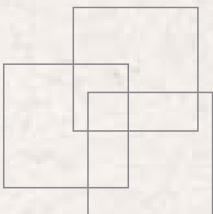




International  
Labour  
Office

# JOBS AND SKILLS FOR YOUTH:

## REVIEW OF POLICIES FOR YOUTH EMPLOYMENT OF KAZAKHSTAN





# **JOBS AND SKILLS FOR YOUTH:**

REVIEW OF POLICIES FOR  
YOUTH EMPLOYMENT  
OF KAZAKHSTAN

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# FOREWORD

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This review of the youth labour market in the Republic of Kazakhstan and of the policies and institutions for youth employment is part of the work that supports the ILO member states in collecting information on, and analysing, the effectiveness of country policies and programmes, including those undertaken through voluntary multi-country peer reviews. More specifically, it is part of one of the areas of collaboration between the ILO and the government of the Republic of Kazakhstan that revolves around the provision of technical support to address youth employment issues.

The review was conducted by the International Labour Office in 2014, with the purpose of serving as an assessment of the current situation and supporting the development of a National Action Plan for Youth Employment. It was made possible through the generous support of the company LUKOIL to the project Partnerships for Youth Employment in the Commonwealth of Independent States.

This report was prepared by Alena Nesporova. Gratitude goes to Olga Koulaeva from the ILO Decent Work Team and Country Office for Eastern Europe and Central Asia and the team she led, with particular thanks to Rebecka Rask, Talgat Umirzhanov and Eleonora Salykbayeva. Appreciation is also expressed to the team of the ILO Youth Employment Programme, led by Gianni Rosas, for their contributions and support.

Many thanks go to the officials of the Ministry of Healthcare and Social Development of the Republic of Kazakhstan, Ministry of Economy, Ministry of Education and Science, the Agency of Statistics, Astana Employment Centre, employers' organizations and trade unions for the background information, data, and feedback for this report.



# EXECUTIVE SUMMARY

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*In the decade prior to the global financial and economic crisis Kazakhstan belonged to the fastest growing economies of the world with annual GDP growth rates moving above 9 per cent.* Rapid economic growth was fuelled by large foreign direct investment flowing in particular into the hydrocarbon and mineral extraction industries, by increasing oil export revenues but also by domestic investment channeled mainly into construction and real estate. Prudent countercyclical macroeconomic policies helped stabilize public finances and alleviate strong inflationary pressures through directing a large part of oil revenues to the National Oil Fund – an important fiscal buffer and source of development investment. A large-scale tax reform and new legislation on the protection of property rights and free competition improved the business environment, attracted foreign investors and stimulated entrepreneurship. At the same time the indebtedness of enterprises and households steeply increased to 75 per cent of GDP in 2007, half of them denominated in foreign currencies. When the global crisis started a large part of loans turned out to be non-performing, domestic demand substantially dropped similarly as revenues from exports and the economy slipped into recession.

*A timely use of the large anti-crisis fiscal stimulus package helped the country avoid economic crisis.* The policy package, worth some 20 per cent of GDP and financed mostly from the National Oil Fund, was directed to the stabilization of the banking sector, large infrastructural projects, housing construction as well as stimulation of consumer demand through the indexation of pensions, a public wages' increase and stronger social protection. The impact of this package together with a gradual recovery of world commodity prices resulted in economic stabilization and the return to solid economic growth. Nevertheless, the still weak banking sector burdened by large non-performing loans as well as overdependence on oil and commodity exports while manufacturing remains small and non-competitive make the Kazakh economy vulnerable to external shocks.

*Rapid economic growth since 2000 has resulted in a spectacular reduction of poverty but this positive social development has not been equally distributed among regions and population groups.* The share of population living below the national poverty line declined from 37.5 per cent in 2003 to a mere 2.9 per cent in 2013 but poverty remains more widespread among rural population. Income inequality was reduced after 2000 but since the 2008-2009 recession it has increased again and in 2013 the average income of the 10-percent-richest population group exceeded that of the 10-percent poorest group 5.6 times.

***The labour market situation has much improved since 2000, in particular for youth.*** Between 2001 and 2013 1.88 million new jobs were created and open unemployment halved to 5.2 per cent. The decline in unemployment was spectacular especially among youth aged 15-24 as their unemployment rate decreased from 19.1 per cent in 2001 to a mere 3.9 per cent in 2013, i.e. 1.4 percentage points below the rate for population aged 15+, which is unique in the world. Although the labour force participation of youth dropped by some 4 points in 2013 in comparison with 2001 the reason should be sought in growing numbers of young people of both sexes enrolled in tertiary education.

***The formal educational attainment is high and further increasing in young population but generates large skill mismatches.*** In 2012 the share of youth with post-secondary education accounted for one-third of all young people aged 15-28 (the national definition of youth). Higher education level correlates with significantly higher economic activity, higher employment and lower unemployment both for youth and adults. However, many young people prefer secondary or university education in social, law and economic disciplines while the enterprise sector is desperately looking for technically qualified manual workers or specialists. Moreover, important challenges are associated with the lower quality of education as identified by international comparisons that point to underdeveloped capacity for higher order thinking (applying and reasoning in mathematics etc.) and a high percentage of students performing below the baseline proficiency level. Also, a significant number of school leavers from general secondary schools remain without any professional qualifications, which worsens their future prospects for gaining decent employment. All these challenges prolong the transition of young people from school to work (around one-third of employed youth reported to have had problems with finding their first job) and are the reason why only less than two-thirds of youth work in jobs requiring specialization they studied.

***Young people, despite their higher education, are more often than adults concentrated in self-employment in agriculture and trade that both tend to require lower education and provide low productive jobs.*** Also informality is significantly more widespread among young people. Young workers are thus less covered by labour legislation protecting their labour rights and health and safety at work and also less socially secured. Within the special youth employment module of the labour force survey launched in 2012, over 40 per cent of young people stressed the need to create new jobs, nearly 30 per cent suggested higher remuneration and 11 per cent better working conditions in their response to the question concerning their recommendations for improving the youth labour market situation.

***Liberal labour market regulation as well as the low minimum wage impose no obstacle for hiring young people similarly.*** While a significant gap between a bit more strictly regulated permanent contract and very liberal temporary contracts

points to labour market duality hitting disproportionately young people, the share of temporary contracts is very low and this duality plays a limited role. However, the otherwise positive high correlation between wages and labour productivity is mainly achieved through shortening of working hours or administrative leaves without or with little compensation and through the non-payment of wages when the enterprise loses profitability. The combination of liberal and on the top poorly enforced labour legislation with large-scale informal employment and the downward movement of wages indicates high labour market and wage flexibility and low job and income security for workers that affects in the first place young people. Collective agreements are concluded in one-third of active enterprises within the formal sector. Nevertheless, as young people are less unionized than adult workers they enjoy less additional job security through collective bargaining.

*Employment services and active labour market programmes cover only a small part of jobless persons while the number of unemployment benefit recipients is negligible and the level of benefits very low.* Employment services and labour market programmes are decentralized, provided and funded by local labour exchanges. Due to the lack of trust of both jobseekers and employers in the quality of their services associated with their insufficient financial resourcing, poor experience and motivation among the staff, poor quality of vacancies on offer and very low and scarcely provided unemployment benefits, the interest of jobless persons to register as jobseekers is limited. The Employment Roadmap programmes for 2009 and 2010 launched by the government as parts of the anti-crisis policy package indeed helped preserve employment and create (mostly temporary) jobs, avoiding thus any significant increase in unemployment. Their successful implementation led the government to adopt the Employment Roadmap 2020 that targets not only jobless persons but also persons in low productive self-employment (many of them actually jobless) and socially weak population groups and its first priority group are young people. The Roadmap 2020 stimulates job creation by supporting local and regional infrastructural projects, promotes productive business start-ups, and addresses skills mismatches through training and territorial mismatches through subsidized moves to regions facing labour shortages. However, the majority of participants in active labour market programmes launched either by local labour exchanges or by the Roadmap 2020 are concentrated in temporary jobs (i.e. public works) generated by infrastructural projects, which offer them only low prospects for regular employment after their completion. Only a fraction of active labour market policy beneficiaries get training or subsidized move, despite the skills and territorial mismatches identified as the main labour market challenge. Moreover, the actual parallel structure of local labour exchanges (in charge of jobseekers' registration and provision of employment services) and of employment centres (in charge of the Roadmap implementation) makes interventions non-transparent and overlapping and hinders proper evaluation of individual labour market policies.

***In view of the high number of young people entering the labour market in the upcoming decade and the identified structural challenges facing youth employment, a national action plan on youth employment should be developed.***

This youth employment action plan, closely coordinated with the Employment Roadmap 2020 and other relevant strategic documents, should set clear targets for youth employment policy within the agreed timeframe, ensure its coherence with economic, educational and social policies, define responsibilities of all relevant stakeholders and improve the institutional framework necessary for the achievement of the set targets. The important elements of this integrated approach include measures aimed at (i) increasing the employment content of economic and fiscal policies; (ii) ameliorating further the business environment, with a special focus on the small and medium-sized enterprise sector; (iii) using an appropriate combination of stimuli and sanctions for a gradual formalization of informal employment; (iv) ensuring the full coverage of young people by vocational guidance and improving the quality and relevance of the national education and training system; (v) creating conditions for higher adaptability of enterprises and workers and for much stronger employment and social security of workers; (vi) increasing the relevance and impact of public labour market institutions; and (vii) improving the design, implementation, coverage and evaluation of active labour market programmes.

***The employment content of economic and fiscal policies could be increased without jeopardizing macroeconomic stability through reducing widespread tax evasion, return to the progressive income tax and strengthening of local budgets.***

Macroeconomic policy should stimulate diversification of the economy from over-dependence on (labour saving) oil and mineral extraction sectors towards competitive manufacturing. Productivity in agriculture and services also need to be raised so that the quality of existing jobs improves and new, more productive jobs are created for young labour market entrants. The fiscal decentralization has left the financing of local infrastructure, education, health care, labour market policies and social institutions and policies largely to the local budgets. However, tax revenues collected into the local budgets mainly from the (flat-rate) income tax are not sufficient and as transfers from the republican budget are not well predictable, local governments especially in poor regions are often facing severe budget constraints impacting negatively on local development. Progressive income taxation would bring additional tax revenues into the local budgets similarly as the reduction of widespread tax evasion through stricter control by financial offices. Also higher subsidies from the republican budget would help promote job creation and poverty alleviation in less economically developed regions.

***Business environment should be further improved and the small and medium-sized enterprise sector strengthened in order to create more productive jobs.*** Kazakhstan has made big progress in improving the conditions for doing

business in the area of legislation and tax reform. However, proper enforcement of legislation and widespread bureaucratic practices and corruption remain a big problem. The government should enforce compliance with legislation and fight against corruption by strengthening financial offices, labour inspection and the judiciary and promoting their close collaboration, and by increasing penalties and fines. Young people are especially vulnerable to illegal practices of employers and information on their legal rights and how to protect them should become part of school curricula. In order to overcome the low capacity of the business sector to gain, absorb and implement technological innovations in their production, the government should more invest in R&D in partnership with the private sector, subsidize the technology transfer in particular to SMEs and encourage enterprises to improve the workforce capacity through regular skills upgrading. While SMEs are benefiting from special governmental programmes, the assistance provided is often fragmented and inefficient. Package approaches for SME support helping them to overcome constraints in gaining credits, improve connection to electricity and other infrastructure, gain access to markets and new technologies or solve skills problems would much strengthen this sector.

***The informal sector and informal employment should be gradually formalized through appropriate policies in order to increase the quality of employment of informal workers.*** A plan of action on gradual formalization of the informal sector, elaborated and implemented in close cooperation of the government with the social partners, should tackle the main reasons of informality. It needs to be closely linked to the economic development and employment programmes so that more formal jobs of good quality are created. The cost of informality should be increased through stricter sanctions for tax avoidance and violation of labour rights. Simultaneously, sanctions need to be combined with mitigating the barriers to formalization and opening the access of informal enterprises and workers to legal protection, productive resources and appropriate assistance programmes. The awareness of people on negative consequences of informal employment, sanctions and support packages for formal business should also be strengthened through a broad public information campaign.

***The quality and relevance of education of the population needs to be improved through reforming the education system and motivating young people to make the right choice of profession.*** Regional gaps in the quality of education should be reduced through higher investment in skills and motivation of teachers and better material equipment of schools. The current policy of stimulation of high performance of students needs to be complemented by systematic tackling of underperformance and by encouraging critical thinking, problem solving and applying acquired knowledge in practice. Vocational guidance as well as basic entrepreneurship training must become an integral part of curricula of all secondary schools to help young people decide on their further studies taking into account

their talents and interests on the one hand and good employment prospects on the other. The government could better use financial leverages (in combination with vocational guidance) for motivating young people to gain education or training in skills necessary for a diversified and highly competitive national economy. In particular the quality and prestige of vocational education and training needs to be raised through the combination of theoretical education with practical in-company training using up-to-date equipment so that they provide relevant, high quality and formally recognized skills. As the share of co-financing of studies by households is high and may discourage youth from poor families from further studies the government may consider expanding financial support to such youth. The country also needs to invest much more in adult education and training in line with the principle of lifelong learning.

***Conditions should be created for higher adaptability of enterprises and workers and its better balance with stronger protection of workers.*** While liberal labour market regulation makes hiring and firing of workers easy for employers in Kazakhstan, this low job security is very insufficiently compensated by assistance in re-employment provided by public labour exchanges. Income support in unemployment is practically non-existent and the access of especially disadvantaged jobseekers to suitable labour market programmes is very limited, pushing jobless people to take up any job regardless of their qualifications and often turn to the informal sector. There is also a very weak linkage between social protection and active labour market programmes. All this demotivates people to engage in the formal economy and results in significant losses of human capital with a negative impact on labour productivity. The government might re-consider this approach and allocate more resources to social protection and employment promotion of jobless population but condition it for those able to work by active job search or participation in appropriate active labour market programmes.

***The impact of public labour market institutions would be increased through their restructuring and capacity building.*** The current weight of public labour market institutions in job placement is extremely low in Kazakhstan. In order to increase their impact, they have to reach out to as many clients, both jobseekers and employers, as possible by offering them relevant, high quality employment services and labour market programmes. They should also closely cooperate with all the important stakeholders in the regional/local labour market as only through real and mutually beneficial partnerships can the number and quality of vacancies reported to and occupied with assistance of public labour exchanges be raised, similarly as the outcomes of employment promotion programmes. A nationwide database on vacancies also needs to be established and widely promoted. The attraction of many more jobseekers will call for strengthening the staffing and capacity of labour exchanges so that they are able to offer a standard set of employment services to all jobseekers and target intensive individualized



assistance to harder-to-place groups of jobseekers. It would also be advisable to re-establish the public employment service in its full territorial structure, absorbing and merging the parallel structure of local labour exchanges and local employment centres. This would allow standardization of employment services and policies across all regions and better coordination of their implementation, regular training of the staff and raising their motivation through better remuneration. Financial resources could then be more easily re-distributed towards poor regions with high unemployment and large low-productive self-employment. A reliable regular assessment of results of individual offices is also needed that would improve the efficiency of functioning of the whole public employment service.

*Active labour market policies should be expanded, re-focused to address the main challenges and better targeted in order to increase their impact.* The coverage of jobseekers by active labour market programmes is very low and biased in favour of public works while programmes tackling the major challenges – territorial and skills mismatches and joblessness of persons with more severe disadvantages – are limited in scope. The Employment Roadmap 2020 has already partially addressed some of these gaps but still more on paper than in reality. First of all, vocational guidance needs to be much extended to cover youth at schools as well as jobless youth and adults without or with obsolete professional skills. Training, retraining and skills upgrading should be significantly expanded not only among jobless persons but also offered to discouraged inactive people or low-productive self-employed persons and even for staff training to SMEs in poor regions with high open or hidden unemployment. Similarly, the possibility of subsidized moves from depressed regions to regions offering good employment prospects needs to become more widespread. Jobseekers with more severe disadvantages should benefit from complex programmes that develop their capabilities and compensate for obstacles. Early intervention in the case of young people is particularly important. Public works programmes have their role in regions with mass unemployment or for engaging long-term unemployed persons but need to be combined with training in order to help the participants find regular jobs. Finally, the outcomes, impact and efficiency of active labour market programmes are to be regularly monitored and evaluated.



# 1

## OVERVIEW OF THE ECONOMIC AND SOCIAL CONTEXT

### 1.1 Macroeconomic framework

After proclaiming independence in December 1991, Kazakhstan went through a deep transformational crisis until 1998 caused by the disruption of close production and market ties with Russia and other ex-Soviet countries, large emigration of skilled workforce, low prices of oil and minerals – key export commodities of the country - on the world market but also some failures in economic and institutional reforms. Many closures of big state-owned enterprises or their privatization led to massive job losses and to a sharp increase in the unemployment rate that climbed to 13 per cent in 1996-1997. High unemployment together with hyperinflation of consumer prices contributed to a dramatic decline of real wages and an increase in poverty. During this period the national economy lost almost two-fifths of its GDP.

A deep devaluation of the national currency in 1999 helped overcome the external shock generated by the 1998 Russian financial crisis and, together with the upsurge of world oil and mineral prices as well as new important discoveries of oil and gas reserves, it started a decade of high economic growth (see Table 1.1). This boom period with GDP growth rates averaging more than 9 per cent was fuelled by high fixed capital formation (pushed by high foreign direct investment primarily into the oil, gas and mining industries), construction boom and by large exports of hydrocarbons and minerals, wheat and some other agricultural products. Exports largely exceeded imports of goods and services and led to significant external balance surpluses. General government consumption remained stable and relatively low, below 12 per cent of GDP. However, household consumption, despite its rather rapid growth in absolute terms, was steadily losing its share in GDP from 61 per cent in 2002 to 42 per cent in 2008. Consumer price inflation declined to single digits but increased again between 2007 and 2009. Also public finances improved remarkably as the general government balance moved into surpluses and the central government debt was declining. In addition, the government created the National Oil Fund as a fiscal buffer for future external shocks that accumulated a significant part of revenues from hydrocarbon sales. The unemployment rate reached its peak (13.5 per cent of the labour force) in 1999 and since then it started declining to single digits.

**Table 1.1 Key macroeconomic indicators, Kazakhstan, 2002-2012**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Real GDP growth rate</b> (in per cent)	9.8	9.3	9.6	9.7	10.7	8.9	3.2	1.2	7.0	7.5	5.1	6.0
<b>Gross fixed capital formation</b> (per cent of GDP)	24.0	23.0	25.1	28.0	30.2	30.0	26.8	27.8	24.3	20.7	20.8	n.a.
<b>General government balance</b> (per cent of GDP)	1.9	4.0	2.6	6.9	7.7	5.2	1.2	-0.7	1.5	6.0	4.5	5.0
<b>General government debt</b> (per cent of GDP)	17.6	15.0	11.4	8.1	6.7	6.2	6.5	10.2	10.7	10.4	12.4	12.9
<b>FDI net inflow</b> (per cent of GDP)	10.5	6.8	9.6	4.5	9.4	11.4	12.6	12.4	5.0	7.3	6.8	4.3
<b>Government consumption</b> (per cent of GDP)	11.6	11.3	11.6	11.2	10.2	11.1	10.2	11.7	10.8	10.7	11.5	10.6
<b>Household consumption</b> (per cent of GDP)	61.2	57.7	53.5	49.0	45.2	46.7	42.2	50.7	49.1	45.4	48.0	51.2
<b>Exports</b> (per cent of GDP)	47.0	48.4	52.5	53.5	51.2	49.4	57.2	42.0	44.0	49.5	47.6	39.5
<b>Imports</b> (per cent of GDP)	47.0	43.0	43.9	44.7	40.5	42.8	37.1	33.8	29.2	27.7	30.3	27.6
<b>External balance</b> (per cent of GDP)	-0.1	5.4	8.6	8.8	10.7	6.7	20.1	8.2	14.7	21.8	17.3	11.9
<b>Current account balance</b> (per cent of GDP)	-4.2	-0.9	0.8	-1.8	-2.5	-8.0	4.7	-3.6	0.9	5.4	0.5	-0.1
<b>Inflation</b> (y-o-y per cent change)	5.9	6.5	6.9	7.5	8.6	10.8	17.1	7.3	7.1	8.3	5.1	5.8

Source: World Bank, economic and social data at <http://data.worldbank.org/indicators>; general government balance: IMF World Economic Outlook database, October 2014 at <http://www.imf.org/external/pubs/ft/weo/2014/02/weodata/index.aspx>.

However, the global financial and economic crisis interrupted this favourable development and substantially reduced the GDP growth rate to 3.2 per cent in 2008 and even 1.2 per cent in 2009. During the boom years prior to the crisis, Kazakhstani banks borrowed heavily from abroad in order to fund a rapid expansion of credit, mostly concentrated in construction and real estate. When the global financial crisis hit the economy, capital stopped flowing into the country, real estate prices sharply decreased and many loans turned out to be non-performing. The banking sector occurred in big difficulties, significantly reduced its lending to the enterprise sector and finally had to be bailed out by the state. The credit crunch impacted negatively on domestic enterprises in the non-oil sectors. The global crisis also suppressed prices of hydrocarbons in the world markets and significantly reduced revenues from exports. Although banks' bailouts

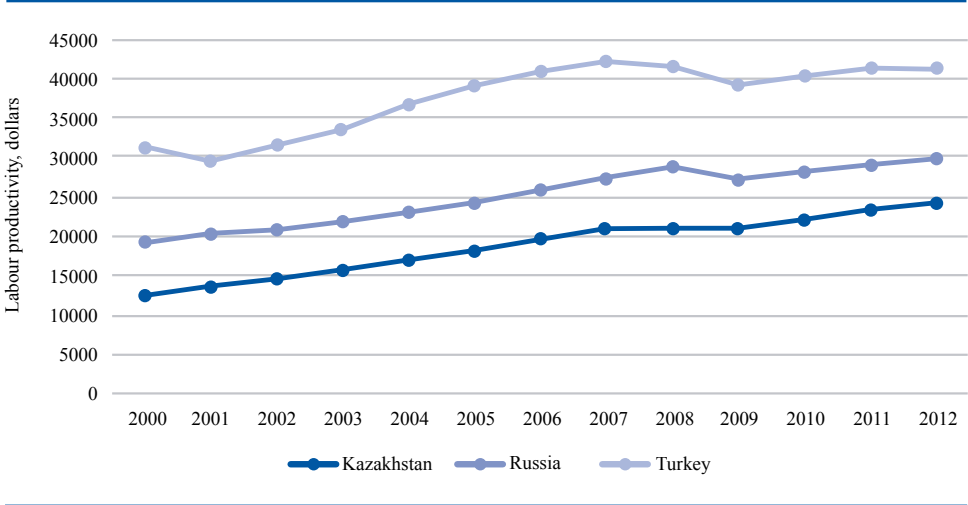
and support to enterprises in crisis were mostly financed from the National Oil Fund, public finances deteriorated as a result of lower revenues and high anti-crisis expenditure in support of households and on infrastructural projects and in 2009 the general government balance fell into red figures. The recovery of world oil and gas prices helped restore solid economic growth, however the GDP growth rates have not reached the pre-crisis level and in 2012 even slowed down a bit but again slightly accelerated to 6 per cent in 2013. In February 2014, the National Bank of Kazakhstan again devalued the national currency by 19 per cent, which is anticipated to increase the yearly inflation rate to some 9 per cent. In 2013, the GDP per capita reached the level of 23,038 US\$ (measured in purchasing power parity and current international dollars) and Kazakhstan belongs to the group of upper middle-income countries.

A bit paradoxically, foreign direct investment accelerated during the period of financial crisis and economic slowdown, but since 2010 it has much declined. As a result, contribution of the gross fixed capital formation to GDP also shrank. During the crisis household consumption significantly increased as a percentage of GDP, among others due to the government's support to households. Inflation returned back to single digit rates. As will be detailed later, governmental subsidies to enterprises as well as employment promotion programmes helped contain job losses during the crisis so that unemployment soon returned to the declining trend.

