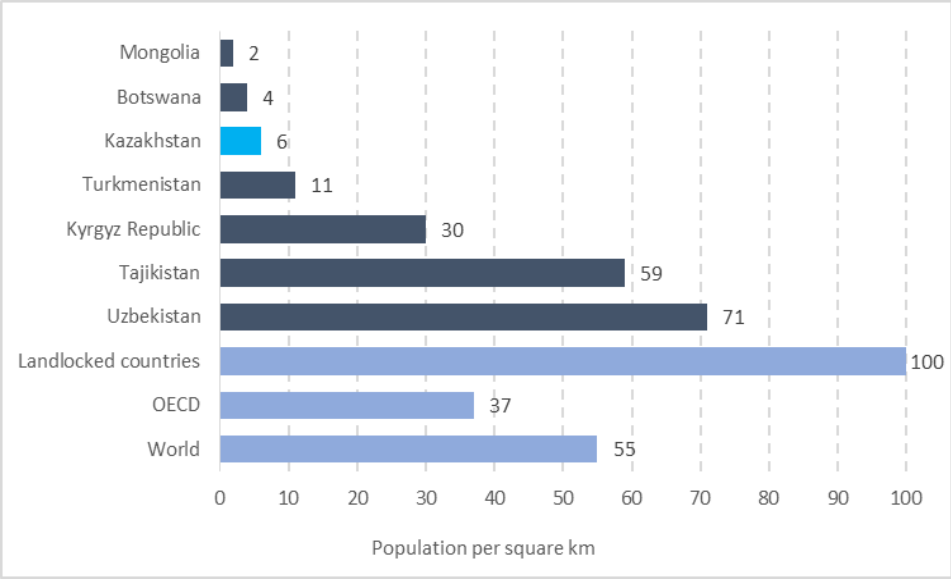
Jobs strategy being considered a challenging context

Slowing growth and contracting resource rents



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

Structural challenges: landlocked and sparsity

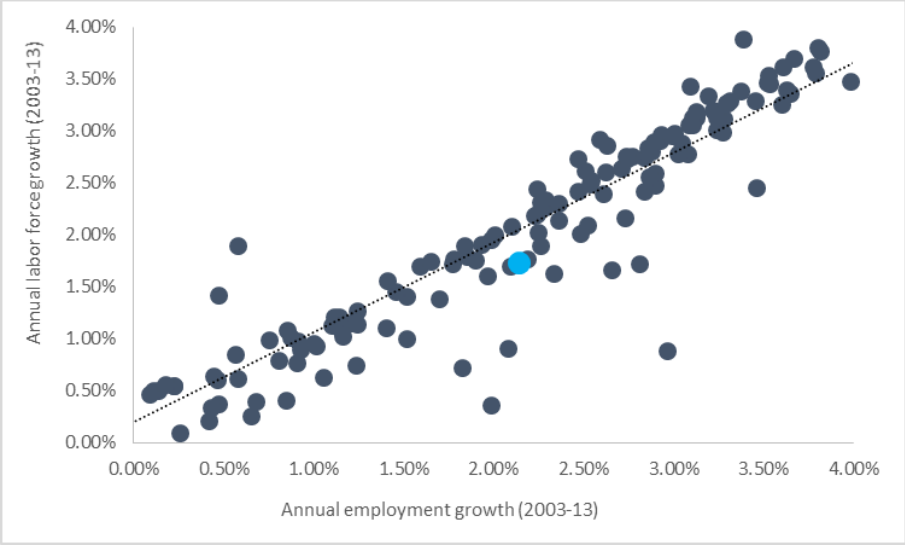


Source: World Development Indicators

JOBS DIAGNOSTIC: KEY FINDINGS

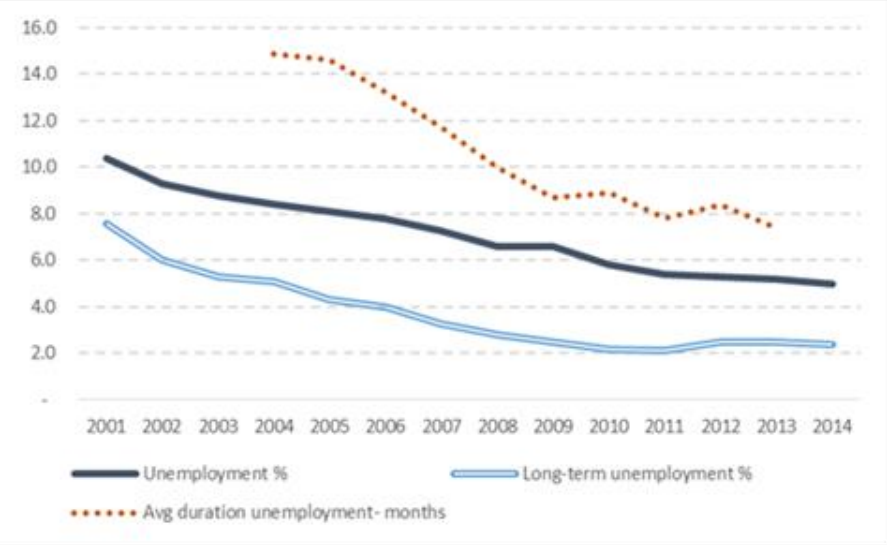
Kazakhstan has created jobs at a robust pace in recent years