Strong economic growth contributed to the creation of new jobs as will be elaborated in Chapter 2. Over the period 2002-2012 the employment elasticity of growth equaled 0.27, i.e. each percentage point of the GDP growth was accompanied by the 0.27 per cent employment growth. While this rather low elasticity could indicate a low labour absorption capacity of the Kazakh economy, since 2010 the employment elasticity of growth has significantly increased to 0.38, among others proving positive results of the government employment policy – see Chapter 4.

Labour productivity measured as GDP (in constant 2005 international dollars in purchasing power parity) per worker in Kazakhstan and for comparison in the Russian Federation and Turkey is depicted in Figure 1.1.

**Figure 1.1 Labour productivity in Kazakhstan, the Russian Federation and Turkey, 2000-2012 (GDP in constant 2005 international dollars, expressed in PPP per worker)**

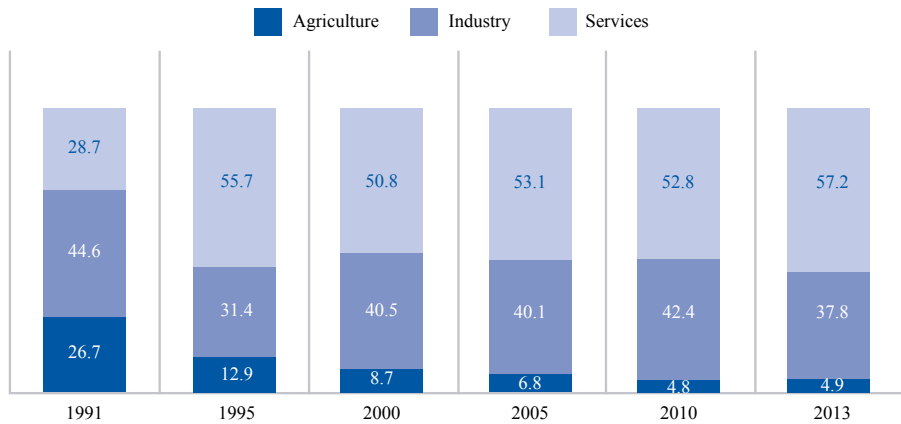


Source: ILO, *Key Indicators of the Labour Market database*, ILO estimates.

In Kazakhstan, labour productivity recorded the fastest growth of all the three countries – it almost doubled between 2000 and 2012 while in the Russian Federation it increased by one-half and in Turkey by one-third. Unlike in the two other countries, it was steadily growing over the whole period. In contrast, labour productivity in Russia declined during the 2008 – 2009 crisis and recovered only two years later while in Turkey it reached its peak in 2007, just before the crisis, but until now it has not recovered from the subsequent decline. Nevertheless, Kazakhstan is still lagging significantly behind both the other countries in the level of labour productivity (see again Figure 1.1).

The national economy of the independent Kazakhstan has gone through far reaching structural changes as depicted in Figure 1.2. If in 1991 agriculture contributed more than one-fourth (26.7 per cent) to GDP generation, in 2013 its proportion already fell below 5 per cent. During the transition crisis industry also shrank significantly due to many state enterprises’ closures. In the second half of the 1990s industry was gradually recovering and towards the end of the 2000s it almost reached its GDP share of 1991. Since 2010 the proportion of industry has started declining again.

**Figure 1.2 Changes in the value-added of agriculture, industry and services as per cent of GDP, 1991-2013 (selected years)**

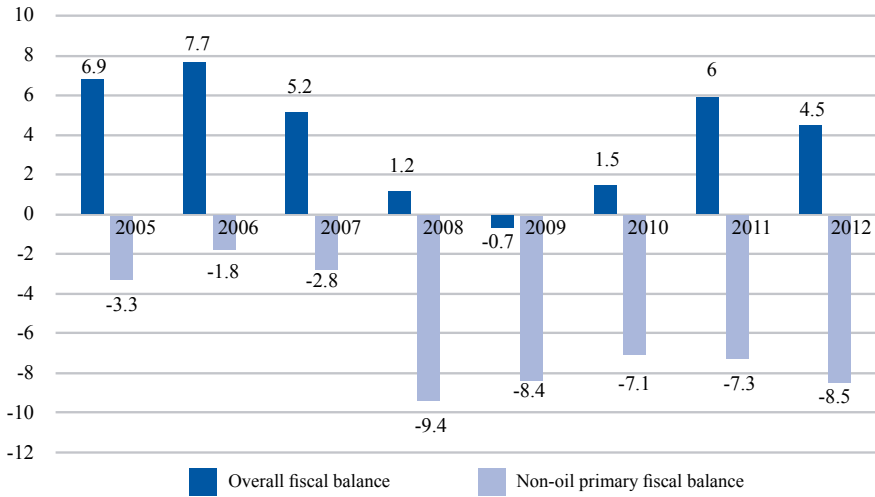


Source: World Bank, economic and social data at <http://data.worldbank.org/indicators>.

However, this aggregate picture hides immense changes in the internal, branch structure of industry: the weight of oil, gas and mining industries has much increased at the expense of manufacturing, which accounted for only 11.5 per cent of GDP in 2013. Although the government is fully aware of the danger of over-dependence on extraction industries, so far the government's policy of diversification of the industrial base has reached a limited success. A recent Asian Development Bank's analysis (Felipe and Rhee, 2013) reveals that the Kazakh economy is less diversified at present than it used to be 10 years ago. Using the ADB's measure of diversification and competitiveness – the number of export products with proven comparative advantage, Kazakhstan had only 127 products out of 1,240 competitive products listed in the ADB's Harmonized System in 2010, while in 2000 it had had 160 such products. In comparison, Malaysia and Thailand, two countries with similar per capita income levels as Kazakhstan, have about 800 competitive export products, while China with much lower per capita income level has even 900 competitive export products.

The dependence of the national economy and public finances on oil can well be illustrated on the gap between the general government budget balance including oil revenues and the budget without oil revenues as shown in Figure 1.3. Without oil revenues the general government budget would be in constant deficits. Figure 1.3 also shows that the non-oil budget deficit considerably deepened in 2008-2009 when the global financial crisis hit the national banking sector and through the credit crunch impacted negatively on economic performance of enterprises in the non-oil sectors. Economic recovery has so far had only a limited effect on reducing this deficit.

**Figure 1.3 General government balance (per cent of GDP)**



Source: Overall fiscal balance: IMF World Economic Outlook database, October 2013, op. cit., non-oil primary fiscal balance: World Bank (2013c).

In contrast, the proportion of services in GDP has steadily increased. During the transition crisis the gains concentrated to a large extent into trade and low productive personal services, the development of which became the survival strategy of workers laid-off from industrial and agricultural enterprises. Economic recovery was accompanied by an expansion of services with higher-value added, such as banking, IT and other producer services, as well as hotels, restaurants, trade, public administration and other services.

## 1.2 Poverty and income distribution

The sharply increasing unemployment and hyperinflation during the transition crisis contributed not only to a dramatic decline in real wages (between 1990 and 1996 the average wage in industry fell in real terms to less than one-fourth (Verme 2001)) but also to significant wage and social benefit arrears (they accounted for US\$ 1 billion or 40 per cent of GDP in 1996). When robust economic recovery started in 1999, the Kazakh government paid special attention to a gradual reduction of wage and social benefit arrears. Real wages began to grow as a result of better economic performance and curtailing of inflation. Nevertheless, in 2001 still some 47 per cent of the population lived below the national poverty line<sup>1</sup>

<sup>1</sup> There is actually not one national poverty line in Kazakhstan as each region has its own poverty line depending on the economic level of the region. The term 'national poverty line' is meant in the text as a set of regional poverty lines for summing up in the whole country how many people in total have incomes below the poverty line in their region.



and 41 per cent below the international poverty line of US\$ 2.50 per capita per day (measured in purchasing power parity). The World Bank recommends using a higher poverty line of US\$ 5 per capita per day as more appropriate for upper middle-income countries like Kazakhstan. According to this indicator even 79 per cent of population occurred below that higher poverty level in 2001 (all these figures are from: World Bank, 2013c). With rising poverty the Gini coefficient also grew rapidly from 0.327 in 1993 to the peak of 0.411 in 2001.

As a consequence of such a rapid increase in poverty, uncertainty and stress during the transition crisis, life expectancy at birth that had already been very low in international comparisons with countries at the same or even lower economic level than Kazakhstan, further sharply declined for both sexes but most dramatically for men as shown in Table 1.2. Within ten years between the second half of the 1980s and the second half of the 1990s the life expectancy for women shrank by 3.3 years to 69 years but for men even by almost 5 years to a mere 57.5 years! For total population it declined by 4.5 years to 63 years.

**Table 1.2 Life expectancy at birth for total population, men and women, Kazakhstan, 1985 – 2015**

Period	For total population Number of years	For men Number of years	For women Number of years
1985 - 1990	67.5	62.4	72.3
1990 - 1995	65.5	60.5	70.3
1995 - 2000	63.0	57.5	69.0
2005 - 2010	65.7	60.2	71.5
2010 - 2015	66.4	60.9	72.3

Source: United Nations World Population Prospects: The 2012 Revision. [http://esa.un.org/wpp/unpp/panel\\_indicators.htm](http://esa.un.org/wpp/unpp/panel_indicators.htm).

The rapid economic growth in the 2000s resulted in a spectacular reduction of poverty in Kazakhstan as illustrated by Table 1.3. The share of population living below the national poverty line rapidly declined to 12.7 per cent in 2007, then slowed down to 12.1 per cent during the economic recession in 2008 but the decreasing trend was soon restored to reach 5.3 per cent in 2012. According to the international poverty headcount of US\$ 2.50 per day the poverty rate fell to 4 per cent already in 2009 but the more appropriate poverty headcount of US\$ 5 per day showed that in the same year 2009 still some 42 per cent of population were living in poverty (World Bank, 2013c). The proportion of population in extreme poverty

(with income below the minimum food basket), which still amounted to almost one-tenth of total population in 2003, fell to a mere 0.2 per cent in 2012.

**Table 1.3 Poverty and inequality in Kazakhstan, 2003-2012**

Indicators	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Share of population with income below the national poverty line</b> (per cent)	37.5	33.9	31.6	18.2	12.7	12.1	8.2	6.5	5.5	5.3
<b>Share of population with income below the minimal food basket</b> (per cent)	9.1	6.3	5.2	2.7	1.4	1.2	0.6	0.4	0.5	0.2
<b>Gini income inequality index*</b>	0.338	0.322		0.308	0.309	0.293	0.290			
<b>Gini income inequality index</b> (measured using decile population groups)	0.315	0.305	0.304	0.312	0.309	0.288	0.267	0.278	0.29	0.284

Source: United Nations World Population Prospects: The 2012 Revision. [http://esa.un.org/wpp/unpp/panel\\_indicators.htm](http://esa.un.org/wpp/unpp/panel_indicators.htm).

Unfortunately, no information is available on the poverty profile of the Kazakhstani population that would permit to reveal which population groups are most exposed to poverty. The Statistical Agency of the Republic of Kazakhstan (2013c) only shows that poverty tends to increase with the growing number of household members. No data are also at the disposal on the working poor, i.e. persons who are working but their earnings are below the poverty line.

The Gini coefficient also started declining from its peak of 0.411 in 2001 to 0.338 in 2003 and 0.29 in 2009 (the last available year) according to the World Bank database (see again Table 1.3). If the Gini coefficient is calculated using decile (10 per cent) population groups, its values are a bit lower. They also follow a declining trend throughout the boom period of the 2000s but record a rise after the economic slowdown in 2008-2009.

However, this positive social development has not been equally distributed among regions. Regional social differences are large with cities of Astana and Almaty and resource-rich Atyrau Oblast having high average per capita income level and rural regions of South Kazakhstan or Zhambyl having low per capita incomes. Nevertheless, it can also be observed that during economic recovery

some regions have experienced rapid growth of their gross regional product but only a limited reduction in poverty while in other regions the opposite has been true.

Mussurov (2012) analyzed this relationship between economic growth and poverty reduction at regional level in Kazakhstan and found out that the main factor behind this development was the ability of the regional economy to create employment opportunities for local population. At a first glance paradoxically, in rich regions depending on oil, gas and mineral sectors that are capital-intensive but create only a limited number of jobs economic growth has not been much translated into poverty reduction. In contrast, poorer regions but based more on labour-intensive sectors, such as services, manufacturing and agriculture, and with more diversified local production base have tended to be more effective in generating poverty reduction. Moreover, he also revealed that the regional level of poverty was not responsive to the level of public expenditure, i.e. public expenditure policies did not really benefit those living on a low income and were thus not poverty-focused. This latter finding has also been confirmed by the World Bank (2013c) that has criticized the low coverage of the population by social assistance programmes in general and low allocation of these resources to poor strata of the population.

Economic recovery and an increase in people's incomes have contributed to a positive reversal in the life expectancy of population (see again Table 1.2). In 2010-2015 the female life expectancy at birth returned to the pre-independence level, nevertheless for men it still remains 1.5 years below that level and for total population the gap is still almost one year.

Increased mortality during the transition crisis that was so stressful for the population was one factor causing the sharp decline of the population in the first years of independence. The birth rate also steeply declined from 3.03 children per woman in the period 1985-1990 to 2.00 children per woman in 1995-2000 but still remained close to the net reproduction rate. Improved well-being of the population after 2000 brought about also an increase in the birth rate to 2.44 in 2010-2015, which is very promising for the country's future development.

The third important factor affecting population trends was migration. According to population census data (Statistical Agency of the Republic of Kazakhstan, 2011), between 1991 and 2010 1.4 million persons moved into the country, most of whom ethnic Kazakhs from other countries. Simultaneously, 3.4 million persons left the country, which meant the net loss of over 2 million inhabitants. The largest emigration flow emerged after the country had gained independence and had fallen into a deep transition crisis. With the return of economic growth the migration outflow slowed down and since 2004 even reversed its direction so that

Kazakhstan has become a net migrants receiving country. Between 1999 and 2009 the number of immigrants accounted for 650 thousand persons (4 per cent of total population), of whom 540 thousand came from the CIS countries and the rest from other countries. Among immigrants from the CIS countries, almost three-quarters were ethnic Kazakhs and more than 10 per cent ethnic Russians.

As a result of these three factors – mortality, natality and migration, the population of Kazakhstan first declined by 1.5 million, i.e. by 10 per cent between 1991 and 2001 but since 2001 it has started increasing again to exceed the 1990 level by some 270 thousand persons in 2012.

The population of Kazakhstan is in general less mobile internally as according to the 2009 population census almost two-thirds (63 per cent) of people lived in their place of residence since birth. Nevertheless, internal mobility has increased since 2000 due to several incentives: the establishment of the new capital Astana and the move of government there; new discoveries of oil and gas fields that promise well-paid jobs; and the construction boom and new business opportunities created by fast economic growth and concentrated mainly into big cities and industrial centres. As a result, between 1999 and 2009 2.4 million persons changed their residence within the country, which represents 15 per cent of total population. The largest immigration was recorded to Astana and Almaty, as well as to Aktobe and West Kazakhstan.

# 2 THE YOUTH LABOUR MARKET

## 2.1 Socio-demographic characteristics of young people

The population of Kazakhstan accounted for 16.9 million persons on 1 January 2013, of whom 51.8 per cent were women and 48.2 per cent men. The UN (medium variant) population projection (UN 2012) expects that by 2050 the population of Kazakhstan will increase by 3.7 million, compared with 2010, i.e. by over 20 per cent.

Table 2.1 shows the age structure of the population and its changes over time. In general, demographic trends have a similar direction as in economically developed countries and show a fast decline in the share of young population under 15, a slower decrease of the proportion of youth aged 15-24, more or less stable share of population in the age brackets 15-64 and a rapid increase in the proportion of persons aged 65+. However, these trends are less strong in Kazakhstan than in economically developed countries. Moreover, with the exception of youth between 15 and 24, the absolute figures actually show an increase in all the three main population groups between 2013 and 2050: the number of children (0-14) by 140 thousand, the working age population (15-64) by 1.7 million and the elderly (65+) by 1.4 million, while youth aged 15-24 will shrink by 150 thousand persons.

**Table 2.1 Structure of population by main age groups and projections of changes, Kazakhstan (per cent), 1990–2050**

Age groups	1990	2000	2005	2010	2013*	2030	2050
0-14	31.5	27.7	24.7	24.9	25.4	23.5	22.0
15-24	16.8	18.0	19.6	18.4	17.1	17.0	13.6
15-64	62.6	65.5	67.7	68.4	67.9	66.6	65.3
65+	5.8	6.8	7.6	6.7	6.6	9.8	12.7
Old age dependency ratio**	9.0	10.0	11.0	10.0	10.0	15.0	20.0

\* Data on 1 January 2013 from the Statistical Agency of the Republic of Kazakhstan (2013a)

\*\* Share of the population aged 65 and above in the total population aged 20-64.

Source: All data except for 2013 are from the United Nations World Population Prospects: The 2012 Revision.

[http://esa.un.org/wpp/unpp/panel\\_indicators.htm](http://esa.un.org/wpp/unpp/panel_indicators.htm).

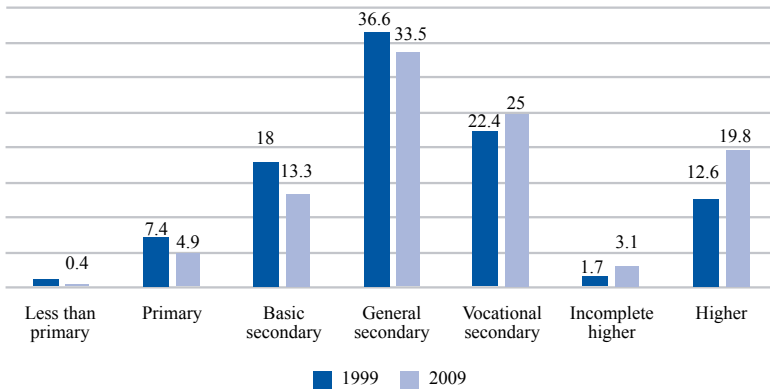
The old-age dependency ratio measuring the share of older persons 65+ years old to population aged 20-64 will double between now and 2050 but will remain in the manageable area, compared with countries like Russia where this ratio will be 37 in 2050 or OECD countries with the average dependency rate reaching even 50. Kazakhstan can thus rely on young population. The average age of women was 33 years and men 30 years in 2012, with slightly younger population living in rural areas (31.5 years for women and 29.3 years for men) than in towns (34.2 years vs. 30.6 years) – see again the Statistical Agency of the Republic of Kazakhstan (2013a). However, this invaluable economic potential of the country will make an adequate contribution to national economic and social development only when it is fully utilized, which is not yet the case in Kazakhstan as elaborated further.

## 2.2 Trends in education

The average formal educational attainment of the population of Kazakhstan is very good. Literacy rates are high for total population aged 15+ (99.7 per cent) as well as for men (99.8 per cent) and women (99.7 per cent – all figures are for 2012) and are only slightly better for urban areas than for rural ones. In 2012 97 per cent of young people between 7 and 17 attended school providing compulsory primary and secondary education. Among persons aged 6-24, the proportion of those in the education system accounted for 73 per cent in 2012, 75 per cent for women and 71 per cent for men. Interestingly, this proportion was increasing between 1995 and 2005 when it peaked at 79 per cent (82 per cent for women and 76 per cent for men) but since 2005 it has been declining (all figures are from the Statistical Agency of the Republic of Kazakhstan, 2013a). One explanation for this development could be that in the situation of high unemployment, including among youth, in the decade 1995-2005, young people preferred staying longer in the education system, which was not the case later when more jobs occurred in the labour market. This reasoning will be proven later by analyzing developments of the employment-to-population rates.

Data on the educational attainment for the whole population are available only from censuses. Figure 2.1 describes changes in the population structure by level of education between the last two censuses in 1999 and 2009. It shows a significant improvement in the average level of education of Kazakh people. The proportion of persons with only primary (4 years of school attendance) and basic secondary education (altogether 9 years of school attendance) substantially decreased. The share of those with higher secondary education remained stable at 59 per cent but an important shift from general to vocational education could be observed. In contrast, the share of persons with tertiary (including incomplete) education increased by almost 9 percentage points to 23 per cent in 2009.

**Figure 2.1 Population structure by level of education, Kazakhstan, 1999 and 2009 (per cent)**



Source: Statistical Agency of the Republic of Kazakhstan (2011).

Table 2.2 presents the educational attainment of youth aged 15–28 (these age brackets determine the national definition of youth in Kazakhstan). It clearly shows a higher average educational level of youth compared with population aged 15+: The share of youth possessing tertiary education exceeds that for population 15+ by 10 percentage points while the share of youth with only primary or basic secondary education is 6 points lower compared with total population aged 15 and more. However, a substantial difference exists between both sexes as young women are remarkably better educated than young men. Young women with university diploma contribute 36.5 per cent to total female youth while young men with tertiary education only 28.9 per cent to the young male population.

The high share of tertiary education is in general very favourable as it represents high human capital important for economic development. Nevertheless the branch structure of education also matters as the absorption capacity of the labour market is increasingly limited for certain specializations (mainly social and humanity studies, economics and law) while people with degrees in technical disciplines are missing in the labour market. Indeed, according to data from the Ministry of Education and Science of the Republic of Kazakhstan (2013), the share of university graduates with a degree from social studies, law, economics and pedagogical studies accounted for 55.5 per cent of the total number of graduates in 2012, while the proportion of graduates with diplomas from technical disciplines or science was only 19 per cent. This is one of the reasons why only two-thirds (65 per cent) of graduates found a job after completing their studies and among them many occupied jobs outside their specialization. At present, 75 per cent of students are enrolled in tertiary educational institutions offering paid education. Logically,

the highest share of paying students can be found in social studies, economics and business (96.7 per cent in 2012), followed by law (90.7 per cent), services and humanity studies as demand for such specialists is already low. In contrast, only 20.4 per cent of students in health and social care and 22.9 per cent in agricultural disciplines are paying a fee for their studies as these disciplines are in shortage in the labour market.

**Table 2.2 Educational attainment of youth (15-28), Kazakhstan, 2012 (shares in per cent)**

Level of education	Total young population	Men	Women
Primary education	0.9	1.0	0.7
Basic secondary education	11.9	12.5	11.3
General secondary education	29.6	30.9	28.3
Secondary vocational education	25.0	26.7	23.1
Incomplete higher education	11.7	10.2	13.1
Higher education	21.0	18.7	23.4

Source: Special youth employment module of the Labour Force Survey for Kazakhstan, 3rd quarter of 2012.

In contrast, more young men have technical and vocational secondary education compared with women (the difference is 4 percentage points), which is an advantage when looking for a job in the labour market. Among students who completed technical and vocational secondary education 66.7 per cent found a job. The placement rate is again significantly higher for those who have studied technical disciplines, as compared with those with economic and social education. As to the sources of financing of their studies, public budgets covered studies of 41.2 per cent of students in technical and vocational secondary education, while 58.8 per cent had their studies financed by their families or enterprises. The relatively high weight of general secondary education is actually a problem if young people do not continue their studies at universities. Employers are reluctant to recruit such young people as they know they would have to invest additional resources into their professional training. However, one important motivation for young people especially from poorer families to join general secondary education without continuing in vocational secondary or higher education may also be the fact that it is financed from public resources and they do not need to pay a tuition. This aspect should be taken into consideration by the government.



**Table 2.3 Labour market indicators for youth (15-28) by sex and level of education, 2012 (per cent)**

Level of education	Labour force participation rate	Employment-to-population ratio	Unemployment rate
<b>Total young population</b>	63.4	60.1	60.1
Basic secondary education	18.6	17.2	17.2
General secondary education	55.4	52.1	52.1
Secondary vocational education	84.0	80.1	80.1
Incomplete higher education	37.3	34.3	34.3
Higher education	92.6	88.8	88.8
<b>Young men</b>	66.6	63.8	63.8
Basic secondary education	20.4	18.6	18.6
General secondary education	60.2	57.2	57.2
Secondary vocational education	87.2	83.9	83.9
Incomplete higher education	40.9	37.5	37.5
Higher education	96.4	93.8	93.8
<b>Young women</b>	60.2	56.5	56.5
Basic secondary education	16.6	15.6	15.6
General secondary education	50.2	46.4	46.4
Secondary vocational education	80.4	75.6	75.6
Incomplete higher education	34.4	31.8	31.8
Higher education	89.5	84.8	84.8

Source: Special youth employment module of the Labour Force Survey for Kazakhstan, 3rd quarter of 2012.

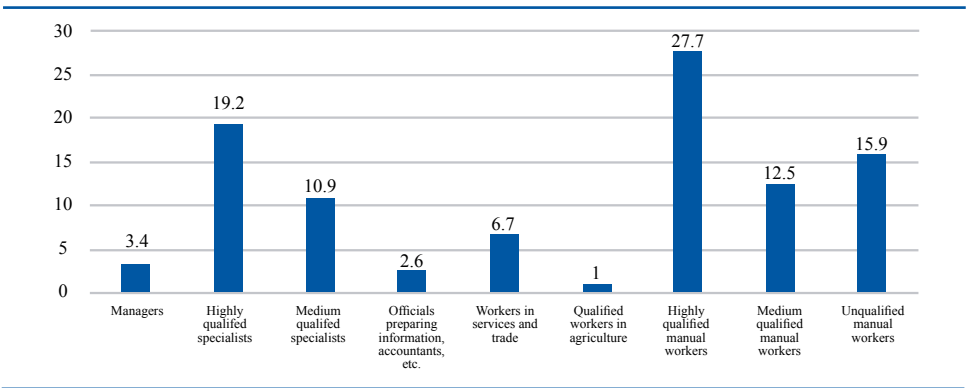
Table 2.3 clearly shows that both the economic activity and employment of youth increase with higher level of education and that school leavers from secondary vocational education have higher participation and employment rates than their peers who possess only general secondary education. Unemployment rates follow the same logic and show the decreasing tendency with rising education. The only exception from this rule are figures on the labour force participation and employment rates for incomplete higher education that are significantly lower and the unemployment rates higher, compared with other levels of education, except for basic secondary. A possible explanation of these rather surprising results is that the Kazakh statistics (unlike statistics of most other countries) includes under the incomplete higher education level both young people attending any tertiary education facility (while they at the same time may work and become part of

employment or seek a job and then figure in unemployment) and those who have dropped out of tertiary studies (and are employed or unemployed or inactive).

Young men have higher economic activity and employment rates than women, many of whom are inactive due to child care. There are also other factors behind the lower labour force participation rate, lower employment rate and higher unemployment rate of young women, such as a larger proportion of women with education not much demanded in the labour market as described above (social studies, economics, law, human studies) while more men possess technical and vocational education. Also discrimination against women due to their child caring responsibilities plays a role even if they do not yet have any children.

The already mentioned mismatches between the gained qualifications of young people and demand for skills in the labour market can also be illustrated by data on expected demand for new workers for the upcoming year collected annually from large and medium-sized enterprises that provide jobs to one-third of total employed persons in Kazakhstan – see Figure 2.2. The figure documents that highly and medium qualified manual workers are with 40 per cent the most demanded group of new workers, followed by highly qualified, mostly technical, specialists (20 per cent) - both groups of occupations not much favoured by young people when they are choosing their studies.

**Figure 2.2 Expected demand of large and medium-sized enterprises for workers by occupational group in the course of 2013 (shares in per cent)**



Source: Statistical Agency of the Republic of Kazakhstan (2014).

## 2.2 The youth labour market

While the labour market situation in Kazakhstan was bleak during and immediately after the transition crisis, strong economic growth since 1999 brought substantial improvement. It helped the country achieve better results in comparison with the neighbouring Russian Federation in all the key labour market indicators concerning total population in the age brackets 15 to 64 as well as youth and adult population, except for the unemployment rates for adult population (both sexes and separately men and women aged 25 to 64) – see Table 2.4.

The most striking difference between Kazakhstan and the Russian Federation is in youth unemployment, which in Kazakhstan is the lowest of all the population groups while in Russia, similarly as in practically all countries of the world, youth joblessness is significantly higher than for adult population. Employment-to-population (economic activity) rates of young people in Kazakhstan much exceed those of Russia for both sexes.

**Table 2.4 Key labour market indicators, by age group and sex, Kazakhstan and Russian Federation, 2012 (per cent)**

Age group	Labour force participation rate	Employment-to-population ratio	Unemployment rate
<b>Total population</b>			
15-64	77.4	73.5	5.3
15-24	44.0	42.3	3.9
25-64	89.0	84.1	5.6
Russia (15-64)	73.0	69.0	5.5
Russia (15-24)	39.5	33.7	14.8
Russia (25-64)	80.7	77.1	4.4
<b>Men</b>			
15-64	81.6	78.2	6.3
15-24	46.2	44.9	4.5
25-64	94.2	90.0	6.6
Russia (15-64)	78.1	73.6	5.8
Russia (15-24)	43.8	37.5	14.5
Russia (25-64)	86.7	82.6	4.7

**Table 2.4 Key labour market indicators, by age group and sex, Kazakhstan and Russian Federation, 2012 (per cent) (continued)**

Age group	Labour force participation rate	Employment-to-population ratio	Unemployment rate
<b>Women</b>			
15-64	74.0	69.2	4.3
15-24	41.8	39.7	3.2
25-64	84.3	78.6	4.5
Russia (15-64)	68.2	64.7	5.1
Russia (15-24)	35.1	29.8	15.1
Russia (25-64)	75.3	72.2	4.1

Source: For Kazakhstan own calculations on the basis of data from the Statistical Agency of the Republic of Kazakhstan (2013a) and (2013b). For the Russian Federation: ROSSTAT, *Labour Force Survey 2012*.

Adult population has twice as high labour force participation rate, compared with youth, in both countries. With regard to the employment rate, the relation between adult and youth rate is similar as for labour force participation in Kazakhstan, while in the Russian Federation the adult rate is even 2.5 times higher than that of youth due to more young people in unemployment.

As expected, Kazakh men achieve higher labour force participation rates and employment-to-population rates in comparison with women in the case of population in the age brackets 15-64 as well as for youth aged 15–24 and adult population aged 25-64. Conversely, male unemployment rates are higher than female ones. This is rather surprising as in the age group 15-28 women's unemployment exceeds that for men (see again Table 2.3, last column). In comparison with the Russian Federation, labour force participation and employment rates for men and women in all age groups are higher, while unemployment rates are lower for young women and men but not for adult women and men in Kazakhstan. It is also important to stress that female economic activity and employment rates are significantly higher and female unemployment rates lower for all the three age groups in Kazakhstan, compared with the EU-27, according to Eurostat data.

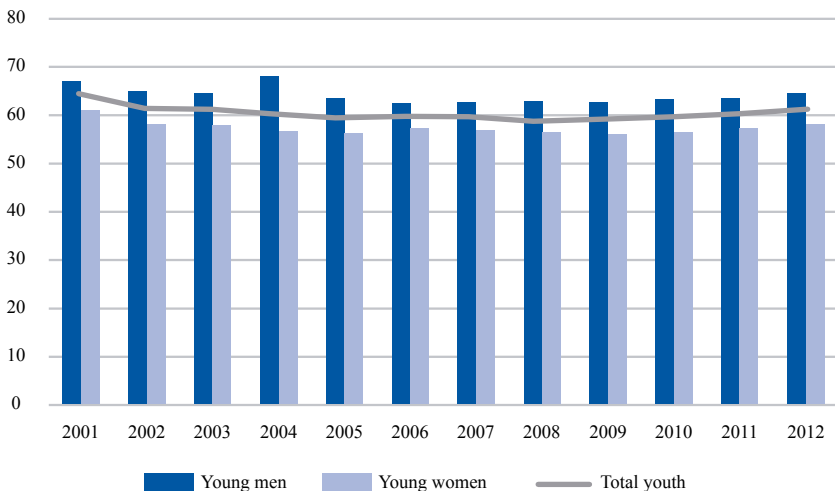
Data for analyzing development trends of the three key labour market indicators in Kazakhstan since 2001 are available only for population 15+. Between 2001 and 2013 the labour force participation rate increased by 1.4 points from 70.2 to 71.6 per cent. In contrast, the employment-to-population ratio grew by full 5 percentage points from 62.9 to 67.9 per cent. The reason for this very positive development of the employment rate was a sharp decline in unemployment, which halved from 10.4 to 5.2 per cent in the period 2001-2013.

## 2.2.1 Youth labour force participation

Detailed information on the labour market situation of youth disaggregated by sex, educational attainment and other indicators is available for the age group 15-28 years (national definition of youth) and therefore the following analysis concentrates on this cohort. However, when data allow it, indicators for both age groups of youth, 15-28 and 15-24, will be presented and compared.

Figure 2.3 describes trends in the labour force participation rate of youth between 2001 and 2012. First of all, compared with the age group of 15-24 (see again Table 2.4), nationally defined youth has 40 per cent higher labour force participation for total young population as well as for both sexes. Interestingly, despite strong economic growth and job creation, their participation rate was on a steady decline after 2001. The turning point was the economic slowdown in 2008, since then economic activity of youth has risen. Nevertheless, in 2012 the labour force participation rate for total youth, men and women was below the 2001 level by some 3 points. The gender gap in economic activity was more or less stable, around 6 percentage points. The explanation for the decline in the period 2001-2008 was thus not so much a rise in natality and in the number of women leaving the labour market for child care but rather the growing numbers of young people of both sexes enrolled in tertiary education.

**Figure 2.3 Labour force participation of youth aged 15-28, by sex, 2001–2012**



Source: Special youth employment module of the Labour Force Survey for Kazakhstan, 3rd quarter of 2012.

There is a large difference in the youth (15-28) labour force participation rate between both sexes and between urban and rural areas. Economic activity of men is higher than that of women and the difference is more pronounced in urban areas (64 per cent of young urban men and 56 per cent of young urban women are economically active) than in rural areas (70 per cent of young rural men and 66 per cent of young rural women). This is connected with higher involvement of young people of both sexes in education but also of young women in caring activities in urban areas that are on average richer, while in poorer rural areas many young people cannot afford to study or to stay in household for caring duties but have to work and contribute to family income.

Comparisons of the labour force participation rates of (nationally defined) youth in Kazakhstan (15–28) and the Russian Federation (15–29), despite one year higher upper age bracket in the latter country, still reveal higher rates in Kazakhstan - 61.4 per cent versus 58.5 per cent in Russia for total young population (all figures for Russia – see ILO 2014). In the case of young men the difference is rather small (64.6 per cent in Kazakhstan versus 63.5 per cent in Russia) but for young women the gap is significant (58.2 versus 53.4 per cent). Another striking difference between both countries is the opposite dynamics of the economic activity of youth since 2005. The downward trend of the youth labour force participation from the beginning of the 2000s was reversed in 2005 when fast economic growth, massive job creation and rapidly increasing wages pushed many young people into the labour market in the Russian Federation, unlike in Kazakhstan where the participation of youth continued to decline. However, the economic crisis of 2008-2009 has again changed this trend downwards in Russia while in Kazakhstan economic recovery since 2010 has brought a stimulus for an increase in economic activity of youth.

### **2.2.1 Youth employment**

Table 2.4 proved that in 2012 the employment-to-population ratio (the employment rate) for youth 15-24 was one-half of that for adult population 25–64. For nationally defined youth 15–28 the difference from population 15+ was only 10 percentage points (58.1 per cent versus 67.9 per cent).<sup>2</sup>

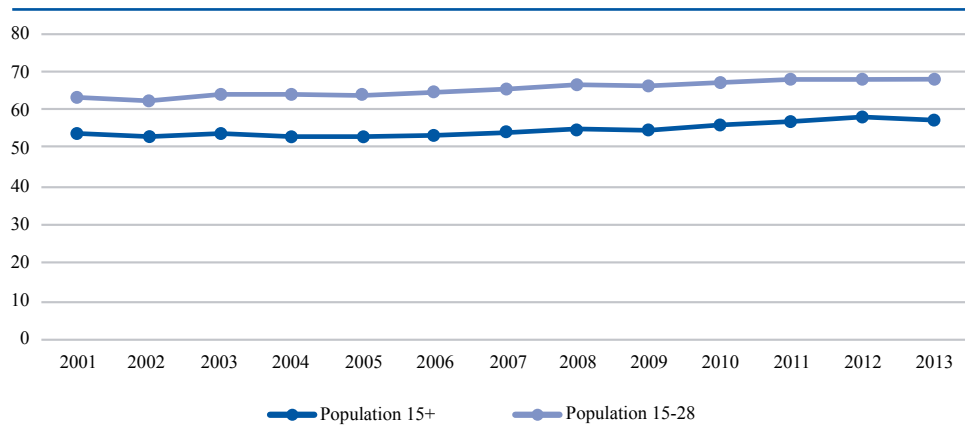
Figure 2.4 shows that the employment rates for both youth 15-28 and total population 15+ recorded a decline in 2002. However, while this indicator for total population 15+ soon recovered and grew continuously, with a negligible reduction in the recession year 2008, the youth employment rate stagnated until 2006 and since then it has risen, with a temporary slight fall in 2008 and again in 2013.

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<sup>2</sup>Data for adult population aged 25-64 or for population aged 29–64 or 29+ are not available, therefore in the following text we use for comparisons data on total population 15+.

Over the period 2004-2013 the difference in the employment-to-population rates for youth and for total population widened and remained stable, with the exception of 2012.

**Figure 2.4 Employment-to-population ratio for youth 15-28 and population 15+, 2001-2013, per cent**

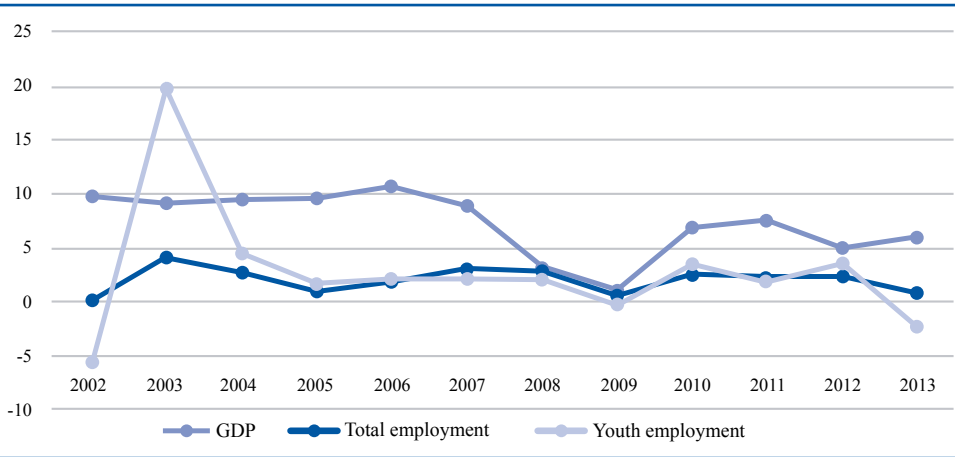


Source: Own calculations on the basis of data from the Statistical Agency of the Republic of Kazakhstan (2013a) and (2013b).

Figure 2.5 compares development trends of GDP, total employment 15+ and youth employment 15-28. With the exception of three years – 2002, when youth employment sharply declined while total employment stagnated, 2003 that saw a strong recovery of total employment and even a jump in youth employment<sup>3</sup> and 2013 when youth employment recorded again a fall although total employment slightly increased - rather strong correlation could be detected between both indicators. Total employment tended to grow faster than youth employment in the years prior to economic slowdown in 2008–2009 but between 2010 and 2012 youth employment achieved higher growth rates than total population. While ILO (2014) has not found any correlation between GDP and employment growth rates for the Russian Federation, such correlation, though not very strong, does exist for Kazakhstan and seems to be stronger for total population than for youth.

<sup>3</sup> The surprisingly large fluctuation of youth employment in 2003 should probably be attributed to changes in statistical methodology or in the education system and needs to be clarified with Kazakh experts.

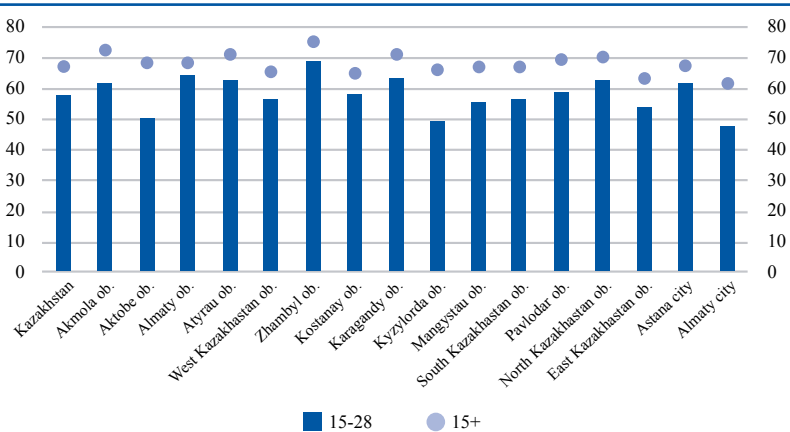
**Figure 2.5 Trends in GDP, total employment and youth employment, 2002–2013, annual growth rates in per cent**



Source: GDP: World Bank, economic and social data, op. cit., employment: Statistical Agency of the Republic of Kazakhstan (2013b).

Regional differences in the employment rate are depicted in Figure 2.6. The graph shows quite a significant variety in the regional employment-to-population ratios, in particular for youth aged 15–28 that ranges from 47.9 per cent in the city of Almaty to as high as 69 per cent in Zhambyl Oblast. For comparison, Figure 2.6 presents also the regional employment rates for total population 15+. While the regions with the minimum rate (62.2 per cent in the city of Almaty) and the maximum rate (75.4 per cent in Zhambyl) are the same as for youth, variation of regional rates is much lower for total population than for youth (for the whole Kazakhstan it is 67.9 per cent).

**Figure 2.6 Employment-to-population ratios for youth and total population across Kazakh regions, 2012, per cent**



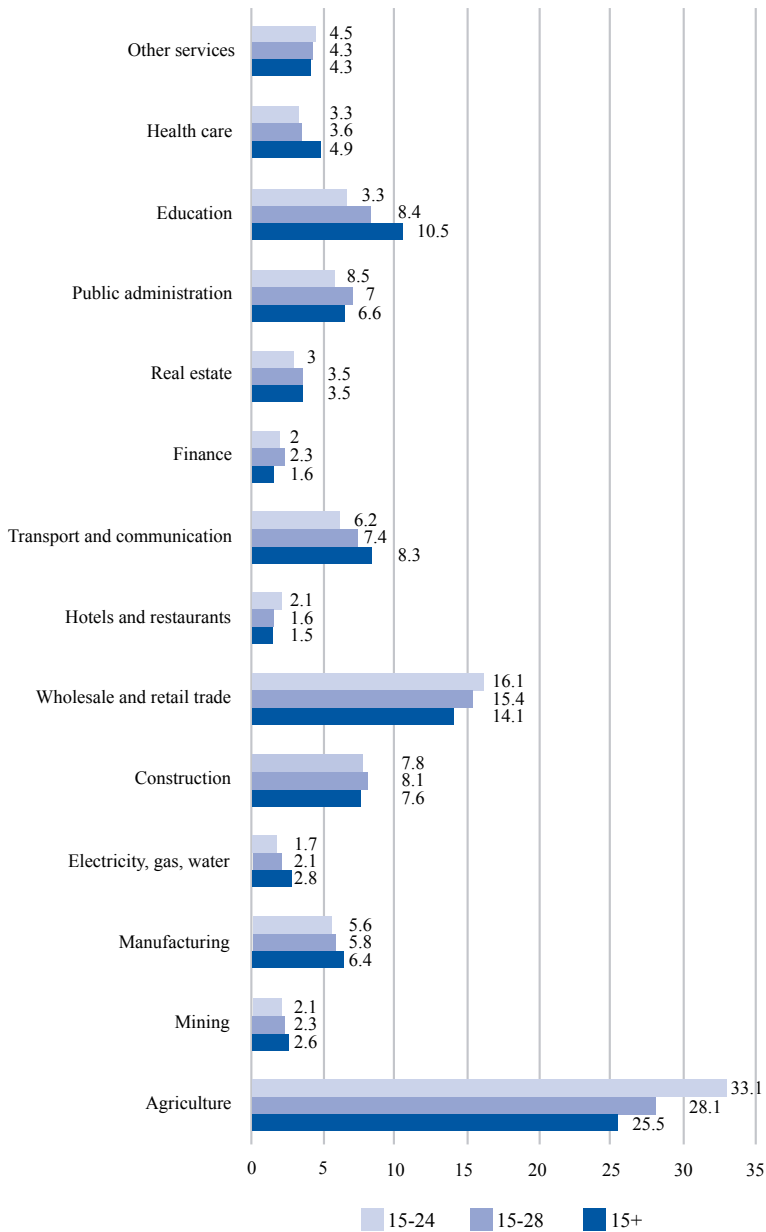
Source: Statistical Agency of the Republic of Kazakhstan



The employment rate for total population is significantly higher in rural areas (71.5 per cent) than in urban areas (65.2 per cent), similarly as for youth 15–28. However, the urban/rural divide in the employment rate is bigger in the case of youth (62.8 per cent for rural areas and 54.4 per cent for urban areas). Much higher employment in rural areas should again be explained by the fact that rural population is on average poorer and many rural workers cannot afford to continue their studies or to be unemployed or inactive for other reasons than study but they prefer to engage in any gainful activity, often in the form of self-employment or as helping family members in subsistence farming.

Figure 2.7 presents the sectoral composition of employment for youth aged 15-24, 15-28 and for total population 15+ in 2012. The graph shows that young people are mostly employed in agriculture, followed with distance by wholesale and retail trade, education, construction, transport and communication and public administration. The younger is the population, the higher is its proportion employed in agriculture, for young people between 15 and 24 it is a full one-third, while for total population only one-fourth. Figure 2.7 also reveals that there is not much discrepancy in the sectoral structure of employment between youth and total population. This is somewhat different from the situation in the Russian Federation (see again ILO, 2014), where youth was largely overrepresented in wholesale and retail trade and to some extent in agriculture and public administration and underrepresented in education, health care and manufacturing. In Kazakhstan, the over- and under-representation of youth can be found in the same sectors as in Russia but the scope is much smaller, compared with adult population, with the exception of the above mentioned agriculture. Economic sectors with the relative overrepresentation of youth tend to offer jobs requiring lower level of education, compared with sectors in which youth is relatively underrepresented. This could seem as a paradox as young people are on average better educated than older population groups (compare Table 2.2 and Figure 2.1) and points to serious underutilization of young people's potential. However, no data on the occupational structure of youth employment and their educational attainment are available to reveal the extent of educational and occupational mismatches. A partial information on young workers occupying jobs below their qualifications has been collected by the already mentioned special youth employment module and will be discussed in Chapter 3.

**Figure 2.7 Total and youth employment by economic sector, Kazakhstan, 2012 (in per cent)**



Source: Statistical Agency of the Republic of Kazakhstan (2013b).

Over time, the structure of employment by economic sector has followed global development trends both for total population and for youth. In 2008, 40.3 per cent of youth 15–24 were employed in agriculture, 16.3 per cent in industry and 43.4 per cent in services, while in 2012 these shares were, respectively, 33.1, 17.2 and 49.7 per cent. In the case of total population 15+, the proportion of employment in agriculture declined from 29.7 per cent in 2008 to 25.5 per cent in 2012, while industrial employment slightly increased from 18.7 to 19.4 per cent and employment in services grew from 51.6 to 55.1 per cent in the same period (for 2012 see again Figure 2.7). A simple comparison of the GDP and employment composition by economic sector (see Figure 1.2) reveals the very low level of labour productivity in agriculture. The World Bank economic and social database (op. cit.) estimated it at 3,532 US\$ (in constant 2005 US\$) in 2012. For comparison in the Russian Federation it was estimated at 5,960 US\$, i.e. almost twice as high. The high percentage of young people, locked in low productive jobs in agriculture (and similarly in low productive services, such as trade), is worrying.