Employment growth and labor force growth (2003-13)



Data source: World Development Indicators

Unemployment (2001-14)

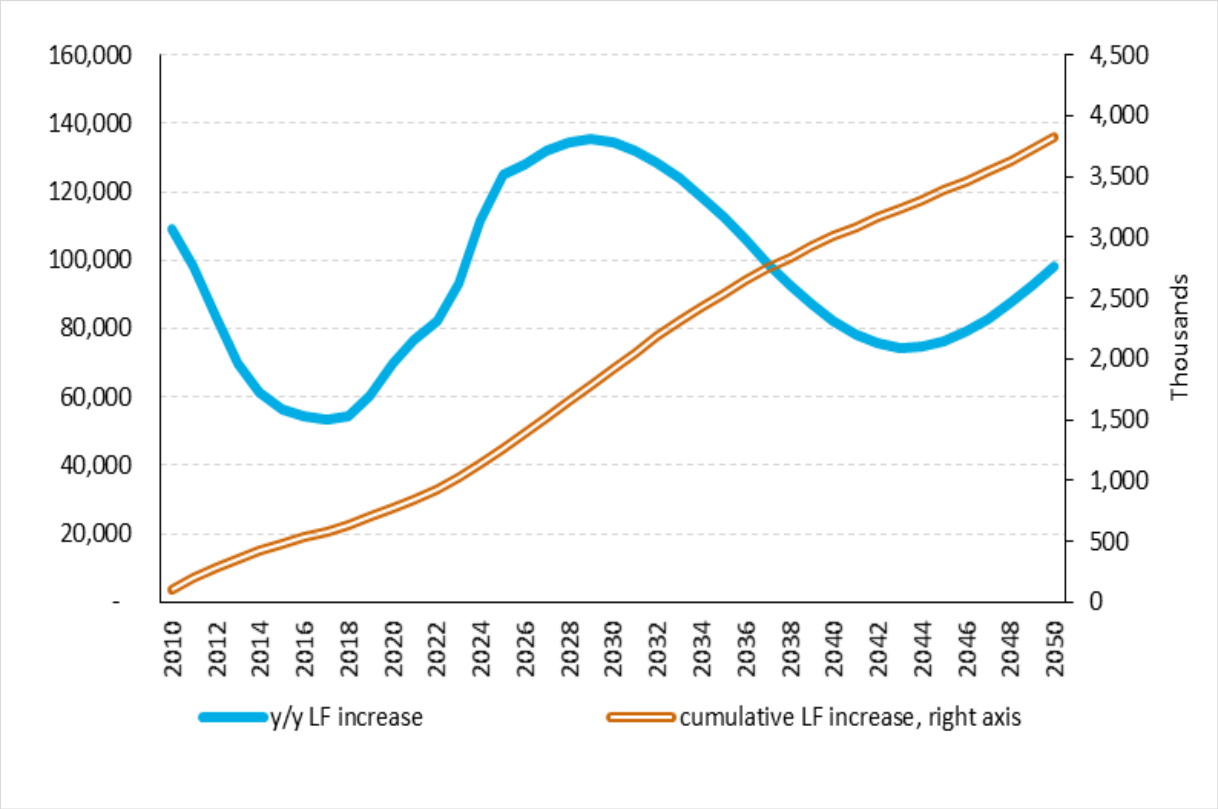


Source: Statistical Committee of Kazakhstan

- 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

Projected labor force growth (2010-2050)