As to the composition of employment by sector of ownership, 23 per cent of workers were employed in the public sector, 74 per cent in the private sector and 3 per cent in entities owned by foreign governments, enterprises or individuals in 2012. This structure had not changed since 2008.

Table 2.5 provides the composition of youth and total employment by status in employment. As a rule, the older is the population group, the higher is the proportion of employees in total employment and the lower is the proportion of self-employment. Between 2001 and 2012, the share of wage employment significantly increased for the two groups of young population as well as for total population while that of self-employment declined. The increase in the wage employment share was fastest for youth 15–24, followed by youth 15–28, while total population 15+ recorded the slowest rise. Wage employment is also much more widespread among urban population, compared with rural population. In 2012, employees contributed 80 per cent and the self-employed only 20 per cent to total youth employment (15–28) in urban areas, while in rural areas this proportion was 48 per cent to 52 per cent. This points to serious employment problems of young rural population so that they have to turn to subsistence self-employment and are in fact hiddenly jobless. Gender differences in the proportion of wage and self-employment in urban or rural areas were minimal: in urban areas 79 per cent of men and 81 per cent of women worked as employees while in rural areas this proportion was 49 per cent to 47 per cent.

**Table 2.5 Young and total population by status in employment, 2001, 2008 and 2012, per cent**

	2001		2008			2012		
	Youth 15-28	Popul. 15+	Youth 15-24	Youth 15-28	Popul. 15+	Youth 15-24	Youth 15-28	Popul. 15+
<b>Employees</b>	50.0	57.7	55.1	61.7	66.5	58.8	64.4	68.3
<b>Self-employed of which:</b>	50.0	42.3	44.9	38.3	33.5	41.2	35.6	31.7
Employers			0.6	0.8	1.5	1.0	1.4	2.1
Own-account workers			42.3	35.9	31.2	38.9	33.1	28.8
Cooperative members			0.5	0.4	0.3	0.6	0.5	0.3
Non-paid helping family members			1.5	1.2	1.2	0.7	0.6	0.5

Source: Statistical Agency of the Republic of Kazakhstan (2013b).

Among the self-employed (see again Table 2.5), own account workers have by far the largest share. Over the years their weight declined for all the three population groups but again most rapidly for youth aged 15–24. The proportion of helping family workers also slightly declined, in particular for youth (both age groups). The share of employers slowly grew for all the three population groups between 2008 and 2012 but remains higher for adult population compared with youth. The proportion of cooperative members in total employment remained more or less stable.

Among young own account workers aged 15-28, 22 per cent had tertiary education, 24.2 per cent secondary vocational education and 53.6 per cent general education in 2012. Women are significantly better educated than men as almost one-half (49.1 per cent) have university or secondary vocational education while this share is only 43.6 per cent for men. As 58.7 per cent of self-employed workers are active in agriculture and another 22.8 per cent in wholesale and retail trade, i.e. sectors that in general require lower education, it is another proof of massive underutilization of the human capital of young, increasingly better educated, people. Even among helping family members, mostly active in rural areas (92 per cent) in agriculture and performing unqualified work, over 10 per cent have university or secondary professional education. For all these young people it is very important to create new opportunities for decent employment and to ensure that youth with only general education has access to professional education.

Information on the type of labour contract is unfortunately available only for employees aged 15+. Data show that in 2008 88.8 per cent of all employees held contracts without limit of time and the share of permanent contract holders further

increased to 95.1 per cent in 2012. In contrast, the share of workers performing casual or seasonal work sharply declined from 7.1 per cent in 2008 to a mere 0.8 per cent in 2012. The percentage of workers holding fixed-term contracts or hired for a certain amount of work remained stable, respectively 2.4 and 1.7 per cent over the period 2008 - 2012.

### 2.2.3 Informal employment

In 2012, one-quarter of all workers in Kazakhstan worked informally. Nevertheless, informal employment seems to be on a decline in Kazakhstan – see Table 2.6. If in 2005 the number of informal workers accounted for 3,113 thousand and in 2008 still 3,076 thousand, by 2012 it was reduced to 2,215 thousand, i.e. it shrank by 29 per cent between 2005 and 2012. Until 2011 this decline in informal employment had been rather slow and gradual but in one single year – 2012 - it steeply fell by some 740 thousand persons. This may indicate a change in statistical methodology or a principle change in legislation on registration of economic activity, which requires further investigation.

**Table 2.6 Formal and informal employment by type of production unit, 2008 and 2012, thousand persons**

	Total employment	Formal employment	Of which		Informal employment	Of which		
			Employed in formal sector enterprises	Employed in informal sector enterprises		Employed in formal sector enterprises	Employed in informal sector enterprises	Employed in households
<b>2008</b>	7 857.2	4 780.7	4 044.5	736.2	3 076.5	1 107.3	755.4	1 213.7
<b>2012</b>	8 507.1	6 291.6	4 534.5	1 757.1	2 215.5	307.3	970.5	937.7

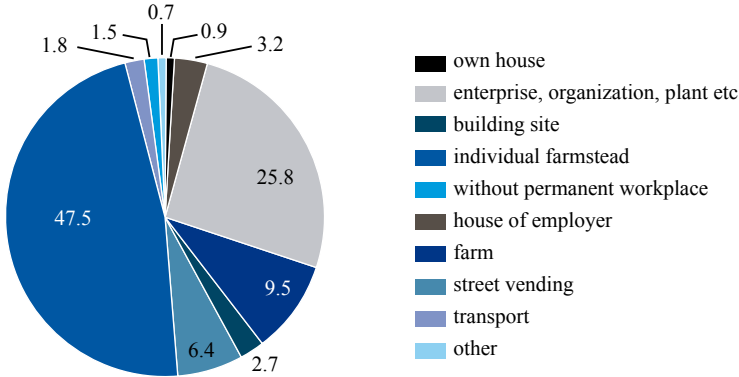
Source: Statistical Agency of the Republic of Kazakhstan (2013b).

Table 2.6 also shows that although most informal workers were employed in informal enterprises (44 per cent) and households (42 per cent) in 2012, over one-fourth of formal employees worked in an enterprise operating in the informal sector while 14 per cent of informal employees worked in formal sector enterprises. There were again significant changes between 2008 and 2012: the number of formal employees working in informal sector enterprises more than doubled while in contrast the number of informal workers employed in formal sector enterprises declined to less than one-third over this period. At least part of these developments should be attributed to methodological changes in counting of informal sector enterprises and informal workers.

Among formally employed persons, 78 per cent were wage workers and 22 per cent self-employed persons in 2012. For the group of informal workers wage employment contributed only 41 per cent and self-employment 59 per cent. Almost one-half of informal employees were those who worked for another physical person, nearly one-third in an enterprise and the rest in agricultural farms, while among formal workers 90 per cent worked in an enterprise and the rest in farms or for physical persons. Out of informal self-employed persons, 96 per cent were own account workers and only a tiny 1 per cent employers. In formal self-employment, the share of own account workers was also very high but still 10 percentage points lower in comparison with informal self-employment, and the proportion of employers reached 12 per cent.

Figure 2.8 shows that 57 per cent of informal workers are active in agriculture, 26 per cent in any kind of manufacturing production, 6 per cent in street vending, 3 per cent in construction, 3 per cent are providing personal services for physical clients and 2 per cent work in transport. In any case, most of these activities provide low earnings, which is one of the reasons for their informality.

**Figure 2.8 Informal employment by place of work, 2012 (shares in per cent)**



Source: Statistical Agency of the Republic of Kazakhstan (2013b).

No information exists on the age structure of informal workers, i.e. on the incidence of informality among youth, nor on the level of education of informal workers. From the above analysis one can however deduce that informality is much more widespread among young people, compared with adult population. Indirect evidence also indicates that informal jobs require on average lower education than formal jobs. This calls for more attention of the policy makers to pay to promoting better employment opportunities for youth.

## 2.2.4 Wages and conditions of work for young people

Table 2.7 provides data on the level and development of the average nominal wage by sex in Kazakhstan in 2008 and 2012. It shows that between 2008 and 2012 the average nominal wage increased by 66 per cent. As consumer prices grew in the same period by 31 per cent, the average real wage rose by 27 per cent between 2008 and 2012. Gender gap in wages narrowed by almost 6 percentage points in this four-year period but in 2012 female wages were still more than 30 per cent below male wages.

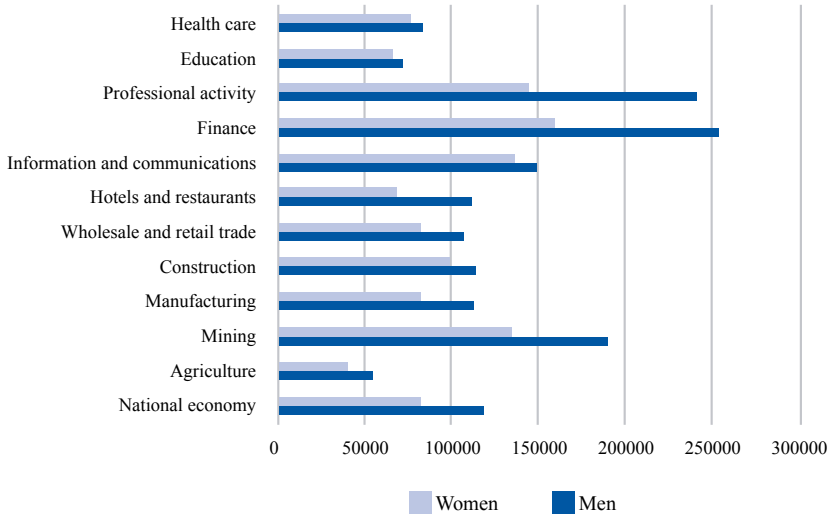
**Table 2.7 The average nominal wage for total population, men and women in 2008 and 2012, in tenge**

	2008	2009
<b>Total population</b>	<b>60 805</b>	<b>101 263</b>
Men	73 508	118 799
Women	46 922	82 625
Per cent of female to male wage	63.8	69.5

Source: Statistical Agency of the Republic of Kazakhstan (2013a).

The average wage at national level however hides large wage diversity between economic sectors. While there are no figures on wages for individual age groups, Figure 2.9 shows wage variations in economic sectors where young people are either over- or underrepresented (see again Figure 2.7), so that some conclusions can be made on the remuneration of youth. The highest wages are paid in the financial sector, professional, scientific and technical activities and in the mining industry, all of them sectors where young people are not much engaged. In contrast, agriculture and trade, the two sectors with high concentration of youth, have the lowest (agriculture) or low (trade) wage level. The three above mentioned sectors with the highest remuneration also have the largest gender pay gap, while the smallest gender pay gap can be found in highly feminized sectors of health care and education, which both have under-average wages despite high educational requirement and attainment. It can thus be concluded that young people earn on average significantly less than adult population, despite their better education.

**Figure 2.9 Average nominal wages by economic sector and by sex, 2012, in tenge**



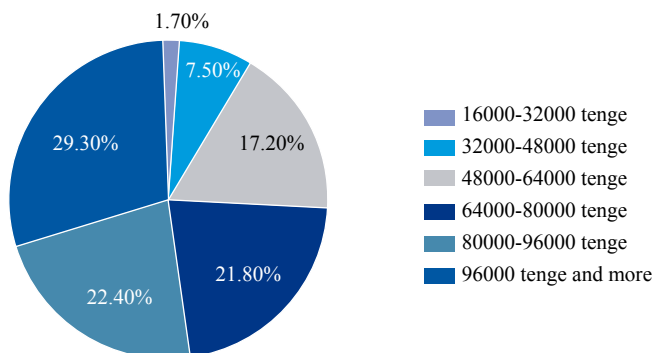
Source: Statistical Agency of the Republic of Kazakhstan (2013a).

There is large difference in the average wage paid in large and medium-sized enterprises and in small enterprises, many of them operating in the informal sector. While the average wage in the former group of enterprises accounted for 105,323 tenge in 2012, in the latter group it was 30 per cent less – 73,849 tenge. Large variation of wages exists among regions, depending on their regional economic structure. The highest average wages can be found in regions hosting mining industry, financial sector, communications and other well-paid sectors – Atyrau and Mangystau and the cities of Astana and Almaty, while the lowest average wages are in the rural regions of South Kazakhstan and Zhambyl. The average wage in Atyrau is more than double that of South Kazakhstan.

A certain picture on youth wages can also be gained from the above mentioned special youth employment module. One question put to young people between 15 and 28 concerned their wish to get a job with a desired wage level. Figure 2.10 presents the results. Taking into account that the average wage accounted for 101,263 tenge in 2012, for one-quarter of young people it was a dream to get a job remunerated at or below 60 per cent of the average wage and over 80 per cent of young respondents wished to get a job with wage at or below the average wage. According to the survey, one-fifth of young people wished to change a job and of them more than one-third because of low wage.



**Figure 2.10 Desired wage level of youth aged 15-28, 2012**



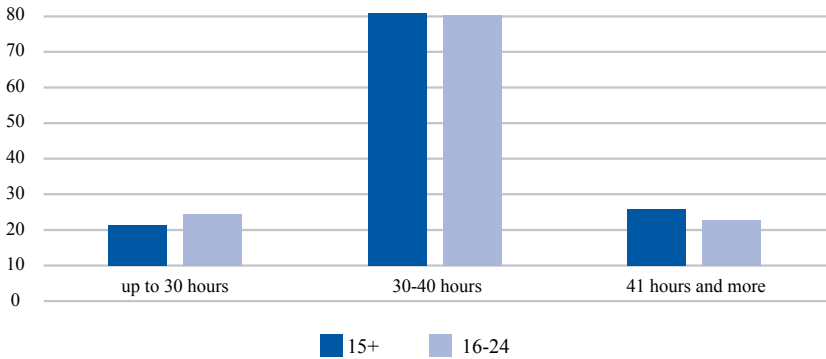
Source: Special youth employment module of the Labour Force Survey, 3<sup>rd</sup> quarter of 2012.

In the area of wages, there is one persistent problem – wage arrears. Although their scale significantly declined since the end of the transition crisis, according to the Review of the Implementation of the Strategic Plan of the Ministry of Labour and Social Policy<sup>4</sup>, as of 1 January 2013 wage arrears reached 1.1 billion tenge. In the course of 2014 labour inspection discovered in 793 enterprises wage arrears in the cumulative amount of 4.2 billion tenge hitting almost 50 thousand workers. Pressure from authorities combined with fines forced the enterprises to re-pay a part of owed wages, nevertheless as of 1 January 2014 the total sum of wage arrears still accounted for 740 million tenge. It is however not clear how many young people are touched by this problem.

Distribution of employed population 15+ and youth 16–24 by weekly hours actually worked is presented in Figure 2.11. It shows that there was not much difference in the length of work-week between total employed population and young workers – 71 per cent of both age groups worked between 30 and 40 hours but more young people than adults worked less than 30 hours and less worked longer than 40 hours per week. The average weekly hours for total population amounted to 38 hours, while youth worked on average 2 hours less in 2012. The youth employment module showed that 24 per cent of young people aged 15-24 (26 per cent of all young employed men and 21 per cent of young employed women) worked in evenings between 18 to 22 o'clock, 8 per cent (10 per cent of young men and 6 per cent of young women) at night between 22 and 6 o'clock, 49 per cent on Saturdays, 28 per cent on Sundays and 9 per cent (11 per cent of young men and 8 per cent of young women) had shift work.

<sup>4</sup> In August 2014, the Ministry of Labour and Social Policy was merged with the Ministry of Health and renamed the Ministry of Health and Social Development. However, the old name of the Ministry is further used in the text in references to documents issued by the Ministry of Labour and Social Policy and dated before August 2014.

**Figure 2.11 Actual hours of work per week for total employed population and for youth, 2012, per cent**



Source: Statistical Agency of the Republic of Kazakhstan (2013b).

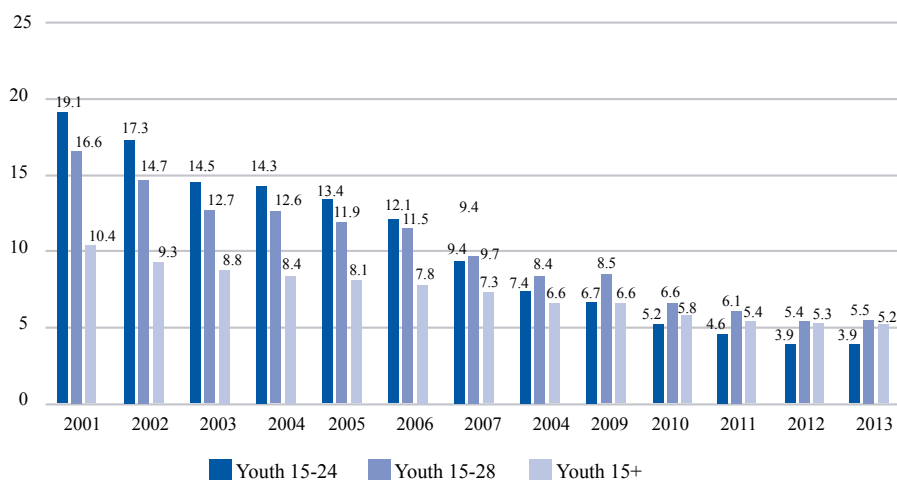
Finally, full one-fifth (20.6 per cent) of all workers were exposed to harmful and dangerous working conditions in 2012. Surprisingly, their absolute number as well as their share increased in comparison with 2008 by 250 thousand persons or by 1.5 percentage points, which is worrying and should draw the attention of the national labour inspection. 61 per cent of such workers were men and 39 per cent women. Among male workers the proportion of workers performing work not corresponding to occupational safety and health regulations equaled one-quarter, among female workers 17 per cent. Information on how many young people worked in harmful and unsafe conditions is not available, nevertheless experience shows that young workers are rather often requested to do heavy physical work or accept work dangerous for their health and safety. Therefore, stricter observation of safety and health conditions at work should be part of policies promoting decent employment of youth.

### 2.2.5 Youth unemployment

Figure 2.12 presents development of the unemployment rates for youth aged 15–24, youth 15–28 and total population 15+ in the period 2001–2013. It proves that unlike in the majority of countries worldwide, since 2001 Kazakhstan has managed to reduce significantly not only total unemployment but even more youth unemployment. If in 2001 the youth (15–24) unemployment rate was almost twice as high as that for total population, which is typical for most countries, in 2013 it was only three-quarters of the aggregate unemployment rate, which is rather unique in the world. The unemployment rate for youth aged 15–28 has also declined

more rapidly than the total unemployment rate but by 2013 it still remained slightly above the aggregate rate. Until 2006 the unemployment rate for youth 15–24 was higher than for the age group 15–28 but since 2007 their relation has reversed. When comparing the unemployment rates of five-year population groups, that for population aged 25–30 is the highest, which could indicate problems of transition from school to work of university educated youth.

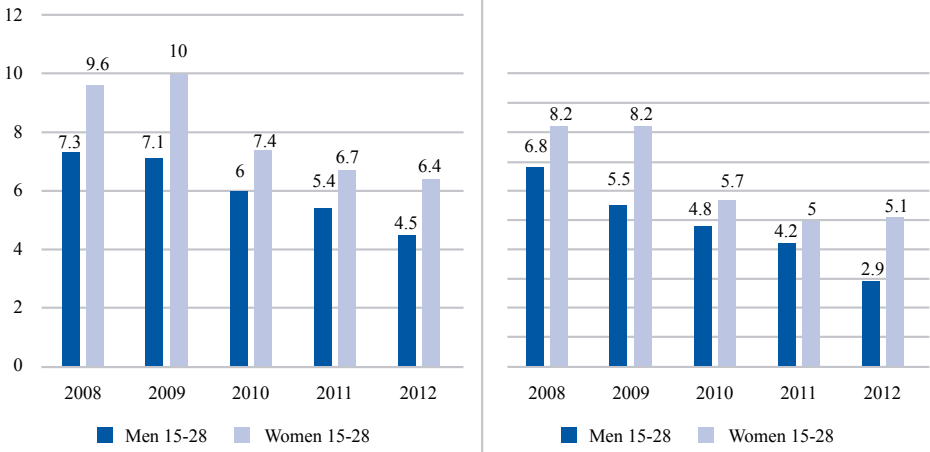
**Figure 2.11 Actual hours of work per week for total employed population and for youth, 2012, per cent**



Source: Database of the Statistical Agency of the Republic of Kazakhstan.

The male and female unemployment rates for both groups of young population in the period 2008–2012 are presented in Figure 2.13. They show consistently higher joblessness of women, compared with men, for both age groups of youth. Moreover, the male unemployment rates have declined relatively more rapidly, compared with those of females. The male and female unemployment rates are higher for young people aged 15–28 than for those between 15 and 24. Also, in urban areas the youth unemployment rates are consistently higher than in rural areas. In 2012, the male rate amounted to 4.7 per cent in urban areas and 3.8 per cent in rural areas while for women the rates were, respectively 7.2 and 5 per cent. The reason again is that in poorer rural areas young people cannot afford to stay jobless at home and prefer to do any work in order to contribute to family budgets.

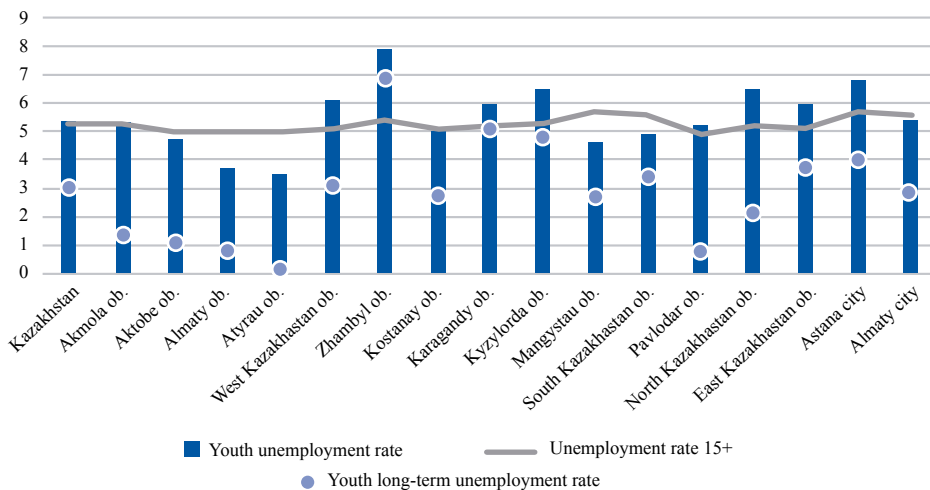
**Figure 2.13 Male and female unemployment rates, 2008 – 2012, per cent**



Source: Statistical Agency of the Republic of Kazakhstan (2013a).

Regional diversity in youth unemployment as compared with unemployment of total population 15+ is depicted in Figure 2.14. The data show that regional variation of the unemployment rate for all population aged 15+ is, rather surprisingly, low. This contrasts with larger fluctuations in youth unemployment: youth joblessness in the region with the highest rate – Zhambyl - is 2.5 times higher than in the region with the lowest rate – Atyrau. Moreover, no correlation could be found between youth and total joblessness by region, which is difficult to explain.

**Figure 2.14 Unemployment rate and long-term unemployment rate for youth 15-28, compared with unemployment of population 15+, by region, 2012**



Source: Statistical Agency of the Republic of Kazakhstan (2013a).

In terms of length of unemployment, 13 per cent of young persons were without a job for less than 1 month, 27 per cent between 1 and 3 months, 27 per cent between 3 and 6 months, 18 per cent between 6 and 12 months and 15 per cent for more than 1 year in 2012. Figure 2.14 also presents data on the long-term joblessness (for more than 1 year) by region. It shows that the higher is youth unemployment, the higher also tends to be youth long-term joblessness. In Atyrau long-term joblessness approaches zero while in rural Zhambyl almost 90 per cent of unemployed youth are without a job for more than one year.

In conclusion, while the youth unemployment rate now remains within single digits all across Kazakhstan proving that there are no pockets of youth unemployment at least at regional level in the country (which does not mean that there couldn't be localities facing high unemployment of youth), the high incidence of long-term joblessness of young people in some regions like Zhambyl, Karagandy or Kyzylorda should be addressed by appropriate employment promotion measures.

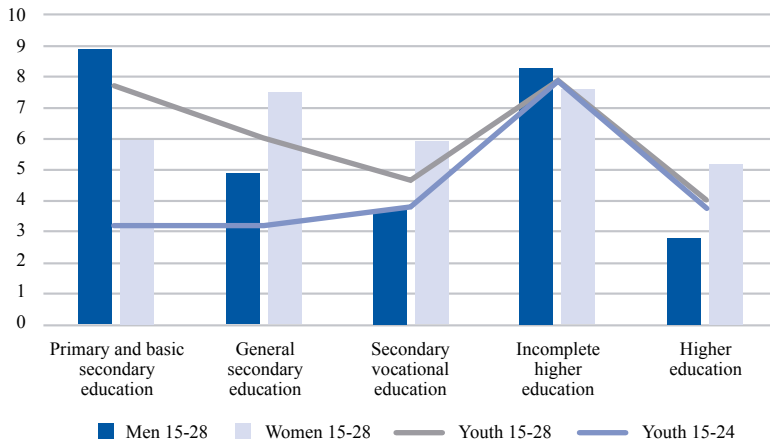
Unemployment rates for youth aged 15-24 and 15-28 by educational attainment and for the latter also by sex are presented in Figure 2.15. The unemployment rates for population with incomplete higher education and full university education are practically the same for both youth population groups and the difference for those with secondary vocational education is rather small.

In contrast, the unemployment rates for youth with general secondary or lower education are considerably lower for youth aged 15-24 than for youth aged 15-28.

A possible explanation could be that low educated youth can relatively easily find employment in poorly paid simple jobs but once their older peers possessing better education enter the labour market, employers replace such low educated persons by better skilled and more productive workers. In the case of youth between 15 and 28, their specific unemployment rates by educational attainment are similar to other countries, namely that low educated persons have the highest likelihood of unemployment and the rate declines with higher level of education.

The only exception is the unemployment rate for persons with incomplete tertiary education that even slightly exceeds that for persons with the lowest education. This seeming paradox may, as it has already been explained earlier, be connected with the methodological specificity of the Kazakh statistics, namely that unemployed youth with incomplete higher education includes, besides jobless dropouts from tertiary education, also students of tertiary schools who are seeking an additional, usually part-time job.

**Figure 2.15 Unemployment rates for youth 15-24 and 15-28 by educational attainment and by sex, 2012, per cent**



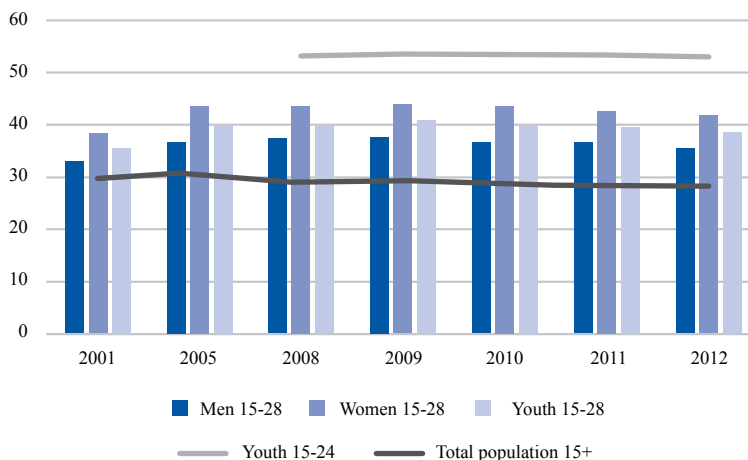
Sources: Own calculations on the basis of data in the Statistical Agency of the Republic of Kazakhstan (2013b).

Women have significantly higher likelihood of unemployment than men at any level of education (see again Figure 2.15) that points to employers' discrimination against them but also to higher concentration of women in fields of study not demanded in the labour market (see section 2.2). The only exception are the two groups with the highest joblessness – low educated and those with incomplete tertiary education, which in their case could be connected with the general willingness of women to accept less paid jobs in comparison with men.

### **2.2.7 Youth inactivity and discouragement**

Economic inactivity of total population aged 15+ slightly increased between 2001 and 2005 when it reached the peak of 30.6 per cent and since then it has had a slowly declining tendency (see Figure 2.16). In contrast, economic inactivity of youth aged 15–28 recorded a significant rise between 2001 and 2005 followed by only a slight growth until 2009 when it reached 40.7 per cent. Since 2009 it has slowly fallen similarly as in the case of total population. The inactivity rates for the age group of 15–24 remained fairly stable over the period 2008-2012. The disaggregation by sex shows consistently higher inactivity rates for women, with a relatively stable gender gap of some 6 percentage points.

**Figure 2.16 Inactivity rates for youth and total population, 2001-2012, per cent**



Sources: Own calculations on the basis of data in the Statistical Agency of the Republic of Kazakhstan (2013b).

While in 2001 the difference between the inactivity rates for youth aged 15–28 and for total population was only 6 percentage points, after 2005 it accounted for 10 or more points due to a longer time spent by young people in the education process. As Table 2.8 reveals, 88 per cent of inactive young people between 15 and 28 years of age attended a daily form of education, while 6 per cent were inactive due to household or care duties. The proportion of young men engaged in any form of daily education was higher than that of women as almost 10 per cent of inactive young women were occupied in households or had family responsibilities. 5 per cent of young men and 4 per cent of young women were inactive due to other reasons, including discouragement because of unsuccessful search for a job in the labour market.

**Table 2.8 Youth (15-28) inactivity by main reason, 2012, per cent**

Reason of inactivity	All youth	Young men	Young women
In daily education	87.8	91.3	84.7
Engaged in households/care duties	5.7	1.4	9.5
Own illness or disability	1.8	2.1	1.6
Other reasons	4.7	5.2	4.2

Source: Statistical Agency of the Republic of Kazakhstan (2013d).

The share of young people aged 15-28 not in education, employment or training (the so-called NEETs) was 8 per cent in 2012, according to data of the Statistical Agency of the Republic of Kazakhstan (2013d). In international comparison the NEET proportion is rather low as for example in the Russian Federation in the age cohort of 15-24 this share accounts for 12 per cent in 2012 (ILO 2014) and in the EU-27 13 per cent in 2011 (Eurofound 2012). Unfortunately, no disaggregation by sex or by educational attainment is available.



# 3

## TRANSITION FROM SCHOOL TO WORK

The previous chapter analyzed the situation of young people in the labour market of Kazakhstan and concluded that in quantitative terms the situation seems to be good, characterized by low unemployment and low forced inactivity (discouragement from unsuccessful search for a job). At the same time it pointed to significant qualitative problems as too many young people, including those with tertiary and vocational secondary education, are engaged as own-account workers in sectors offering low quality jobs, such as agriculture or trade. Therefore it would be useful to study in more detail how easy or difficult it is for young school leavers to find a job, how they are looking for a job, what quality of jobs are available for them and how satisfied they are with their job or whether they wish to change it and for what reasons. Many of these answers are responded in the so-called School-to-Work Transition surveys (SWT) – a methodology developed by the ILO and already used in a number of countries, including e.g. the Russian Federation.<sup>5</sup>

According to this methodology, the school-to-work transition means a path from completion of school education or training to employment in a stable job or a job that satisfies person's aspirations. This path is divided into three stages: (1) the transition has not yet started, i.e. the young person is still in education or has completed it but does not wish to work; (2) the transition is going on, i.e. the young person is looking for a job or will do so in the future or is employed but in unstable (temporary) unsatisfactory employment or does unsatisfactory self-employment; and (3) the transition is completed as the young person is in stable wage employment (regardless of whether it satisfies him/her or not) or is in temporary employment or self-employment that satisfies him/her.

Unfortunately, an SWT survey has not yet been conducted in Kazakhstan. Nevertheless, as already mentioned in the previous chapter, the Statistical Agency of the Republic of Kazakhstan included a special youth employment module into the Labour Force Survey for the 3rd quarter of 2012. Results from this survey can provide a useful, though incomplete and in some items imprecise, picture of opportunities and difficulties encountered by young people aged 15–28 in their transition from the education process into the world of work. Table 3.1 summarizes the key transition indicators.

<sup>5</sup> For the methodology of School-to-Work Transition Surveys see: [http://www.ilo.org/employment/Whatwedo/Instructionmaterials/WCMS\\_140857/lang--en/index.htm](http://www.ilo.org/employment/Whatwedo/Instructionmaterials/WCMS_140857/lang--en/index.htm). The results of the Russian SWT survey are presented in ILO (2013).

**Table 3.1 Key transition indicators for youth aged 15-28, by sex, 2012, per cent**

School-to-work transition indicators			
<b>Transition not started</b>			
Total population	36.6	Of whom in school	31.6
		Inactive for other reasons	5.0
Young men	33.4	Of whom in school	30.2
		Inactive for other reasons	3.2
Young women	39.8	Of whom in school	33.0
		Inactive for other reasons	6.8
<b>In transition</b>			
Total population	11.6	Of whom unemployed	3.3
		In wage employment but unsatisfied	4.0
		In self-employment but unsatisfied	4.3
Young men	12.0	Of whom unemployed	2.8
		In wage employment but unsatisfied	4.4
		In self-employment but unsatisfied	4.8
Young women	11.1	Of whom unemployed	3.7
		In wage employment but unsatisfied	3.7
		In self-employment but unsatisfied	3.7
<b>Transition completed</b>			
Total population	51.8	Of whom in wage employment and satisfied	35.1
		In self-employment and satisfied	16.7
Young men	54.6	Of whom in wage employment and satisfied	37.0
		In self-employment and satisfied	17.6
Young women	49.1	Of whom in wage employment and satisfied	33.3
		In self-employment and satisfied	15.7

Source: Source: Own calculations on the basis of data from the special youth employment module in the LFS, 3rd quarter of 2012.

Table 3.1 shows that for over one-third of young population the transition to work has not yet started and the main reason is their daily school attendance. It was not possible to separate inactive youth not willing to work from young people inactive for other reasons than education so this second indicator is most probably overestimated. More young women than young men have not yet started their transition. The cause is their higher engagement either in education or in household.

Almost 12 per cent of all young people occur in transition from school to work. Of whom about one-quarter are jobless and some three-quarters are employed but not satisfied with their job. This dissatisfaction concerns more often self-employed persons than employees. For young men and women the share of those in transition is very similar but more young women than men are in unemployment while young men are more often employed but dissatisfied with their job.

Over one-half of young people aged 15–28 have completed their transition and are in a job, which satisfies them. Two-thirds of them are in wage employment and only one-third in self-employment and this proportion is similar for both sexes. This confirms that wage employment tends to provide better employment opportunities in comparison with self-employment. Nevertheless, the incidence of young men engaged in a satisfying job is 5.5 percentage points higher than that of young women.

36 per cent of young employed people reported that they had faced a problem with finding their first job after leaving school or graduating from university, as shown in Table 3.2. Interestingly, for the youngest age group 16–19 it was easiest to find a job while those aged 20–24 encountered the biggest problem. In the age cohort 16–19 women faced more difficulties to get a job, compared with men, while for the oldest group 25–28 it was vice versa. Urban population had harder times to get employed, compared with rural population, most probably due to higher expectations of urban youth. The biggest difference between urban and rural areas with regard to getting first job concerned the youngest age group.

**Table 3.2 The share of employed youth having had problem to find their first job, by age, sex and place of residence**

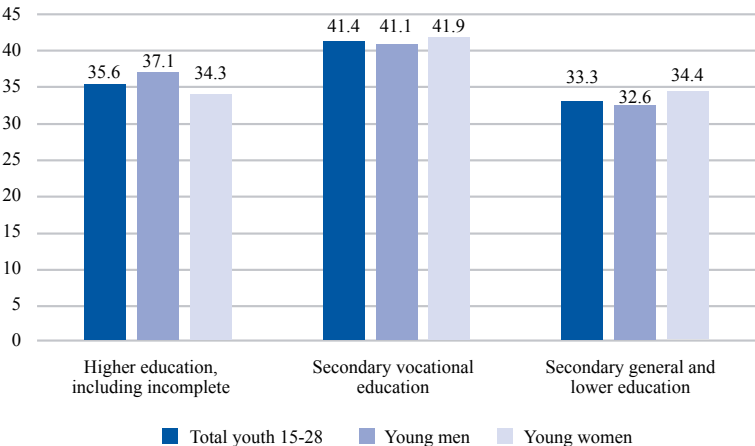
	16-19	20-24	25-28	16-28
<b>Total population</b>	<b>29.8</b>	<b>39.4</b>	<b>35.2</b>	<b>36.4</b>
Men	27.9	39.0	35.8	36.4
Women	32.1	39.8	34.4	36.3
Urban population	36.0	42.8	36.8	39.1
Rural population	27.2	35.9	32.9	33.3

Source: Own calculations on the basis of data from the special youth employment module in the LFS, 3rd quarter of 2012.

Taking into account differences in the unemployment rate by level of education, it could be expected that young people with higher education would find a job more easily, compared with lower educated youth. However, Figure 3.1 does not confirm this expectation. Surprisingly, young people with secondary

vocational education faced the biggest difficulty to get their first job, while those possessing only general secondary or lower education were most successful and tertiary educated youth were in the middle. The only explanations for this paradox could be that youth with secondary general and lower education take any job available while youth with secondary professional and higher education are more selective, and that employers are in general reluctant to take school leavers or graduates without work experience. Among university graduates young women got their first employment easier than young men who were more successful than women only if they possessed lower than tertiary education.

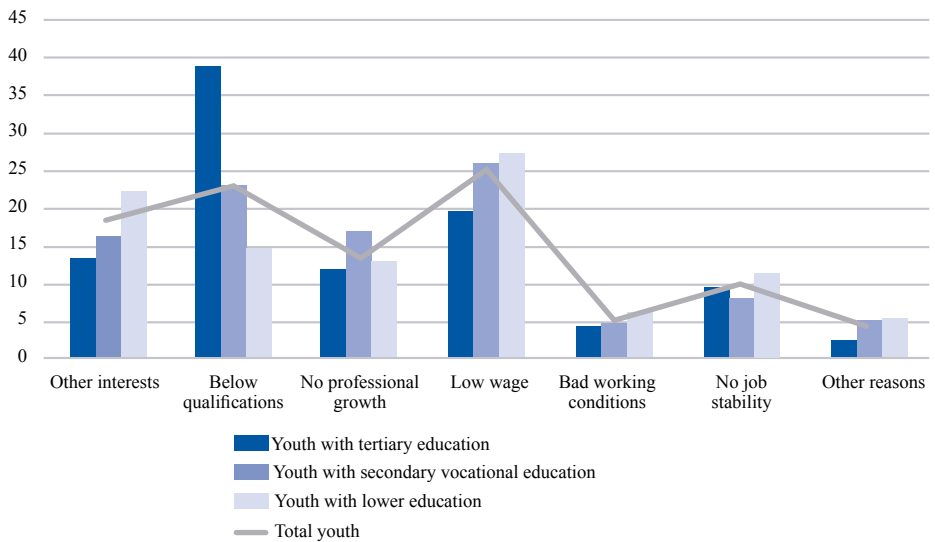
**Figure 3.1 The share of employed youth aged 15-28 having had problem to find their first job, by level of education, per cent**



Source: Own calculations on the basis of data from the special youth employment module in the LFS, 3rd quarter of 2012.

In total 84 per cent of employed youth were satisfied with their current employment while only 16 per cent expressed their dissatisfaction concerning their job. The reasons why young employed people are not satisfied with their current job are presented in Figure 3.2. The two main reasons of dissatisfaction are low remuneration and work not utilizing their qualifications. Among tertiary educated youth work below their qualifications is by far the main reason, but it is important also for young persons with secondary vocational education, while low wage is the main source of dissatisfaction for specialists with secondary education and for persons with general secondary or lower education. The third most important factor of dissatisfaction is that the job content does not correspond to the interests of young people. The fourth reason is the lack of professional advancement felt by youth in their current employment. Interestingly, low job stability does not have much importance for young people in Kazakhstan.

**Figure 3.2 Employed youth by dissatisfied with their current job, reason of dissatisfaction, shares in per cent**



Source: Own calculations on the basis of data from the special youth employment module in the LFS, 3rd quarter of 2012.

In the survey, almost 20 per cent of young employed persons expressed their wish to change their job. Among them 36 per cent explained it by low wage in their current employment and desire to get a better remunerated job, 30 per cent wanted to do another activity, 16 per cent wished to get a more skilled job and 8 per cent planned to start their own business.

When enquired what should be done to improve the position of youth in the labour market, 42 per cent of young people stressed the need to promote new job creation, 28 per cent suggested improvement of the remuneration system, 11 per cent improvement of working conditions, 6 per cent better access to vocational education and training, 8 per cent support in individual business start-up and only 2 per cent assistance in finding employment abroad. New job generation was by far the main preference of young people regardless of their sex, level of education and place of residence but it was stressed more by men, lower educated and rural population in general. In addition, urban youth and persons with higher education more accentuated better remuneration. Urban youth and lower educated people also prioritized improvement of working conditions, while rural youth and persons with lower education preferred more support for business start-up. University educated young people were also more ready to migrate abroad for work, compared with less educated youth.

In sum, the survey revealed that young people without any work experience do encounter some problems in gaining their first job but the transition from school to work is not as difficult in Kazakhstan when compared with countries like the Russian Federation and the majority of economically developed countries. The rate of under-utilization of youth in the labour market in quantitative terms is not high as the combined unemployment and inactivity due to other reasons than education is relatively low, moves around 8 per cent. However, the main labour market problem of youth and the whole population in Kazakhstan is the low quality and productivity of many jobs. Although four-fifths of employed youth were in general satisfied with their current employment it is more a pragmatic reflection of unavailability of better employment opportunities in the labour market than any real fulfilment of their aspirations and full and productive use of their qualifications. This is the reason why, when asked on what should be done to improve the labour market situation of young people, over two-fifths of respondents suggested measures to promote new job creation and another two-fifths proposed measures improving the remuneration system and other working conditions. These issues need to be addressed by appropriate economic, education, employment and labour market policies. The following chapter will analyze the current policies, to what extent they meet this task.

# 4 POLICIES AND INSTITUTIONS FOR YOUTH EMPLOYMENT

## 4.1 Macroeconomic and sectoral policies

As already mentioned in Chapter 1, the 2000s until the onset of the global financial crisis in the second half of 2007 were characterized by high economic growth that was fueled by the development of the oil sector as well as the construction boom and supported by prudent countercyclical macroeconomic, in particular fiscal policies. Large oil and non-oil revenues contributed to a strong fiscal balance of the government, which however saved a large part of oil revenues in the National Oil Fund that reached 21 per cent of GDP in the end of 2008. Total government spending averaged 22 per cent of GDP for most pre-crisis years and the non-oil fiscal balance deficit moved around 3 per cent (see again Figure 1.3). This prudent fiscal stance helped at least partially mitigate strong inflationary pressures stemming from the huge capital inflow. Many new jobs have been created and the real per capita income doubled over this boom period.

However, this period also saw rising imbalances in the economy. The current account returned to red figures due to mounting imports, despite strong oil and non-oil exports. Domestic demand of investors in construction, trade companies and households for credits was ever stronger and therefore the banking sector accelerated its borrowing in foreign financial markets. The indebtedness of enterprises and households was increasing. By the end of 2007, the total amount of bank credits accounted for 75 per cent of GDP and almost one-half of loans were in foreign currencies. Any government attempts to reduce banks' external borrowing and mounting households' credits were not much successful. However, since summer 2007 the turmoil in the global financial markets sharply increased the costs of banks' external borrowing and the banks immediately reacted by reducing credit availability. In addition, large capital outflows from the country and massive withdrawals of savings by households led towards the weakening of the national currency and increasing difficulties in the re-payment of loans denominated in foreign currency. All this together with steeply falling real estate prices made a large part of loans non-performing and further strengthened the credit crunch, which impacted negatively on the non-oil sectors of the national economy. As a result, the GDP growth rate sharply decelerated in 2008, even turned negative in

the first three quarters of 2009 and returned to positive values only in the last quarter of 2009.

The government reacted to the crisis by launching massive anti-crisis measures amounting to 21 billion US\$ (World Bank 2013). About one-half of this amount (11 billion US\$) was spent on stabilizing the banking sector through bailing out four large banks. In addition, deposit insurance was increased in order to prevent further massive deposit withdrawals. The rest, over 10 billion US\$, was used for supporting various sectors. In construction e.g. it helped refinance mortgage loans. It also provided additional funding to banks for providing credits to small and medium-sized enterprises and for financing the completion of housing projects already under construction.<sup>6</sup> Further the government launched countercyclical fiscal measures aimed to limit the economic slowdown by stimulating consumer demand and supporting the enterprise sector. These countercyclical fiscal measures included the strengthening of automatic stabilizers, such as unemployment benefits (their duration was extended), indexation of pensions and social benefits for poor households, as well as an increase in public sector wages. Corporate taxes in the non-extractive sector were lowered and rules for enterprise start-ups were simplified in order to support business development. Small and medium-sized enterprises could benefit from subsidized credit interest rates and from credit guarantees.

The government of Kazakhstan also embarked on a major programme of housing construction with a total allocation of 545 billion tenge (US\$ 3.66 billion) and on a set of large infrastructural projects with an allocation of 120 billion tenge (US\$ 0.8 billion). In addition, in 2009 the government launched the Employment Roadmap programme with the triple objective of employment preservation, employment promotion and income support of vulnerable groups of population. The initial allocation for the Employment Roadmap was 163 billion tenge, which was later increased to the equivalent of some 1.5 billion US\$ (1.5 per cent of GDP), of which two-thirds were provided by the state budget and one-third from local budgets.<sup>7</sup>

In order to stimulate the economy, improve the liquidity of banks and encourage the provision of credits to the enterprise sector, the national bank eased its monetary policy vis-à-vis commercial banks. In response to the declining oil prices and significant capital outflows it also devalued the national currency by some 20 per cent in February 2009, which helped stabilize domestic deposits. In 2010 the recovering oil and other commodity prices in the global market together with positive impacts of the anti-crisis measures supported the renewal of economic

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<sup>6</sup> See International Monetary Fund (2010), pp. 5 and 8.

<sup>7</sup> Address to the Nation by President Nazarbayev entitled “Through Crisis to Renovation and Development”, delivered in the Parliament of the Republic of Kazakhstan on 6 March 2009; International Monetary Fund (2010).



growth. Kazakhstan thus weathered the global crisis very well, through the timely use of the fiscal stimulus financed from resources accumulated in boom years. In 2010, the government also determined new rules for managing the National Oil Fund by fixing the ceiling for a yearly transfers from the Fund to the state budget at 8 billion US\$, later modified to 8 billion US\$ plus/minus 15 per cent depending on the economic cycle. Towards the end of 2012, the National Oil Fund had resources exceeding 32 per cent of GDP, the biggest even fiscal buffer for bad times.

However, the GDP growth rates have not reached the pre-crisis level and one reason for it has been the still weak banking sector burdened by the high share of non-performing loans, reaching some 30 per cent of the total amount of loans in the end of 2012 (IMF 2013, p. 6). This undermines the ability of banks to provide enough credits to enterprises. The government has started solving this problem through establishing a centralized problem loans fund and some other measures but so far their impact has been rather limited. The issue of non-performing loans calls for a more determined and more effective action from the side of the National Bank and the government, as the healthy financial sector is very important for business development and new productive jobs creation.