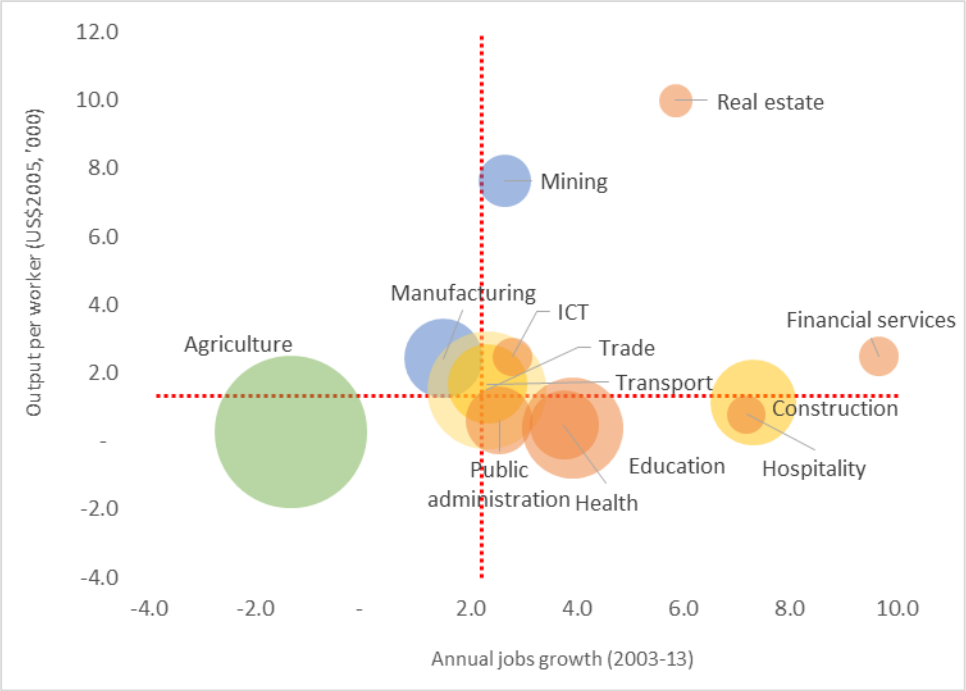


Note: for working age population of 16+, assuming 72 percent labor force participation rate.
Source: Demographics projections from the Statistical Committee if the Republic of Kazakhstan

- 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

And jobs are being created in low productivity sectors

Job growth and productivity by sector (2003-13)