The main future task for macroeconomic policy of the government is to stimulate and accelerate diversification of the economy from over-dependence on the extraction industry towards modern manufacturing sectors using new technologies and delivering products with high value-added but also making agriculture and services more productive and effective in order to increase performance and competitiveness of the whole economy. In response to only partially successful diversification programmes (see the critical assessment of the Asian Development Bank (Felipe and Rhee, 2013), a new State Programme on the Accelerated Industrial-Innovative Development of Kazakhstan for 2010-2014 was launched in 2010 with the aim to ensure sustainable economic growth through diversification and increased competitiveness of the economy. The Programme identified seven priority sectors: (i) agriculture; (ii) construction and construction materials; (iii) oil and gas products and infrastructure; (iv) metallurgy and metal products; (v) chemical and pharmaceutical industry; (vi) energy; and (vii) transport and telecommunications infrastructure. In the priority sectors the state would closely cooperate with the business sector on upgrading physical infrastructure, promoting human resource development, and creating more business-friendly environment that would attract foreign direct investment and lower administrative barriers for start-up and expansion of enterprises. The Programme should form centres of economic growth on the basis of rational territorial organization of the country's economic potential. The government established several institutions promoting development, such as the Development Bank of Kazakhstan, Investment Fund of Kazakhstan and the National Innovation Fund. In 2008 a Sovereign Wealth Fund Samruk-Kazyna was founded (through the merger of two funds –

Samruk and Kazyna), which now owns among others the Development Bank and the National Innovation Fund and is the main financing tool of the government for the above mentioned Programme and for supporting infrastructural projects, new innovative companies, small and medium-sized enterprise projects, etc. (The anti-crisis measures were also in a large part funded by the Samruk-Kazyna fund.) The Programme planned to launch 872 projects and create 228 thousand jobs for the period of construction and 192 thousand permanent jobs after their completion. By 2013 563 projects were already completed and more than 60 thousand permanent jobs created.<sup>8</sup> Currently the government is working on a second phase of this programme for 2015 – 2019.

The industrialization strategy is indeed very important for further development of Kazakhstan. Evidence from cross-country studies showed that high and sustained growth rates were driven by development of manufacturing and its expansion into higher technology segments, and industrial policy played an important role in it (Foxley and Sosso, 2011). Manufacturing is a leading sector also for improving technological level and competitiveness of the whole economy because of linkages between manufacturing firms and firms in other sectors. Industrial policy is not only relevant for manufacturing but also for other economic sectors to become more productive and effective. However, Felipe and Rhee (2013) have showed that in more developed countries the nature of industrial policy is changing toward indirect forms that support priority industries through private financial markets. While the government broadly defines priority industries and announces incentives for private financing, it should be the task of private financial institutions to select promising investors and competitive projects in these industries to support. In this way risks can be shared between the public and private sectors and the outcomes need to be strictly monitored and evaluated. Human capital development and innovation delivered again through the public-private partnership play a very important role in such industrial policy.

In the case of Kazakhstan Felipe and Rhee (2013) also recommended a switch to indirect industrial policy that is well coordinated, streamlined, implemented in close public-private partnership and strictly monitored. Industrial policy projects should explicitly require financial participation of the private sector, domestic or foreign. However, innovation has been identified as one of the weakest parts of national industrial policy. A remedy could be achieved through more investment in research and development and promotion of close links between universities, research centres and the enterprise sector. Also stimulation of broader cooperation between international companies and domestic firms through value chains, production networks and clusters can promote transfer of new technologies, learning of new high-performing managerial and organizational

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<sup>8</sup> Information from the Federation of Trade Unions of the Republic of Kazakhstan, provided in May 2014.

practices and know-how, and thus contribute to the creation of more productive jobs. More investment should go into infrastructure necessary for balanced national and regional business development. The other weak area of industrial policy in Kazakhstan is human capital as will be developed in the following section.

Simultaneously with the Programme on Accelerated Industrial-Innovative Development of Kazakhstan for 2010 – 2014, the Strategic Plan for Development of the Republic of Kazakhstan till 2020 was adopted. The Plan sets ambitious targets to be achieved by 2020, such as to place Kazakhstan among 50 most competitive countries of the world with favourable business climate that would attract significant foreign investment into non-extraction sectors. The country should possess human resources well qualified for the needs of the diversified economy and have upgraded infrastructure serving well both local entrepreneurs and exporters. By 2020 the economy should expand in real terms by one-third in comparison with the 2009 level and the share of population with incomes below the subsistence minimum should fall below 8 per cent of total population.

In December 2012 the President of Kazakhstan Mr. Nazarbayev in his annual address formulated a new development strategy “Kazakhstan 2050” that should shift the country among 30 most developed economies of the world by 2050. The main principles of economic policy in this new development strategy are presented in Box 4.1. Industrialization and diversification of the national economy is an important part of this strategy and many of the above mentioned ADB recommendations for launching effective industrial policy are stipulated there.

#### Box 4.1 Economic policy goals in the “Kazakhstan 2050” development strategy

The new economic policy needs to be built on four principles: (i) all economic and managerial decisions have to be based on economic feasibility and long-term interests of the country; (ii) new markets should be penetrated where Kazakhstan can participate as an equal business partner and tap new sources of economic growth; (iii) favourable investment climate needs to be created to help build economic capacity, profitability and high return on investment; and (iv) the economy should be based on the effective private sector and the public-private partnerships.

The new economic policy includes the following elements:

*Modernization of macroeconomic policy:* Monetary policy should aim to provide economy with necessary monetary resources and maintain inflation at a reasonable level with respect to economic growth. Public debt should be kept at a moderate level. The state budget deficit needs to be reduced to a minimum and budget expenditure should support viable long-term projects directed towards diversification of the economy and development of infrastructure.

### Box 4.1 Economic policy goals in the “Kazakhstan 2050” development strategy (continued)

A favourable tax regime needs to be introduced for producers using new technologies and for stimulation of investment activity among entrepreneurs, while existing tax concessions need to be revised with the aim to maximize their efficiency. New tax policy must be socially oriented to promote investment in human resource development. Investment in physical infrastructure development should enhance the integration of the national economy into the global economy as well as ensure good connection among all Kazakh regions. The National Oil Fund will provide the necessary resources in support of this economic policy but they have to be disbursed in a rational and thoughtful manner. At the same time private companies should be stimulated to invest funds in research and innovation.

*New system of managing natural resources:* While accelerating the pace of extraction and delivery of commodities to the world markets, it is important to move from simple export to forming partnerships in the area of energy resource processing and exchange of new technologies. New investors should be selected only under the condition of transfer of modern technology for extraction and processing. All extracting enterprises must introduce only ecologically harmless production techniques. The country should create a strategic reserve of hydrocarbon commodities but simultaneously develop production of alternative energy resources, so that alternative and renewable energy sources account for at least half of country's total energy consumption by 2050.

*Next phase of industrialization* will aim to double the share of non-energy export in total export by 2025 and triple it by 2040: Strategies will be developed in the most competitive sectors to help domestic producers form new market niches so that the country successfully withstands global competition when entering the World Trade Organization and fully uses the customs union with Russia and Belarus (the customs union was established in 2009 and in the end of May 2014, the three countries signed an agreement on creating the Eurasian Economic Union). It is also important to develop joint international companies and beneficial partnerships with technologically advanced foreign companies that would strengthen industrial capacity of the country and bring in new technologies.

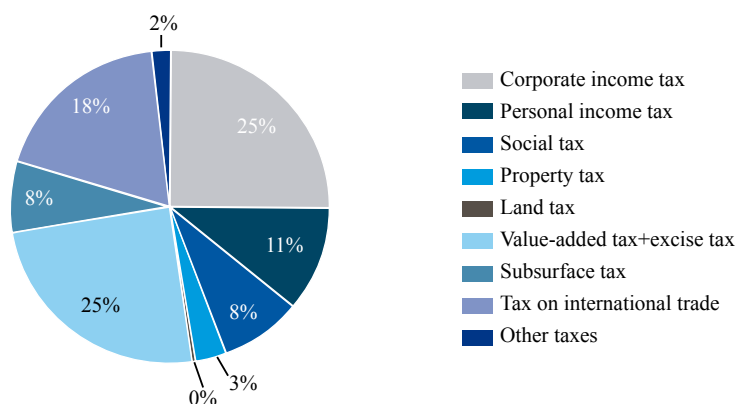
*Modernization of the agricultural sector* will be achieved by introducing new technologies and increasing productivity in agriculture and by upgrading agricultural processing and trade.

*Comprehensive support of entrepreneurship* will be done through improving conditions for and stimulating development of small and medium-sized enterprises, strengthening the public-private partnerships and privatizing non-strategic enterprises and services.

After declaring independence in 1991 Kazakhstan, similarly as most other transition economies, reformed its tax system and gradually introduced fiscal decentralization mechanisms. While in the 1990s the tax system was set and managed by President's decrees, in 2002 a new Tax Code came into force, which regulated the relationship between the state and the taxpayers in a comprehensive way and provided for procedures on calculation and payment of taxes. As of 1 January 2007 Kazakhstan introduced a flat rate income tax. In 2008 the re-worked Tax Code was adopted that further lowered some tax rates and simplified tax

administration procedures. The Kazakhstani tax system is based on flat-rate taxes<sup>9</sup> and the overall tax burden is low with the emphasis on direct rather than indirect taxes as demonstrated in Figure 4.1. The low and flat rate of personal income tax in combination with the low social tax significantly constrains the solidarity principle and limits the possibility of the state to support socially weak population groups. The overall tax burden for enterprises, comprising the corporate income tax, social tax, property tax and some other small taxes amounts to 28.2 per cent of profits and is some 10 percentage points lower compared with the average for Europe and Central Asia and even 13 points lower in comparison with the OECD average.<sup>10</sup>

**Figure 4.1 Composition of tax revenues, 2012, shares in per cent**



Source: Ministry of Finance of the Republic of Kazakhstan.

In 2003 Kazakhstan embarked on a far reaching decentralization reform that shifted part of state functions and budget responsibilities to local authorities. While in the beginning the proportion between tax revenues collected into the republican budget and the local budgets was more balanced, currently almost three-quarters of tax revenues are centralized, while only one-quarter goes into the local budgets. As local governments are responsible for financing local infrastructure,

<sup>9</sup> The list of taxes includes a 20 per cent corporate income tax paid by resident legal entities (10 per cent in agriculture) and non-resident legal entities pay in addition a 15 per cent branch tax; a 10 per cent personal income tax that concerns also individual entrepreneurs with more than 25 workers and with a quarterly income above 10 million tenge (54 thousand US\$), while individual entrepreneurs having up to 25 employees and a quarterly income below 10 million use a simplified form of taxation and pay 3 per cent of the quarterly income, and individual entrepreneurs with no employees and the yearly self-estimated income below 200 times the minimum wage (39.9 million tenge in 2014, i.e. 21.8 thousand US\$) are taxed on the so-called patent basis and pay 2 per cent of their income; a social tax levied at legal entities and amounting to 11 per cent of salaries and in-kind benefits of employees, while individual entrepreneurs pay two MBI for themselves and 1 MBI for each employee, and individual farmers pay 20 per cent of 1 MBI for each worker and each adult member of their household; a 2 per cent property tax (levied only on buildings); a 12 per cent value-added tax; an excise tax on alcohol, tobacco, gasoline etc.; a subsurface use tax (i.e. a tax on the use of mineral and other sources); a tax on international trade and foreign operations with a varying rate; and some other taxes.

<sup>10</sup> World Bank (2014).

education, health care and social institutions and policies, local tax revenues do not suffice and their budgets are dependent on increasing transfers from the republican budget. However, the inter-budgetary relations are not transparent as the rules for transfers are not clear and there are many exceptions. Moreover, the flow of transfers from the republican to the local budgets is not well predictable and can shift from one year to another independently of local resource deficits, which limits the ability of local governments to budget and plan (Amagoh and Bhuiyan, 2010). Poor regions thus face problems of severe budget constraints both for social expenditures and for spending on upgrading their infrastructure, key for business development, which undermines their economic and social progress and deepens their lagging behind richer regions. This confirms the finding by Mussurov (2013) that public expenditure policy at regional/local level is not poverty-focused (see Chapter 1).

The government should re-consider a return to the progressive personal income tax, which would bring additional tax revenues into the local budgets and would also strengthen the sense of solidarity and fairness among the population. Stricter control by financial (tax revenue) offices should also be introduced in order to reduce still widespread tax evasion but they should be combined with stimuli supporting development and competitiveness of small and medium-sized enterprises and encouraging the move of informal enterprises into the formal sector. Finally, the re-distribution of budgetary resources should be done in a transparent and simplified way with criteria directed towards promoting the catching-up of less economically developed regions, more equal social development and poverty alleviation.

Promotion of small and medium-sized enterprises (SMEs) is another area of economic policy worth even higher attention of the policy-makers in Kazakhstan. Unlike in most other countries regardless of their economic level where SMEs play a very important role both in terms of their contribution to total employment and to GDP<sup>11</sup>, in Kazakhstan their role is much more limited due to the legacy of the centrally planned economy. Table 4.1 presents the structure of the business sector in Kazakhstan in 2010. It shows that large enterprises still provide jobs to two-thirds of all workers, while medium and small registered businesses employ only

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<sup>11</sup> For example, according to ECORYS (2012), SMEs accounted for 92.2 per cent of all enterprises in the non-financial business sector and 67 per cent of total employment in 2010, and between 2002 and 2010 around 85 per cent of net employment growth was generated by SMEs.

According to the 2006 Law on Private Entrepreneurship, the small and medium-sized sector includes both legal entities and individual entrepreneurs registered at the Business Register. Small businesses include legal entities and individual entrepreneurs with up to 50 employees and an average value of assets not exceeding 60,000 times the monthly budget indicator (MBI) established by the budget law for each financial year (in 2014 the MBI equaled 1,852 tenge and the upper limit of the average value of assets for small business was the equivalent of some 607 thousand US\$), medium businesses include both legal entities and individual entrepreneurs having between 51 and 250 employees and the total value of assets between 60 thousand and 325 thousand times the MBI, while large enterprises are legal entities that have more than 250 employees and/or the total value of assets exceeding 325 thousand times the MBI (in 2014 the equivalent of some 3.29 million US\$).

one-third of workers. However, Nurseiit and Nurseiit (2013) analyzed changes in employment and contributions of different types of enterprise to these changes over the period 2005-2010 that included the years of global economic crisis. They found out that out of the net employment increase by 853 thousand persons in that period, only 11 per cent of additional jobs were generated by large enterprises, while 57 per cent emerged in medium-sized enterprises, 25 per cent in small enterprises and 16 per cent were created by individual entrepreneurs (9 per cent of jobs disappeared in farms). Medium and small enterprises thus play a decisive role in new employment generation in Kazakhstan similarly as in other countries.

**Table 4.1 Composition of the business sector in Kazakhstan in 2010**

Type of enterprise	Registered entities (in thousands)	Of which active (in %)	Employment (shares in %)	Output (shares in %)
All business entities, of which	1199.2	55.4	100.0	100.0
Large enterprises	2.4	95.8	67.6	66.7
Medium enterprises	11.9	73.1	9.2	21.8
Small businesses, of which	1184.9	55.1	23.2	11.5
Small enterprises	205.0	32.4	9.2	7.7
Individual entrepreneurs	793.5	52.4	8.8	2.3
Farmers	186.4	91.4	5.2	1.6

Source: Nurseiit and Nurseiit (2013).

Table 4.1 also shows that medium-sized enterprises are significantly more productive in Kazakhstan, compared with enterprises of other sizes. They have achieved such good results despite their lower protection against economic fluctuations from the side of the state, compared with large enterprises, as proven during the 2008-2009 recession (see again Nurseiit and Nurseiit, 2013). This lower protection could also be the reason why only three-quarters of registered medium enterprises are active. Small enterprises are even more vulnerable to economic shocks as just one-third of registered firms are actually active and Table 4.1 documents that they are also less productive than large and medium-sized enterprises. Therefore for their survival and expansion they need special support through simplified administrative procedures, lower tax burden and access to appropriate business services as is usual in many developed countries. With regard to individual entrepreneurs, a large part of them are actually struggling for survival due to their low productivity. While in their case the two forms of simplified tax declaration system indeed make business start-up and running much easier, general

conditions for doing business in particular in rural areas are often very difficult for small entrepreneurs. If they are to develop into small or medium-sized firms, special support measures are even more needed. There is empirical evidence that package approaches for SMEs tend to perform better than single interventions (see ILO, 2007). They combine access to finance (by setting up specialized financial institutions and encouraging commercial banks to provide cheaper credits with limited credit guarantees to SMEs) with management training, business counselling and coaching, access to markets, new technologies and cheap premises, reliable connection to electricity, water or internet, access to public orders/tenders, simplification of administrative and financial rules applicable to SMEs, lower tax rates and other possible assistance. While many of these interventions do exist within current programmes for business development, such as the Business Roadmap 2020, similarly as institutions implementing them (the Entrepreneurship Development Fund “Damu”, the National Innovation Fund, the Investment Fund of Kazakhstan etc.) in Kazakhstan, the holistic approach is missing and this is the reason why the efficiency of SME policies is still rather low.

The two-third share of large enterprises applies both to total employment and output (see again Table 4.1). However, there is wide diversity in their economic performance. According to the Statistical Agency of the Republic of Kazakhstan (2013a), over one-third (37 per cent) of large and medium sized enterprises were unprofitable in 2012, with negative consequences for their workforce in terms of jobs and wages. The problem of bad economic performance is especially delicate for enterprises that are the main employers in mono-industrial towns as their collapse would dramatically increase local unemployment. The recently adopted Programme of Development of Mono-industrial Towns for 2012-2020 aims at assisting such towns to achieve sustainable socio-economic development. By 2020 the Programme targets are to quadruple the number of active SMEs in the mono-industrial towns in comparison with 2011, cut the local unemployment rate to maximum 5 per cent and reduce the share of population with incomes below the poverty line under 6 per cent. Towns eligible for support from this programme must be dependent on large enterprises that hold more than a 20 per cent share in local production and employ over 20 per cent of all workers and are only partially working or not at all. In Kazakhstan there are 27 such mono-industrial towns with altogether 1.53 million inhabitants and dependent mostly on extraction industry. Business development, in particular of SMEs, is seriously impeded there by low demand from the side of enterprises and population, very limited access to finances and credits, poorly developed technical and social infrastructure and ecological problems.

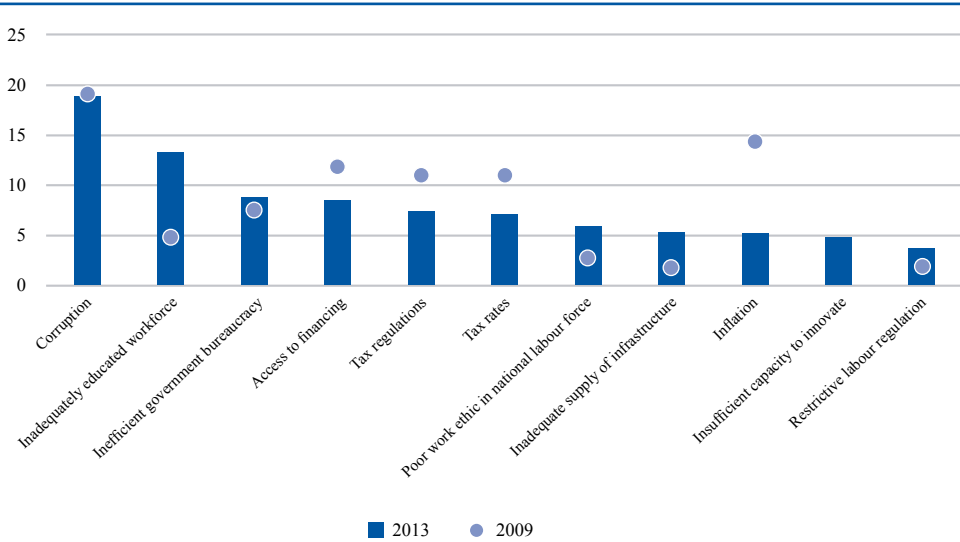
The Programme uses experience from similar programmes in developed countries. It requires the elaboration of a complex development plan for each mono-industrial town assessing its economic potential, factors negatively and



positively affecting the full utilization of this potential and on the basis of this assessment it outlines directions of future economic and social development. The development plan combines the restructuring of current enterprises with a sound economic potential and the diversification of the local economy through core investment projects with possible financial support from the state (e.g. using the Samruk-Kazyna Fund) and through stimulating development of SMEs. Better quality employment of local population will be promoted by facilitating a broader access of young people to relevant vocational education and training, by retraining and job placement assistance of jobless persons as well as those in low productive jobs but also by promoting mobility to economically strong regions lacking workforce. High attention will also be devoted to upgrading technical and social infrastructure necessary for business development, strengthening of human capital and improvement of working and living conditions of the population.

The World Economic Forum's assessment of impediments for business development reveals that in 2013 by far the main obstacle for doing business in Kazakhstan remains corruption, which together with the third main impediment - inefficient government bureaucracy - are critical especially for SMEs (see Figure 4.2). Inadequately educated workforce as the second most important barrier, but also poor work ethic in national labour force and – as a new factor - also insufficient capacity to innovate are increasingly felt by dynamic firms of any size as significant obstacles for their expansion and higher competitiveness, which confirms again the earlier stated findings of the ADB. While inflation, access to financing, tax regulations and tax rates were considered as important constraints for business development in 2009, thanks to the new Tax Code adopted in December 2008, to a certain improvement of the banking sector's ability to provide loans to enterprises as well as to a decline in inflation, their effect moderated in 2013. Nevertheless, SMEs still identified these factors as problematic for their development. Without properly addressing these shortcomings, Kazakhstan will not be able achieve the goals of its 2050 Development Strategy.

**Figure 4.2 Most problematic factors for doing business in Kazakhstan, 2009 and 2013 (per cent)**



Source: World Economic Forum (2011) and (2014).

The problem of inadequately educated workforce was also confirmed by the World Bank’s enterprise survey. In 2013, inadequately educated workforce was reported as the single most important constraint for further development of large firms (27 per cent of large firms with 100 workers and more indicated that), while medium-sized firms with 20 to 99 workers stipulated it as their third most important obstacle (14 per cent of medium firms reported it).

Between 2009 and 2013, however, Kazakhstan achieved a significant progress in improving its competitiveness as demonstrated by Table 4.2. It surpassed 17 countries and now holds the 50th position. Its main comparative advantages include macroeconomic stability, in particular positive general government balance and low general government debt,<sup>13</sup> and high labour market efficiency that mainly means low hiring and firing costs (more on that issue see section 4.3.2), flexibility of wage determination (see section 4.3.1), high correlation between wages and labour productivity development and a relatively high share of women employment (see section 2.2.1). Also low tax burden for enterprises was found as an important comparative advantage for doing business in Kazakhstan. Significant improvement was achieved in the functioning of institutions, in particular with regard to the strengthening of protection of investors, effectiveness of government spending and in the overall trust in politicians.

<sup>13</sup> This reflects strong recovery of the country after the 2008-2009 economic slowdown and prudent fiscal policy of the government, as described above.