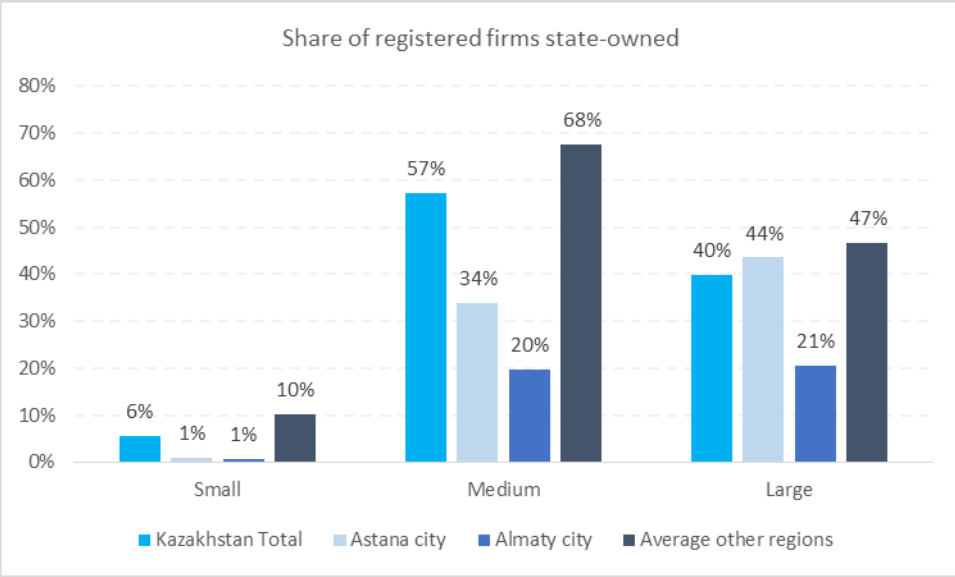


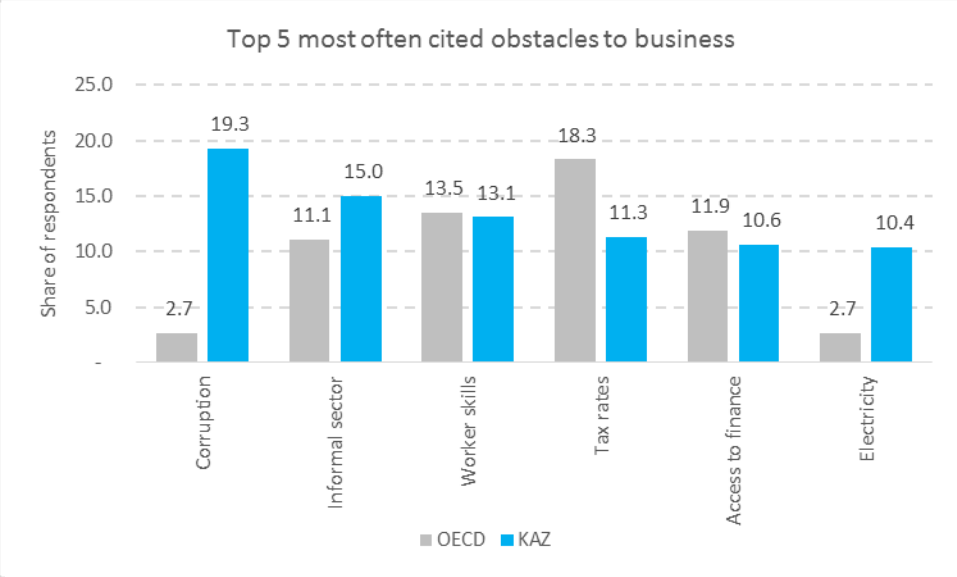
Source: World Bank calculations based on data from Statistical Committee

- 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

SME growth constrained by dominance of SOEs and informality

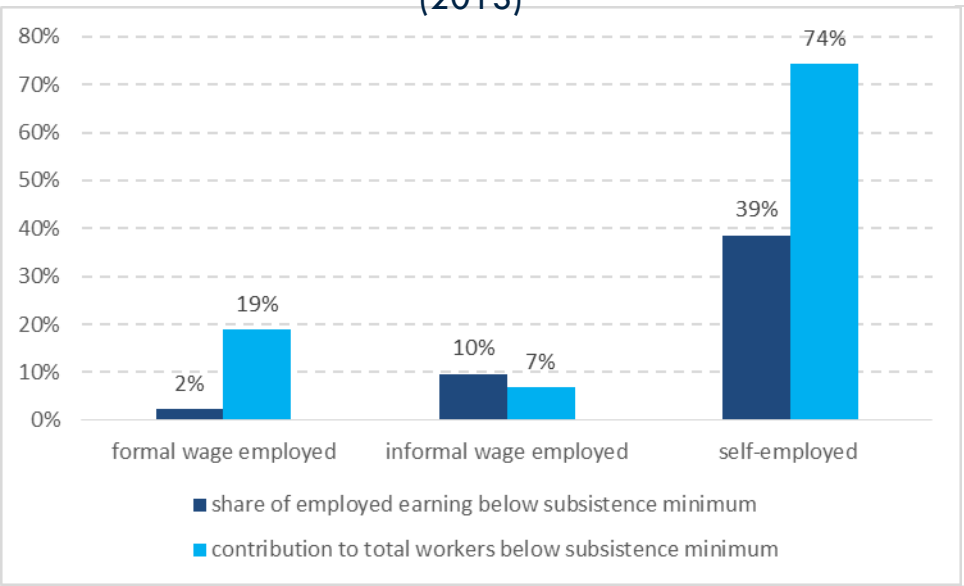
- SMEs account for just 20% of GDP and 28% of jobs → compared to a global average of 47% and 63% respectively
- SMEs face a host of barriers: finance, regulations, geography, etc… but is small firm growth also squeezed between informal and state-owned competition?



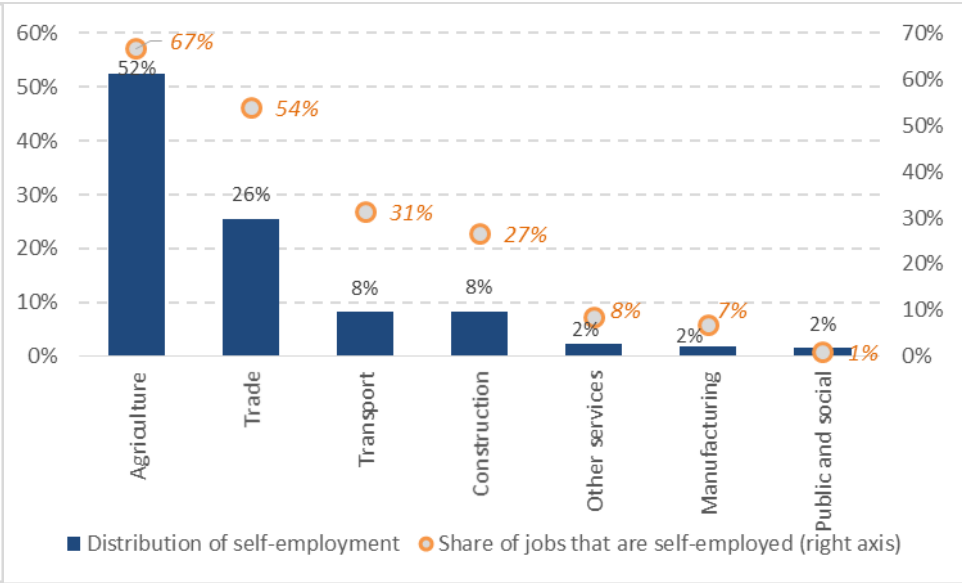


The productive employment challenge is about self-employment

Employment type and low earnings distribution- estimated (2013)



Self-employment by sector

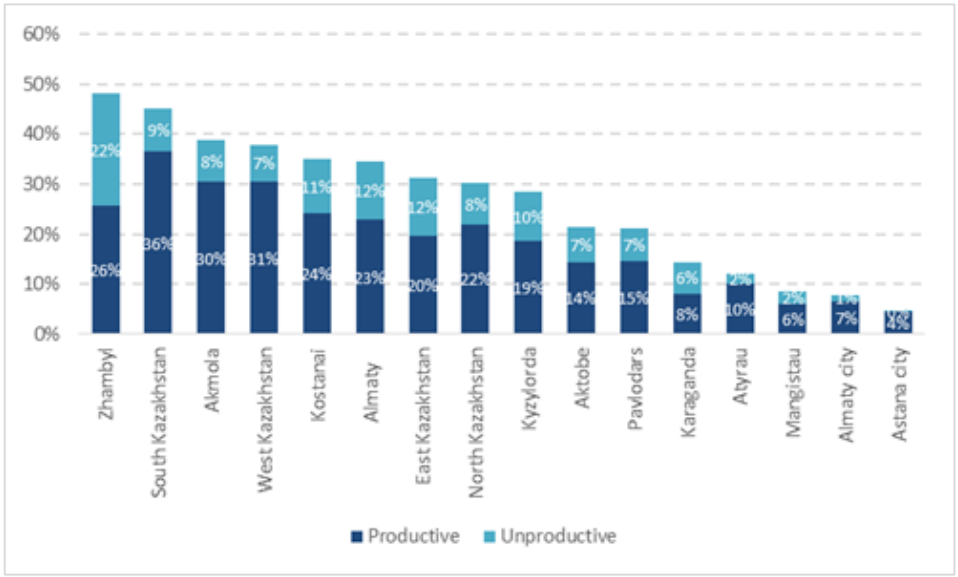


Source: World Bank calculations based on data from Statistical Committee

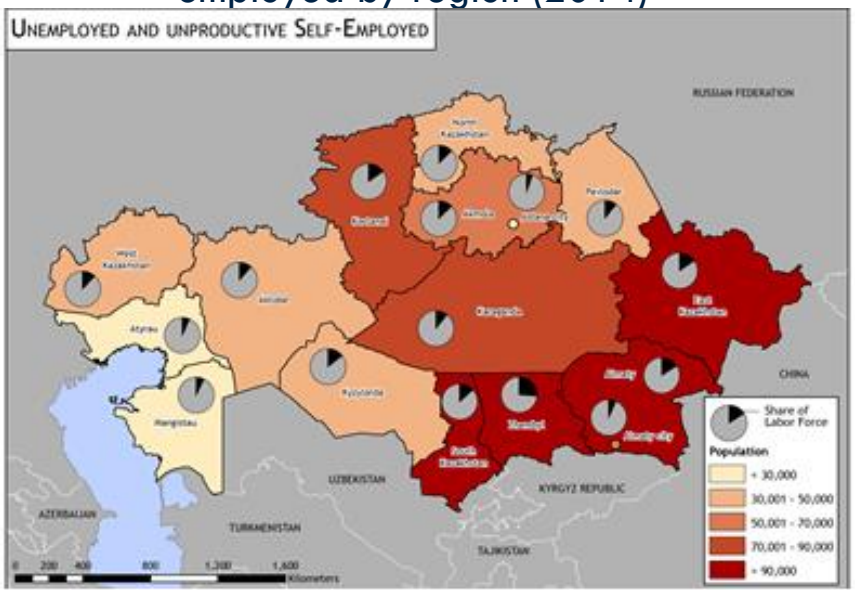
- As of 2015, around 500,000 workers considered 'unproductively employed'
- Note: subsistence minimum extremely low → setting a <u>relative</u> benchmark for poverty at 25% of average earnings = 50% above current subsistence minimum
- Agriculture and trade also show significant leftward skews in their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