**Table 4.2 Competitiveness ranking of Kazakhstan, 2009 and 2013**

	2009		2013	
	Ranking* (out of 133 countries)	Score**	Ranking* (out of 144 countries)	Score**
<b>Overall ranking</b>	<b>67</b>	<b>4.1</b>	<b>50</b>	<b>4.4</b>
<b>Basic requirements</b>	<b>74</b>	<b>4.3</b>	<b>48</b>	<b>4.9</b>
Institutions	86	3.6	55	4.1
Infrastructure	75	3.5	62	4.2
Macroeconomic stability	59	4.7	23	5.9
Health and primary education	80	5.2	97	5.3
<b>Efficiency enhancers</b>	<b>69</b>	<b>4.0</b>	<b>53</b>	<b>4.3</b>
Higher education and training	59	4.1	54	4.5
Goods market efficiency	84	4.0	56	4.3
Labour market efficiency	18	4.9	15	5.0
Financial market development	111	3.5	103	3.7
Technological readiness	69	3.5	57	4.1
Market size	55	4.2	54	4.2
<b>Innovation and sophistication factors</b>	<b>78</b>	<b>3.4</b>	<b>87</b>	<b>3.4</b>
Business sophistication	88	3.7	94	3.7
Innovation	64	3.1	84	3.1

\* The lower is the ranking, the more competitive the country is in comparison with other assessed countries.

\*\*The average score for each item, measured on a scale from 1 (very bad outcome) to 7 (the most desirable outcome).

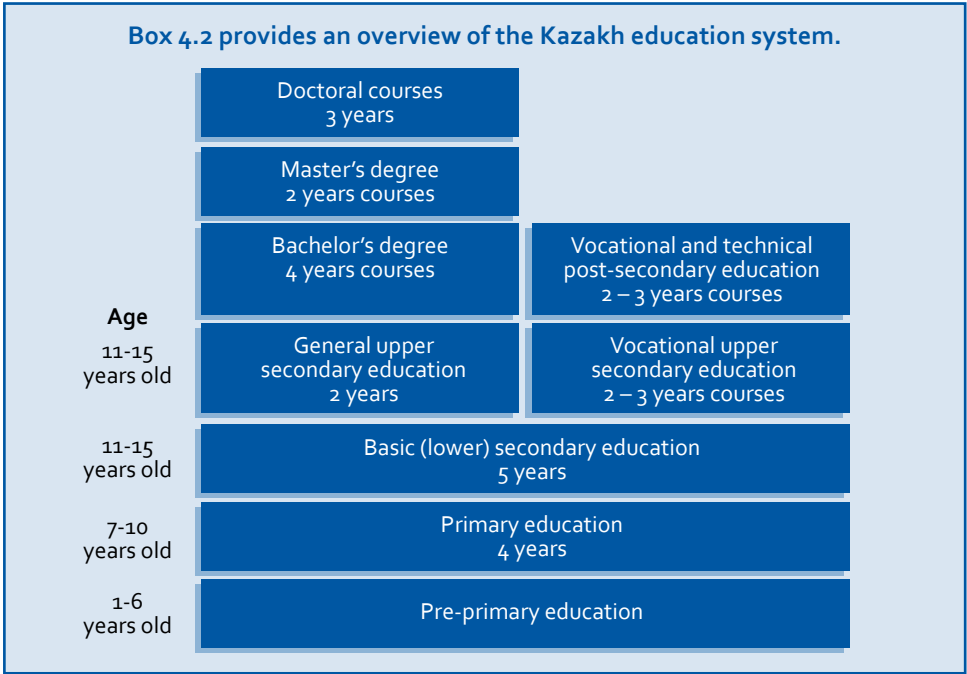
Source: World Economic Forum (2011) and (2014).

In contrast, financial market development was evaluated as unsatisfactory, in particular concerning the soundness of banks and other financial institutions, access to credits, availability of venture capital and possibility of its gaining through local equity market, and enforcement of legal rights. Low quality of education at all levels was also found problematic as will be more elaborated in the next section. Finally, innovation and business sophistication were identified as another underdeveloped area and the only one where the country has further lost its competitiveness vis-à-vis other countries. The main challenges include low quality of scientific research institutions, lack of highly qualified scientists and engineers, low R&D spending by the enterprise sector as well as poor cooperation of universities and the industry. This assessment fully confirms findings made earlier in the text. The Development Strategy of Kazakhstan till 2050 is tackling most of these issues but the country has to intensify its efforts to address the key

problematic areas in order to achieve the goal of entering the club of 30 most developed countries in the world.

## 4.2 Education and training policy

Chapter 2 showed a significant improvement in the educational attainment of total population aged 15+ and even more of young people between 15 and 28. In 2013 the UNDP’s Human Development Index for Kazakhstan was 0.757, which placed the country at the 70th position among 187 countries and signifies a high development level. However, Chapter 2 also indicated that this human capital is not properly utilized and that there are important skills mismatches between labour supply and demand for labour. This was confirmed by findings from the special youth employment module presented in Chapter 3. Section 4.1 pointed to the problem of inadequately qualified labour force identified by executives of Kazakh enterprises as the second most important obstacle for doing business in the country. This indicates qualitative problems in formal education. It is thus important to analyze in more detail the performance of the education and training system in Kazakhstan, its strengths and weaknesses, in order to specify how to improve the quantity and quality of education and training and its relevance for the labour market both for youth and adults.



#### Box 4.2 provides an overview of the Kazakh education system (continued)

The pre-primary education in Kazakhstan is attended by children aged 1-6. Compulsory education starts in the age of 5 or 6 and continues up to the age of 16 or 17. It includes the last year of pre-primary education, 4 years of primary education, 5 years of lower secondary education and 2 years of upper secondary education.

Upper secondary education is provided either at general secondary schools or at vocational schools, which offer 2 year courses (initial level) or 3-4 year courses (post-secondary vocational education). Both types of secondary education allow graduates to continue their studies at universities but the admission depends on their results achieved in the National Unified Test, which combines the upper school leaving certificate and the university admission examination.

Tertiary education is provided at three levels – bachelor, master and doctoral, in line with the Bologna process, which Kazakhstan joined in 2010.

Source: OECD (2014).

### 4.2.1 Education

According to the Ministry of Education and Science of the Republic of Kazakhstan (2013), out of 7,698 schools providing primary and general secondary education to altogether 2,536 thousand young people in 2012, 7,589 schools (98.6 per cent) were public, administered by the Ministry of Education and Science and by regional authorities (only 17 by other Ministries), and 109 schools were private. State schools were attended by 99.7 per cent of students while private schools by 0.3 per cent of students. Youth with special education needs (e.g. those with disabilities) could attend 106 special schools but 388 mainstream schools also offered special classes for such pupils, while 7.9 thousand young people with special education needs followed individual programmes at home; altogether the number of young people offered such possibility accounted for almost 21 thousand. 56 per cent of all schools providing primary and lower and upper general secondary education were ungraded, i.e. due to a low number of pupils they combined several grades in one class.<sup>14</sup> Such schools tend to have poorer infrastructure, staff shortages and in general they provide lower quality of education. In 2012 15.2 per cent of all pupils attended the ungraded schools. In contrast, there are 115 special schools and 7 Nazarbayev Intellectual Schools for talented students that ensure high quality education.

However, a serious problem of compulsory education in Kazakhstan is the relatively low net level of enrollment in primary and secondary education.

<sup>14</sup> According to the Law on Education, each settlement with more than 5 children of compulsory school age is entitled to have its own school. Such schools are mostly located in rural areas and in regions with dispersed settlements the vast majority of schools are ungraded. For example, in North Kazakhstan 86 per cent of schools are ungraded, in Akmola 81 per cent, in Kostanay 76 per cent and in West Kazakhstan 74 per cent.

In Kazakhstan only 88.3 per cent of children of the official school age attended primary and lower secondary school in 2011, while the OECD average is 97 per cent, that of EU 97.6 per cent and of Russia 93.4 per cent (see OECD 2014). A similar situation is in higher secondary education, which was attended by 90.2 per cent of students of the corresponding official school age, while the EU average was 91.7 per cent but that of OECD lower - 87.7 per cent (all data are from OECD, 2014). According to the State Programme for Education Development for 2011-2020, which is the main strategic document of the government in the area of education adopted in 2010, the lower enrollment was caused by a lack of places at schools (some 74,000 places were missing in primary and secondary schools in 2010), lack of transport to school (in 2010 only 63 per cent of school children could use public transport) and a lack of suitable premises for children with special needs (only 10 per cent of schools could offer inclusive education). The new Education Programme endeavours by 2020 to reduce the number of missing places in schools to 30,000, provide all children with quality transport and increase the share of schools with inclusive education to 70 per cent.

Post-secondary education and tertiary education is provided by universities and similar institutions; in 2012 there were altogether 139 such institutions, of which 53 were state-run and 86 private. Out of 572 thousand students in tertiary education institutions, 49 per cent studied in state-run institutions and the rest in private schools. However, only 42.6 per cent of students in state-run institutions got state grants for financing their studies, while the share of students with state grants in private universities accounted for 8.4 per cent. In total, one-quarter of all tertiary students (25.2 per cent) receive state grants or educational credits and three quarters (74.8 per cent) are paying for their studies. Nevertheless, enrollment in tertiary education has much expanded from 28 per cent of all secondary school leavers in 2000 to 41 per cent in 2011, even though this proportion still belongs to the lower ones among countries of upper middle and high income level in international comparisons, as stated by the OECD.

According to the Constitution and the Law on Education, pre-school (last year), primary, lower secondary and upper secondary education are compulsory and provided free of charge. However, the expenditure on public education as a percentage of GDP is low in Kazakhstan – 4.2 per cent in 2012 (despite its higher proportion of children and youngsters), compared with the OECD average of 5.4 per cent. The breakdown by level of education is provided in Table 4.3. Table 4.3 reveals that Kazakhstan is spending less than its comparators at all three levels of education but the most marked difference is in tertiary education when a large part of education costs in the tertiary education is covered by students and their families as already indicated in Chapter 2.

**Table 4.3 Expenditure on education by level of education in Kazakhstan (2012), Russian Federation and OECD (both 2009) (per cent of GDP)**

Country	Pre-primary	Primary, secondary, post-secondary	Tertiary	All levels*
Kazakhstan	2.2	2.2	0.4	4.2
Russian Federation	2.3	2.3	1.2	4.7
OECD average	3.7	3.7	1.1	5.4

\* This includes also spending not allocated by level of education.

Source: Data for Kazakhstan are from Ministry of Education and Science of the Republic of Kazakhstan (2013), other data from OECD (2014).

The difference is even bigger when comparing the expenditure per student in US\$ (calculated in purchasing power parity). While Kazakhstan spent 1,583 US\$ per student in primary or secondary education and only 1,081 US\$ in tertiary education, the corresponding figures for Russia were, respectively, 4,466 US\$ and 3,642 US\$, and for the OECD countries on average, respectively, 8,516 US\$ and 9,341 US\$ according to OECD (2014).

Financing of the education system in Kazakhstan is shared between the republican budget and local budgets. The republican budget finances a limited number of educational institutions of republican significance (mostly tertiary educational facilities), provides targeted financial transfers to the regions and funds the educational reform process. In 2012, it covered 27 per cent of the total (public) education budget. However, in 2011 it contributed 29 per cent and 85 per cent of these funds were allocated for the education reform. Local budgets thus financed most of the education costs in their localities and their cumulated share in the total education budget was 73 per cent.

There are large disparities across regions in expenditure on education in total and per student, due to the types of settlement in the region and consequently due to the number of rural and ungraded schools, the average class size, students-teacher ratio, costs of transportation of students to schools but also in dependence of their economic level and availability of resources. Education with its on average 30 per cent share is by far the most expensive item in regional budgets and this proportion moves from 18 per cent in Astana–city and Almaty–city to 40 per cent in rural regions - South Kazakhstan, Zhambyl and Kyzylorda. At local level the variations are even bigger and taking into account thin budgets of poor municipalities, the available local resources for education in such municipalities are limited. This impacts negatively on teaching conditions, staff remuneration and quality of learning. Indeed, many schools suffer from outdated equipment and poor maintenance, while the remuneration of teachers, most of them women, is low in

comparison with salaries of equally educated specialists in the private sector. As a consequence, many very good teachers, especially males, are leaving the sector and the status and prestige of teachers is in general low. This affects the motivation of teachers to acquire new knowledge and teaching methods and to stimulate students to better performance.

Scores in mathematics, reading and science obtained by 15-year-old students in the Programme for International Student Assessment (PISA) in 2009 and 2012 indicate a lower quality of education in Kazakhstan in international comparisons as shown in Table 4.4. While in 2009 among 74 participating countries Kazakh students took the 56<sup>th</sup> place in mathematics, 64<sup>th</sup> place in science and 64<sup>th</sup> place in reading, in 2012 their position did not much improve as they placed 49<sup>th</sup> in mathematics, 51<sup>st</sup> in science and 62<sup>nd</sup> in reading but among less countries as only 64 countries participated in the assessment.

**Table 4.4 PISA scores for mathematics, reading and science for Kazakhstan and selected countries, 2009 and 2012**

Country	2009			2012		
	Math	Reading	Science	Math	Reading	Science
Kazakhstan	405	390	400	432	393	425
Russia	468	459	478	482	475	486
OECD average	496	493	501	494	496	501
Shanghai (China) Best performer	600	556	575	613	570	580

Source: 2009: <http://www.oecd.org/pisa/pisaproducts/46619703.pdf>;

2012: <http://www.oecd.org/pisa/keyfindings/pisa-2012-results-overview.pdf>.

A more detailed assessment of PISA results points to important weaknesses in the efficiency of education in Kazakhstan, namely that it encourages memorizing and retrieving information and provides good theoretical knowledge but does not stimulate students to acquire higher order thinking skills, such as applying and reasoning in mathematics or evaluating and reflecting on the read texts. These competencies are key for mastering new technologies and for problem solving increasingly required by modern complex production systems.

The test also showed that the share of students who performed below the baseline proficiency level at which they start demonstrating the functional skills and competencies, was very high – 59 per cent in mathematics and reading and 55 per cent in science in 2009. In 2012 the share of underperformers improved a bit in mathematics but still 45 per cent of students performed below the



baseline proficiency level. In contrast, in countries with high scores the share of underperforming students was well below 10 per cent, which points to significantly more efficient teaching systems there.

OECD (2014) in its assessment of the national education system pointed to the lack of any system for addressing underachievement of students, in particular those coming from disadvantaged social and economic background. It also criticized overloaded curricula in higher grades of general upper secondary schools that do not allow to go in-depth into selected core subjects and suppress creativity and critical thinking of students. Career guidance is also missing so that students do not have information on the current demand for skills and anticipated future labour market needs and perspectives of different types of studies and specializations, to make better informed decisions about their further direction of studies or labour market entry.

In 2012, 69 per cent of 11th grade leavers undertook the Unified National Test (UNT), which combines a school leaving certificate with a university admission test. The UNT tests knowledge of students in four compulsory subjects (mathematics, Kazakh history, and Kazakh and Russian languages) and one optional subject and also provides a good comparison of teaching results of all secondary schools across the country. However, the current type of UNT also has several significant weaknesses. First, it practically narrows the upper secondary school curricula and teaching and learning of students to the four compulsory subjects while neglecting other subjects. Second, the tests assess the factual textbook knowledge but not higher-level skills, such as problem solving, innovative thinking and application of acquired knowledge, nor their university studies' potential. Third, as teachers are rewarded for excellent UNT performance of their students, they often concentrate their attention to potential high performers at the cost of other students.

The State Programme for Education Development for 2011-2020 reacts to the identified deficiencies of the national education system and sets a comprehensive strategy for transforming the sector. Its goal is to upgrade the structure, contents and quality of education, modernize infrastructure and education technologies and improve the management and financing of educational institutions. Among others it plans to extend compulsory education until the 12th grade (to be done gradually in the period 2015-2020), gradually solve the issue of ungraded schools and increase teachers' salaries plus provide regular skills upgrading to them that will strengthen their status in the society. It also endeavours to create the conditions for lifelong learning and inclusive education for children with special needs and promote close collaboration among education facilities, research institutions and the enterprise sector.

One-quarter of students who dropped out of tertiary education in 2012 did so due to financial difficulties. A wider access of young people from all population

strata to tertiary education thus remains an issue, which has prompted the government to improve the current system of subsidizing tertiary education costs for families. The two mechanisms applied, namely state grants and educational credits, have been supplemented by a third system of special saving accounts introduced by the Law on System of Educational Saving Accounts adopted in 2013 and offering favourable interest rates and a state premium at 5 per cent of the accumulated amount (in case of orphans, disabled children or children from socially weak families it is increased to 7 per cent).

The Education Programme further plans to provide 50 per cent of all schools with equipment for e-learning by 2015, which should contribute towards improvement of the quality of education in particular at schools in remote rural areas. In 2012 a new external assessment of performance of both secondary and tertiary students has been introduced, also aimed to improve the quality of education.

#### ***4.2.2 Vocational education and training and lifelong learning***

Vocational education and training (VET) is provided by colleges (until 2011 also vocational lyceums) in Kazakhstan. Currently (in 2014), there are 849 colleges, of which 472 public and 377 private, with altogether 562 thousand students, 48 per cent of them women. They offer three levels of professional qualifications; the first two levels last 2-3 years and provide, respectively, initial and medium-level professional skills, while the highest level lasts 4 years and delivers high-level professional skills. VET can be entered from the 9<sup>th</sup> grade (in 2011 58 per cent of 9<sup>th</sup> graders joined the general upper secondary education while 42 per cent enrolled in vocational secondary education) or from the 11<sup>th</sup> grade (55 per cent of 11<sup>th</sup> graders continued their studies in universities while 45 per cent in VET institutions in 2011 according to OECD (2014)). 56.5 per cent of fresh VET students were paying tuition while 43.5 per cent got government subsidy in 2014. Education and training is provided in 183 specializations and 463 qualifications. 49.5 per cent of students are enrolled in technical, technological and agricultural education, while 33.2 per cent are studying humanities and economics.

The status and prestige of VET is relatively low as students and population in general perceive VET appropriate for those who cannot aspire on academic education. Many VET students opt for this type of education when they do not succeed in the academic stream, are thus not much interested in their studied specialization and wish to enter university. Indeed, some 20 per cent of VET graduates continued their studies at university, while only 60 per cent entered the labour market in 2011. On average 33 thousand persons drop out of their studies every year. Also the level of qualifications of teachers in VET institutions is in general lower. However, employment prospects of VET graduates are more

favourable as employers struggle with the lack of technically and professionally skilled workers and are seeking them. Nevertheless, there are some mismatches between the occupational field of study of VET students and occupations in high demand in the labour market. For example, students of social sciences and economics face difficulties in finding a job after completion of their studies.

The European Training Foundation (2010) made an assessment of the VET system in Kazakhstan in 2009 and identified some important bottlenecks. They included the lack of legal and institutional framework enabling and stimulating close collaboration of the public vocational education system and the enterprise sector on VET planning and delivery; strict regulation of state education standards that did not allow colleges to swiftly react to changing labour market needs; too academic and abstract content of VET curricula at the cost of practical training and outdated equipment, materials and methodologies that did not provide up-to-date qualifications; the lower level of competence and lack of motivation of VET teachers due to low salaries and resulting limited possibility to attract good candidates who would combine high professional qualifications with pedagogical skills; lack of career guidance and labour market information among young people that discouraged them to enter VET institutions and gain professional skills in line with their capabilities and employment prospects; lower access of students to VET in some regions due to the insufficient number of places in VET institutions and their unequal regional distribution; and low public budget spending per student compared with other levels of education that led to a further deterioration of equipment and materials and insufficient practical training opportunities for students.

Recently, many reform steps in the VET system have been introduced to resolve some of these identified problems (see again OECD, 2014). The government has cooperated with employers' organizations, trade unions and professional organizations on revising the List of Occupations and Disciplines for Technical and Vocational Post-Secondary Education and is gradually updating all VET standards with assistance and financing from the World Bank. The National Qualifications Framework has been developed and adopted, modeled on the European Qualifications Framework. The Government has also introduced an independent assessment system of qualifications of VET graduates with the participation of employers.

College infrastructure is gradually upgraded similarly as education technologies and modular VET programmes are developed. The government has also established a holding company Kasipcore to lead the development of modern high quality and high prestige vocational education that would reach international standards. Within 10 years Kasipcore plans to modernize the structure and content of vocational education and training, develop new education programmes, upgrade

VET teachers' qualifications, attract strategic international partners and build world-class colleges in Astana and Almaty. A German system of dual education and training combining school education with practical training in enterprises will serve as a model for further strengthening the VET system. While large firms running their own VET institutions are already using this system, other firms, especially medium and small ones, consider the costs of such training in their premises prohibitive. According to the Ministry of Education and Science, 50 per cent of colleges have started work on introducing dual education and training in Kazakhstan.<sup>15</sup> In order to enhance the involvement of social partners in VET, a new national VET Development and Personal Training Council with the participation of business associations, employers and trade unions has been founded with the aim to create partnerships on VET training for youth and adult workers at sectoral and regional level in line with labour market needs. Local governments are also concluding agreements with VET institutions and enterprises on creating places for workplace learning; in 2013 25,776 such agreements were concluded and 204 thousand students benefited from workplace learning.<sup>16</sup>

The State Programme on Education for 2011–2020 plans to increase the share of VET students among young people and improve VET status and prestige among others through higher national accreditation of colleges. The VET programme standards should be regularly upgraded so that their content supports industrial-innovative development (see also section 4.1). Colleges will be required to have formal contracts with large enterprises that will provide workplace learning and internships and will make sure that teachers have up-to-date knowledge. More funds are also planned to be devoted to improving the infrastructure, through establishing new facilities in regions lacking VET institutions, and modernizing premises and equipment of schools. Along with this material improvement of the VET system, it is equally important to change the attitude of students and public in general to VET, so that more and better students enter it, as well as the attitude of employers who are still not much prepared to invest in education and training of young people in VET schools nor in regular retraining and skills upgrading of their own workforce.

### 4.3 Labour market policies and institutions

Decentralization of responsibility in the field of employment protection and promotion was done in several steps in Kazakhstan (see Lubyova, 2009). After gaining independence, Kazakhstan established the State Employment Agency and the State Employment Promotion Fund in 1991 with the aim to provide laid-off persons as well as new labour market entrants with assistance in job search and

<sup>15</sup> <https://mbt.enbek.kz/ru/node/441>

<sup>16</sup> Data from the attachment to the letter from the Ministry of Education and Science to the Ministry of Labour and Social Protection dated 12. 3. 2014.

with income support in unemployment. When due to the transition crisis and later the Russian financial crisis unemployment and poverty reached very high levels, the government gave priority to solving the situation through providing credits to entrepreneurs for creating new jobs and to jobless persons for starting their own business. In 1999 the State Employment Agency was dissolved and its employment centres transformed into municipal labour exchanges while the State Employment Fund was consolidated into the state budget, which became responsible for financing labour market policies. The 2003 fiscal decentralization reform shifted also the financing of labour market policies from the republican to local budgets. According to the Law on Mandatory Social Insurance, as of 2005 social benefits, including unemployment benefits, are paid from the State Fund of Social Insurance to insured persons. Uninsured persons can get income support in unemployment in the form of targeted social assistance if their income has fallen below 40 per cent of the regional poverty line. Both the targeted social assistance and financing of active labour market policies are covered from local budgets.

The role of the Ministry of Labour and Social Protection (now the Ministry of Health and Social Development) is to provide guidance on employment policy to regional administrations, which are responsible for coordination of its execution by local authorities in line with local conditions. Since 2005, a new complex approach to employment promotion has been adopted and the main objectives and targets of national employment policy have been set by national employment programmes: the Programme of Employment of the Population of Kazakhstan for 2005–2007, the Plan of Measures for Improving the System of Employment of the Population of Kazakhstan for 2008–2010, the Employment Programme 2020 and the Employment Roadmap 2020.