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)

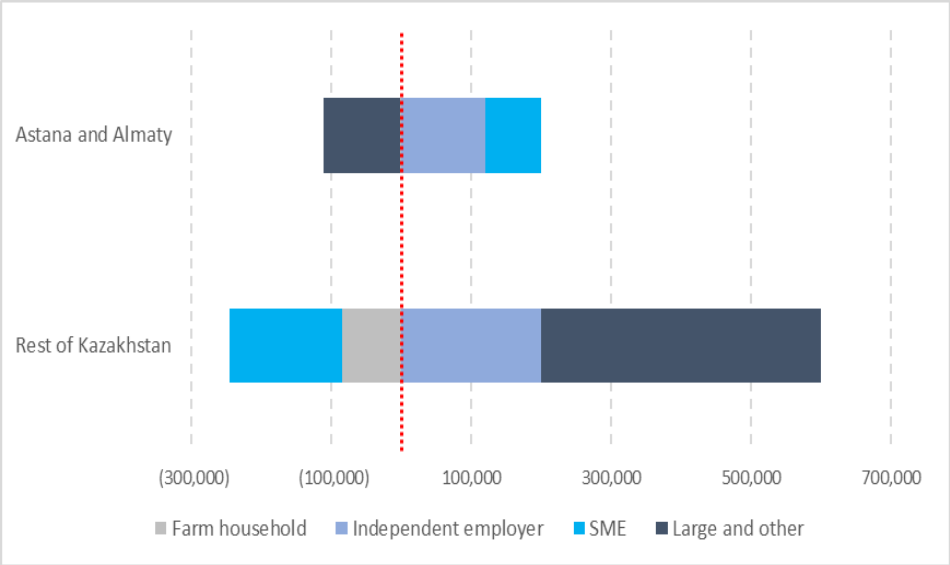


Source: World Bank calculations based on data from Statistical Committee

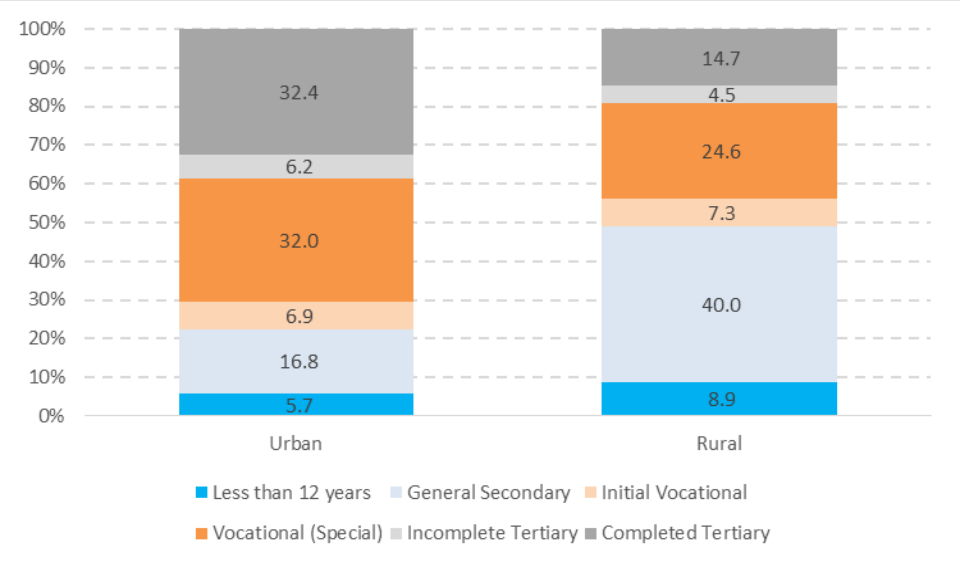
- Ranges from 5% in Astana to almost 50% in Zhambyl
- Concentration of unproductive self-employed in South – 60% in 4 regions
- Self employment = 18% of urban jobs but 45% of rural ones
- Regions with largest urban centers have least self-employment; but non-farm self employment also more likely urban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

Spatial dimensions of both demand and supply challenges

Employment growth (decline) by employer type (2010-13)



Educational attainment in rural and urban workforce (2013)

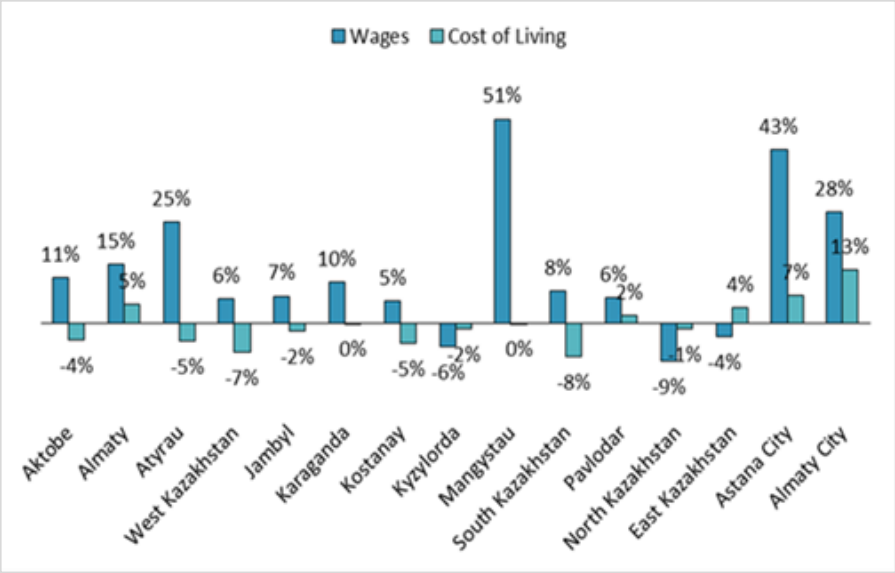


Source: World Bank calculations based on data from Statistical Committee

- 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

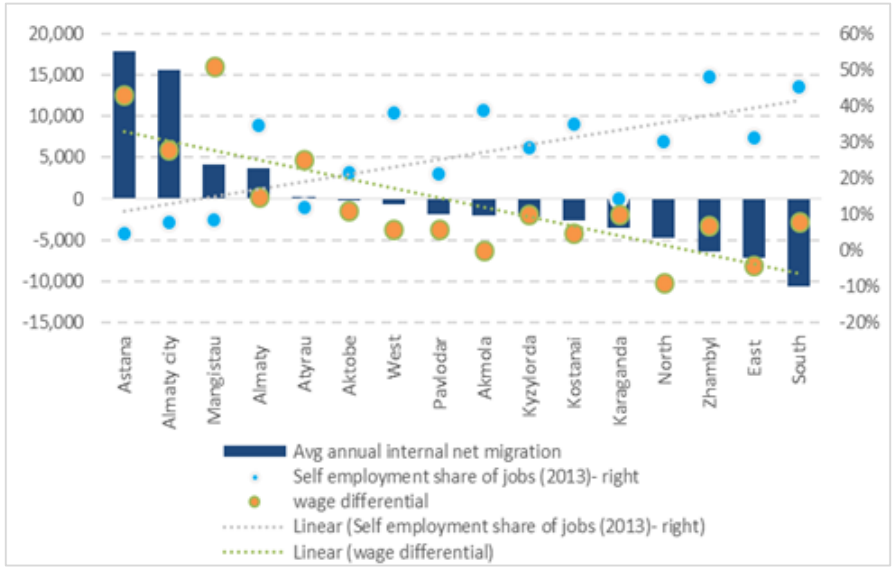
Barriers to internal mobility?

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



Source: World Bank (2015) based on data from Labor Force Survey (2013)

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



Source: World Bank (2015) based on data from Labor Force Survey (2013); ERI/McKinsey

- 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

TOWARDS A JOBS STRATEGY

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

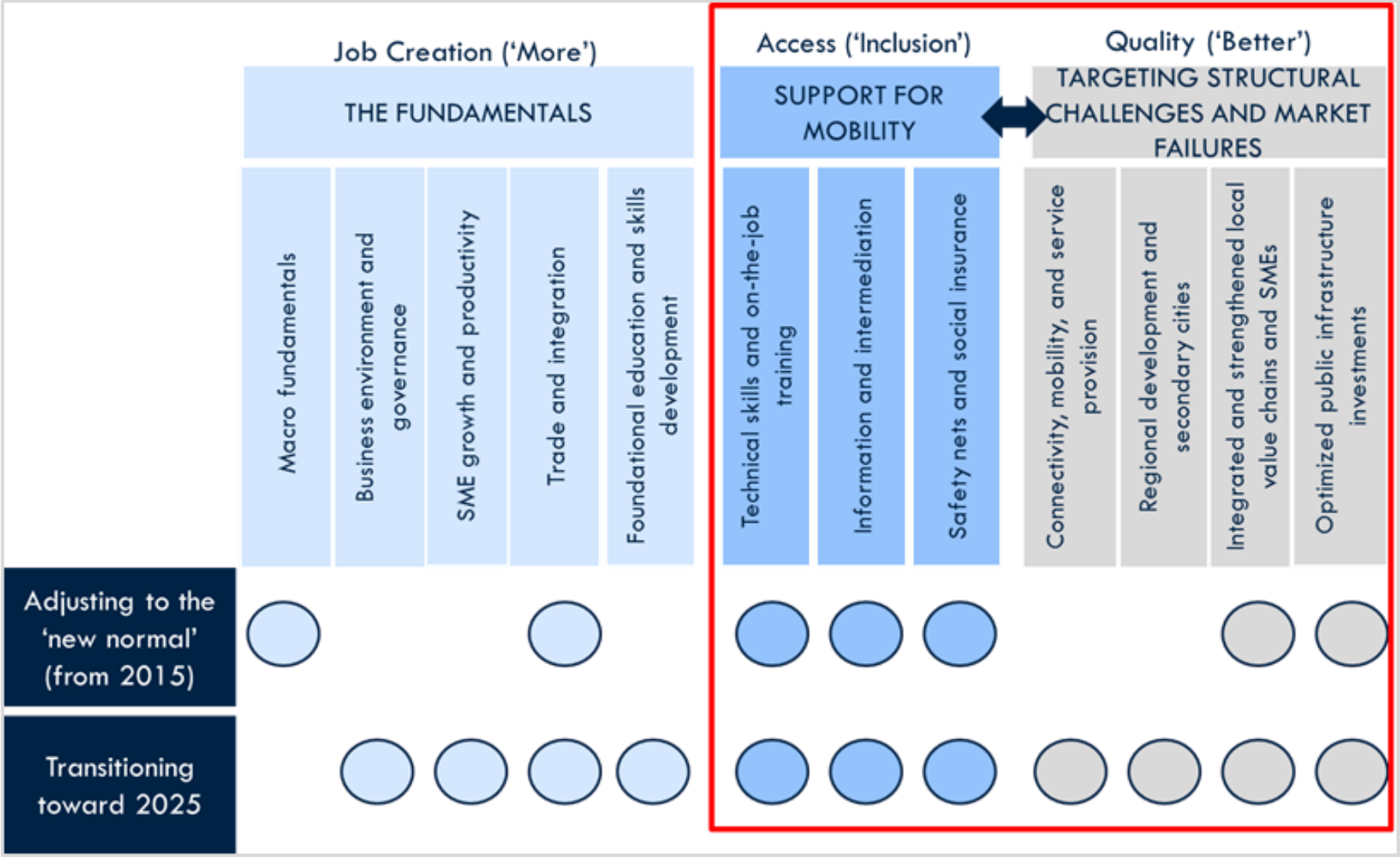
Low wage public and social sector

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



Private sector development, diversification, and education are fundamental… but not sufficient

THE FUNDAMENTALS

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

Supporting mobility of workers across locations and sectors

Technical skills and on-the-job training

- Diversify the network of providers in leveled playing field
- Standardize contracting and payment systems that reimburse providers based on results
- Consider short-term subsidies to finance On the Job Training
- Facilitate investments in training within the firm through matching grants and contracts to address 'poaching'
- Diversify sources of financing by opening individual savings accounts for training and the use of social bonds

Information and Labor Market Intermediation

- 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
- Strengthen ID and registration systems for job-seekers, as well as enforcement arrangements.
- Diversify the network of providers of ALMPs (intermediation, counseling) using result based contracts
- Expand mobility grants

Safety Nets and Social insurance

- Expand the coverage of basic insurance programs (health and pensions) to the informal sector through incentive compatible redistributive arrangements
- 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

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

	THE FUNDAMENTALS					MOBILITY			TARGETING STRUCTURAL CHALLENGES AND MARKET FAILURES			
	Macro-fundamentals	Bus. envir/ governance	SME growth / productivity	Trade and integration	Foundational education	Technical skills and on-the-job training	Information and intermediation	Social safety nets	Connective infrastructure and social services	Regional development and secondary cities	Value chains and clusters	Optimized public infrastructure investments
SPAID		■	■	■	■				■		■	
Agribusiness 2020		■	■								■	
Employment Roadmap 2020		■			■	■	■		■			■
Business Roadmap 2020			■	■	■	■						
Single Industry Towns Development Program		■							■	■		
DAMU Programs		■	■									
National Champions on Competitiveness		■	■	■								
Orleu Program								■				

- 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