During the recent economic slowdown, the government launched the already mentioned Roadmap programme for 2009 and 2010 as part of the anti-crisis measures at the total cost of 1.5 per cent of GDP. According to information from the Ministry of Labour and Social Protection, 5,271 projects aimed at constructing and repairing technical and social infrastructure (railroads, roads, schools, hospitals, etc.) were carried out and provided employment to 248 thousand persons in 2009. In addition, 98 thousand persons were offered training or retraining, of whom 71 thousand completed it before the end of 2009 and 41 thousand of them became employed. 51 thousand young people took part in internships (so-called youth practice) and 73 thousand persons from target groups were placed in social jobs (subsidized employment). In 2010 3,609 projects of similar nature were launched and 131 thousand persons found employment there. 72 thousand persons got training or retraining that was completed before the end of 2010 by 43 thousand persons and 31 thousand of them found a job afterwards. 36 thousand people from target groups were placed in social jobs and 39 thousand young men and women went through internships in enterprises or organizations. The government

also engaged jointly with the social partners in negotiations with large enterprises that resulted in the conclusion of some 10,000 memoranda of understanding on employment preservation through the introduction of shorter working hours, the temporary internal transfer of workers and partially paid administrative leave. In addition, social benefits and assistance were also increased and the payment of some extended. While regions and municipalities were executing the Roadmap programmes and covered part of the costs from local budgets, the central government contributed two-thirds of funds from the republican budget.

In 2011 the government introduced the Employment Programme 2020 directed mainly to rural areas. Its main aim was to increase incomes of rural people by facilitating their sustainable and productive employment. It assisted low productive self-employed as well as unemployed and low educated persons to find work, helped develop businesses in rural areas and stimulated workers' mobility. It was supposed to cover more than 1.5 million people until 2016. In the end of August 2012 the Labour Minister reported that the programme had helped more than 100 thousand persons to find a job, of whom more than one-half young people below 29. Some 44 thousand young persons learned a trade, 37 thousand were retrained or increased their qualifications and 4 thousand persons got training for starting their own business.<sup>17</sup>

In 2013 this programme was superseded by the Employment Roadmap 2020 programme. The goal of Roadmap 2020 is to increase the well-being of the population through stable and productive employment and reduction of unemployment. It endeavours to improve employment perspectives and productivity of persons who are either jobless or engaged in low productive informal self-employment or live below the poverty line and therefore many of them depend on social assistance. Some 80 per cent of such persons live in rural areas and most of them are young people. The programme tasks are to: (i) create reliable prognoses of future needs of economic sectors in skilled workers; (ii) promote generation of productive jobs (both permanent and temporary); (iii) reduce negative impacts of the global crisis on social and economic development of Kazakhstan and create conditions for economic growth; (iv) stimulate entrepreneurship; (v) promote professional and territorial mobility of workers, in the first place within regions and districts; (vi) support adaptability and acquirement of housing of the mobile part of young people; (vii) promote productive employment of self-employed persons and formalization of their status; and (viii) improve social assistance targeting, reduce dependency on social transfers and promote work activity.

The Employment Roadmap 2020 further stipulates that any governmental or sectoral development programme should be coordinated with the Ministry responsible for labour market issues with regard to their job creation possibilities.

<sup>17</sup> [http://www.centralasiaonline.com/en\\_GB/articles/caii/features/main/2012/08/28/feature-01](http://www.centralasiaonline.com/en_GB/articles/caii/features/main/2012/08/28/feature-01).

Job creation plans should be properly reflected in employment roadmaps of each region, district and municipality. The programme determines priority groups of population to benefit from programme interventions and in the first place it is youth below 29 years of age, women, ethnic Kazakh immigrants and registered jobless persons. The administration of the programme is done in collaboration of the Ministry responsible for labour market issues with regional and local authorities and financing will be mostly provided from the republican and regional budgets, with contribution from the private sector. For the period 2013 – 2015, contribution from the republican budget is planned to exceed 100 billion tenge annually. The programme targets until 2016 are to reduce the unemployment rate to max. 5 per cent, limit the share of poor population to max. 6 per cent and increase the proportion of productively employed population to 64.5 per cent of total population. By 2020, the programme envisages that some 1.5 million persons will become participants, of whom at least 800 thousand should be from rural areas.

The Employment Roadmap 2020 is implemented in three directions: (1) Employment promotion through developing infrastructure and housing and communal economy; (2) Job creation through promoting entrepreneurial activity, in the first place by supporting private business initiatives and stimulating complex development of core villages; and (3) Assistance in job placement through training and promotion of mobility in line with employers' needs.

The first direction requires that at least 70 per cent of funds must be allocated to projects improving infrastructure, communal buildings and housing in rural areas. Distribution of funds among regions depends from 80 per cent on the size of regional population and from 20 per cent on last year results in job placement of unemployed persons, low productive self-employed and socially weak population - recipients of social assistance. The number of created jobs in such projects and their occupation by persons from the priority groups is one of the main criteria for project selection.

Within the second direction participants can be provided with free entrepreneurial training, coverage of their living costs during training, assistance in preparing business plans, microcredits and other services, such as legal, accounting, marketing etc. In core villages, i.e. villages with high socio-economic potential, the programme supports entrepreneurs launching projects directed to upgrading social and physical infrastructure of the village and employing local persons from the priority groups, as well as participants from the priority groups who wish to start or improve their business there.

The third stream of the programme ensures intensive assistance in job placement of persons from the above mentioned priority groups. Participants with low or obsolete skills selected by employers are provided with free training,

retraining or skills upgrading upon signing a social contract with the employment office, the future employer and the education facility. After completing this training the employer is obliged to recruit the trained person. Hard-to-place persons may be employed in social jobs with subsidized wage. Graduates from vocational secondary, post-secondary and tertiary education institutions who have not yet worked and cannot find a job by themselves can be placed in temporary internships that would help them gain regular employment. Subsidized move to another region is offered to participants from localities with low socio-economic potential. Subsidies cover costs of move but the persons can also benefit from the provision of employment services upon need. Persons, directly selected for move by employers who cover the moving costs, get priority in the inclusion into the programme.

According to the Labour Minister, in 2013 more than 250 thousand persons found a job within the Employment Roadmap 2020 programme.<sup>18</sup> In the first three months of 2014, over 20 thousand persons signed the social contract necessary for participation in the programme, of them 72 per cent unemployed (mostly registered at local labour exchanges but some also non-registered), 24.6 thousand persons got training and 1,065 persons were employed after completing the training course.<sup>19</sup>

The Employment Roadmap 2020 is monitored by the Inter-ministerial Commission that assesses whether the annual programme outcomes meet the set targets and whether the allocated financial resources are spent effectively.

#### **4.3.1 Wage policy**

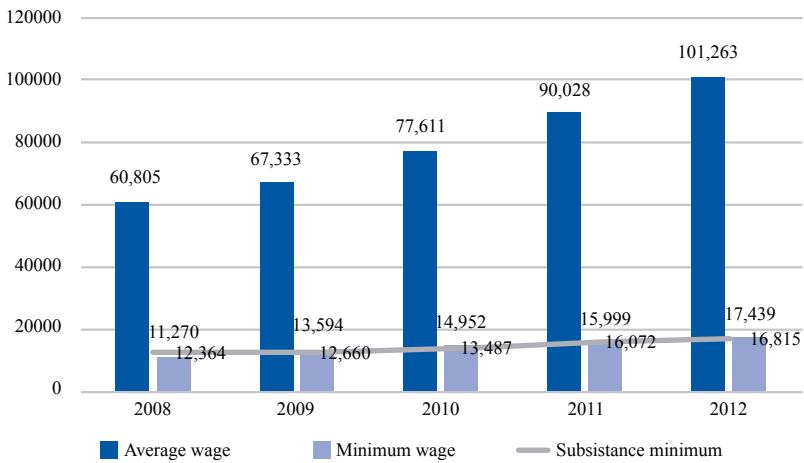
The minimum wage in Kazakhstan is set by law “On the republican budget” every year and as such is valid for the whole country. Figure 4.3 shows the relationship between the minimum wage, the average wage and the average subsistence minimum for the country. Until 2004 the minimum wage moved below the average subsistence minimum. Since 2005 it has exceeded the subsistence minimum with the exception of 2008 and 2011, nevertheless the difference is marginal (up to 11 per cent in 2010). As the share of population with incomes below the subsistence minimum has sharply decreased, the minimum wage set at such a low level does not play the expected role, namely to protect workers against poverty and at the same time to motivate people to work in the formal economy. This is true especially for rich regions where the level of the subsistence minimum (that varies by region) is well above the minimum wage (in Mangistau Oblast by 20 per cent in 2012), while only in poor regions it could have that motivating role. Information on the share of workers earning the minimum wage or less is however not available.

<sup>18</sup> [http://kazakh-tv.kz/en/view/news\\_kazakhstan/page\\_43251\\_employment-road-map-2020-implementation-progress](http://kazakh-tv.kz/en/view/news_kazakhstan/page_43251_employment-road-map-2020-implementation-progress).

<sup>19</sup> <http://dkz.enbek.gov.kz>, accessed on 12 May 2014.



**Figure 4.3 The minimum wage, the average wage and the average subsistence minimum, 2008-2012**



Source: Statistical Agency of the Republic of Kazakhstan (2013c).

In relation to the average wage the minimum wage is very low and this proportion has a declining tendency: if in 2009 it accounted for 20 per cent, in 2012 it declined to a mere 17 per cent of the average wage. The low level of the minimum wage thus cannot discourage employers to hire new workers. Nevertheless in sectors with low earnings such as agriculture the minimum wage equals 34 per cent of the average wage and in poor agricultural regions it could encourage informal labour. As young workers are overrepresented in agriculture this could affect them to some extent. In the developed countries the proportion of the minimum wage to the average wage is much higher than in Kazakhstan (on average around 40 per cent) as they value the stimulating role of the minimum wage on the level of formal labour supply and on labour productivity. The Kazakh government in consultation with the social partners could thus also consider its increase, to support formalization of informal labour and motivate workers to higher performance. As of 1 January 2014 the minimum wage and the average subsistence minimum have been set at the same level – 19,966 tenge.

While wages in the budget sector are determined by President’s (for civil servants) and government’s (for other public employees) decrees, wages in the enterprise sector are set in negotiations between the employer and the worker. In Kazakhstan, similarly as in the Russian Federation and in other CIS countries but differently from e.g. the EU countries, a downward flexibility of wages is observed. This is achieved through the non-payment of wages (though illegal and fined by the government) in periods of economic difficulties of the enterprise and

through peculiarities in the wage-fixing mechanism, which is anchored by the low national minimum wage, with wages being closely linked to enterprise financial performance. Also administrative leaves and shorter working hours without any compensation, widely used during economic recession, have had a similar effect. This explains why employment levels still remained high, compared with the depth of the GDP fall, during the economic transition, the Russian financial crisis, as well as during the recent economic slowdown, and why employment growth emerged fairly rapidly with economic revival. Although this model of adjustment helps to avoid mass open unemployment, and workers can stay employed and covered by social security schemes, if it is used for a longer period, in case of non-competitive enterprises it leads to delays in their restructuring and it further contributes to low productivity of such enterprises as well as to the low average wages, which then act as an incentive for workers to seek additional income in the informal economy (see Gimpelson, 2007).

As mentioned in section 4.1, the personal income tax as well as the social tax have flat rates of, respectively, 10 per cent and 11 per cent. The resulting 21 per cent tax wedge belongs to the lowest among upper middle-income and high income countries (for example the OECD average, calculated for a single person without children with income equaling the average wage, was 35.9 per cent in 2013 while only three OECD countries – Chile (6 per cent), New Zealand (16.9 per cent) and Mexico (19.2 per cent)<sup>20</sup> – had lower tax wedges than Kazakhstan). As Kazakhstan is now moving to the rank of high income countries, it would be advisable to consider increasing the tax wedge in order to generate more resources for currently very low social protection of the population. This could be primarily done through re-introducing the progressivity of income tax.

A critical part of the tax wedge that could potentially have a negative impact on employment in general as well as on youth employment is social security contribution paid by employers. Indeed, an analysis of factors that could affect the level of employment and unemployment, including youth unemployment, showed that high overhead labour costs tend to reduce employment and increase total unemployment, youth unemployment as well as long-term unemployment (Cazes, Nesporova, 2007). In Kazakhstan, the 11 per cent social tax paid by employers is low in international comparisons, for example it is only one-half of the OECD average rate of 22.5 per cent (calculated as mentioned above) in 2013 and the government could consider increasing it by a few percentage points. Nevertheless, even this level could become a burden for low profitable firms, particularly in poorer rural areas, and may be the reason for their informality or for hiring informal workers. This would concern mainly young workers without or with short work experience, low educated workers or workers with disabilities, all of them perceived as less productive. The government could therefore consider a temporary

<sup>20</sup> <http://www.oecd.org/ctp/tax-policy/>

reduction of the social tax rate for employers hiring such persons, in particular in regions with higher unemployment, to stimulate speedy transition of school leavers to employment.

### **4.3.2 Employment protection legislation**

Employment protection legislation (EPL) is part of labour legislation that governs recruitments and dismissals of workers. Its main provisions regulate unfair dismissals, termination of employment for different reasons but mainly for economic ones, severance pay, minimum notice periods, administrative authorization of dismissals, and prior consultations on dismissals with trade unions and/or labour administration representatives in respect of contracts without limit of time and fixed-term contracts and in case of mass dismissals. EPL is also in the core of the indicator of labour regulation analyzed by the World Economic Council.

EPL can have positive and negative impacts on total employment and unemployment as well as on employment and unemployment of youth and there has been rich literature analyzing these impacts but so far with inconclusive results.<sup>21</sup> As EPL protects existing jobs, stricter EPL due to higher dismissal costs tends to strengthen long-term employment relationships, stimulate investment in workers through their regular training and skills upgrading, increase their motivation and productivity and thus contribute to higher and more productive employment while reducing dismissals and unemployment, is so important in times of crises. On the other hand, stricter EPL may significantly reduce employers' decisions to hire new workers because of the fear of negative impacts of high dismissal costs on their profitability and competitiveness and it may thus have a negative impact on employment. Jobseekers and among them especially youth have then lower chance to enter the labour market and their unemployment duration rises.

If in addition to stricter EPL for permanent contracts regulation of temporary contracts is rather liberal, this could lead to a high incidence of youth in temporary forms of employment (like e.g. in Spain). This would stimulate duality in the labour market with permanent workers relatively well protected and young people overrepresented in unstable and insecure forms of employment. Moreover, the probability and speed of transition from temporary employment to regular employment differs by country and depends on a number of factors, such as, apart from EPL, the overall economic and labour market situation and the structure and coverage of collective bargaining (European Commission, 2010). While in some countries (e.g. Austria, Hungary, Ireland, Latvia, Slovenia and the United Kingdom) temporary employment is a stepping stone to regular employment for

<sup>21</sup> For an overview see e.g. OECD (1999), Cazes, Nesporova (2003) and OECD (2004).

youth, in other countries (Belgium, Czech Republic, Finland, France, Italy, Poland, Portugal or Spain) young people tend to remain in temporary employment for rather long time, with serious consequences for their future career. In contrast, if regulation of temporary contracts is also strict it may be counterproductive and increase informality of employment among youth.

Strictness of EPL is measured by the EPL index developed by the OECD that covers permanent contracts, temporary contracts and collective dismissals. In the case of permanent contracts it includes procedural inconveniences, notice and severance pay for no-fault individual dismissals and difficulty of dismissal. In the case of temporary contracts it deals separately with regulation of fixed-term contracts and employment through temporary work agencies. Regulation of collective dismissals is tackled similarly. The main elements of regulation are quantified directly or indirectly as to their strictness on a scale from 0 (most liberal) to 6 (most strict.) Through allocated weights to each quantified element, indices for permanent contracts, temporary contracts and collective dismissals are calculated, also ranging between 0 and 6.

Table 4.5 presents the EPL indices for permanent and temporary contracts and for collective dismissals as well as the summary index for Kazakhstan. They are compared with selected CIS countries and the averages for EU-15 (EU member states before 2004) and the new EU member states (entering the EU in 2004 and 2007).<sup>22</sup> The second column of Table 4.5 shows that EPL in the selected CIS countries in 2007 was relatively liberal and close to the situation in both the old and new EU Member States. Kazakhstan had the most liberal EPL of all the countries shown, which was comparable to the very liberal legislation of countries like Denmark, Ireland and the United Kingdom. The most recent measurement of the strictness of EPL was done for 2009 but the results were very similar to those for 2007.

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<sup>22</sup> The OECD changed the methodology for calculating EPL indices in 2009. Its current Employment Protection Legislation database is using this new methodology for calculating two EPL indices, one for permanent contracts, measuring their protection against both individual and collective dismissals, and one for temporary contracts. The summary index is no longer calculated. As EPL indices for Kazakhstan have been calculated according to the old methodology, the same methodology has been used for EPL indices for the two groups of the EU countries and therefore the last available data go back to 2003.

**Table 4.5 EPL index for Kazakhstan, selected CIS countries, EU-15 and new EU members**

Country	EPL summary index	Of which: EPL index for contracts without limit of time	EPL index for temporary contracts	EPL index for collective dismissals
Kazakhstan (2007)	1.5	12.7	0.9	0.0
Azerbaijan (2007)	2.2	3.2	1.8	0.6
Moldova (2007)	2.5	4.5	1.3	0.4
Russia (2007)	1.9	3.2	0.8	1.9
Ukraine (2007)	2.3	3.8	1.8	0.0
EU-15* (2003)	2.4	2.3	2.0	3.4
New EU members** (2003)	2.1	2.6	1.2	3.4
Kazakhstan (2009)	1.4	2.6	1.0	0.0

\* EU Member States that joined the EU before 2004, without Luxembourg.

\*\* EU Member States entering in 2004 and 2007, without Cyprus, Malta, Latvia and Romania.

Source: EPL indices for Kazakhstan in 2007, Azerbaijan, Moldova, Russian Federation and Ukraine are ILO calculations, EPL indices for EU-15 and for new EU members are from OECD (2004), EPL indices for Kazakhstan in 2009 are from Muravyev (2010).

An analysis of the specific elements of the aggregate EPL points to a slightly higher protection of core workers engaged on contracts without limit of time in Kazakhstan (but on the 0-6 scale it is still on the liberal side), compared with the EU, while regulation of temporary contracts is very liberal. The remarkable difference between the regulation of permanent and temporary contracts underlines the labour market segmentation (duality) between better protected core workers holding regular contracts and workers with temporary contracts (often youth as evidenced in other countries, though relevant data on age distribution of temporary workers do not exist in Kazakhstan), who enjoy much lower protection. This is likely to contribute to greater inequality in employment and income and especially young workers are particularly affected. Nevertheless, the percentage of workers holding temporary contracts is low in Kazakhstan. Finally, collective dismissals are completely unregulated in Kazakhstan.

However, a major problem is the poor enforcement of labour legislation. As acknowledged by World Bank (2008), labour market flexibility in the region basically has its origin in the “flexible” enforcement of EPL rules, especially in small firms. Even large firms, where the likelihood of compliance is higher, often use small firms as flexible suppliers of labour, thereby avoiding the cost of termination of employment.

A liberal nature of labour regulation in Kazakhstan is also confirmed by the survey of the World Economic Forum as labour regulation was identified as

an obstacle for doing business by only 3.7 per cent of firm executives in 2013 and by 2 per cent of executives in 2009 (see again Figure 4.2). A certain increase in this assessment is probably to be attributed to a recent (slightly) stricter control of observance of labour legislation in enterprises by the national labour inspection.

The combination of liberal and poorly enforced EPL with extensive informal employment points to high labour market flexibility and low job and income security for workers, both those on regular contracts but even more workers on other forms of employment arrangement, including informal arrangements. In the first place this insecurity affects youth.

Additional job security can be obtained for workers through collective agreements and the membership in trade unions. The trade union membership, which was an obligation at the time of the USSR, declined significantly in most of the former ex-Soviet countries since their independence. However, it still remains high in international terms, reaching in the biggest Federation of Trade Unions of the Republic of Kazakhstan 2.2 million persons. According to the Federation, the declining trend has recently been reversed. The trade unions are also increasingly successful in attracting young people below 35 years of age as their number now accounts for 730 thousand. Collective bargaining exists at national, regional, branch and enterprise levels in Kazakhstan. The current General Agreement at the national level covers the period 2012-2014. At the same time 22 branch agreements and over 400 regional agreements (at the level of oblast, town or rayon) are existing.

The enterprise level bargaining, which is the dominant form of collective bargaining, exists mainly in large and medium-sized enterprises and leads to the conclusion of collective agreements (88 per cent of such enterprises had a collective agreement on 1 November 2013). In contrast, in small enterprises it is underdeveloped or even non-existent. The number of collective agreements amounted to 55,706 in February 2014, i.e. one in three (35.4 per cent) active enterprises had a collective agreement.<sup>23</sup> Trade union members in enterprises with collective agreements are thus better protected against dismissal (although such protection may mean employment preservation at the cost of reductions in working time and of administrative leave, while the non-payment of wages, though illegal, is not rare either). In contrast, non-unionized workers in enterprises with collective agreements, as well as workers in non-unionized enterprises and all informal workers do not enjoy any protection through collective bargaining. Young people are in general less unionized than adult workers, partly because of their non-core employee status and their higher presence in non-unionized enterprises, partly because trade unions' policy does not seem attractive to them, but their increasing membership since recently would also provide them with this additional protection.

<sup>23</sup> Information provided by the Employment Department of the Ministry of Labour and Social Protection on 20 February 2014.

The monitoring of observation of labour legislation and occupational safety and health (OSH) in enterprises is performed by the national labour inspection. Labour inspectors operate at the national level as well as in all regions and the cities of Astana and Almaty but their number is currently very low – only 256. In 2013 more than 13,000 inspections in enterprises were conducted. The most frequent cases of violation of labour legislation included delays in the payment of wages, labour contracts in conflict with labour legislation, and unhealthy and unsafe working conditions. In consequence, almost 1,500 managers violating labour legislation were released from their position, 28 production units were closed down and 2,089 cases of violation of labour legislation were reported to juridical bodies, on the basis of which 155 penal courts were held. However, in February 2014 a moratorium on inspection of small and medium-sized enterprises was introduced and now inspections are mainly done in cases of serious complaints of violation of labour law and OSH at work or in cases of grave occupational accidents. This approach can expose workers, and especially young ones who usually have low knowledge about labour and OSH legislation, to violation of their legal rights and to unhealthy and risky conditions of work. The low number of labour inspections (in the first quarter of 2014 less than 1 per cent of enterprises were inspected, according to information from the Ministry of Labour and Social Protection) also severely impedes the desirable direction towards prevention of OSH risks. Labour inspections undertaken in the first quarter of 2014 revealed 3,837 violations of labour relations and 227 violations of OSH regulations.

#### ***4.3.3 Passive labour market policies***

The social protection system in Kazakhstan includes social insurance programmes (old-age pensions, maternity and childcare benefits, disability benefits, benefits in case of the breadwinner loss, unemployment benefits, sickness benefits, etc.), and non-contributory benefits (child birth allowance, childcare allowance, benefit for disabled child, special social benefits, social pension, state disability allowance, targeted social assistance and housing allowance) – see Annex 1. Since 1998 Kazakhstan has had a fully-funded defined-contribution pension system, consisting of a basic pay-as-you-go pillar, a mandatory defined-contribution pillar and a voluntary private pillar. The basic pension is set at the level of 52 per cent of the subsistence minimum amounting to 10,450 tenge in 2014 and at present more than 1.9 million persons receive it, according to information from the Ministry of Labour and Social Protection. 1.86 million persons received their pension both from the basic pillar and from the contributory pillar in 2013. The minimum pension including the basic one thus equaled 28,396 tenge and the average pension 41,506 tenge.

Altogether 688.3 thousand persons were recipients of social benefits and allowances in 2013.<sup>24</sup> As already mentioned, social benefits are paid from the State Social Insurance Fund. In March 2014, 50.4 per cent of expenditure from this fund were allocated for childcare benefits, 38.2 per cent for maternity benefits, 5.9 per cent for benefits in case of losing working ability, 3.8 per cent for benefits in case of losing the breadwinner and a mere 1.7 per cent for unemployment benefits.<sup>25</sup> Non-contributory benefits are financed from the republican budget, except for targeted social assistance, state childcare benefits until 18 years of child's age and housing allowance that are paid from local budgets. Out of the state budget (i.e. the sum of the republican and local budgets), 3.14 trillion tenge were spent on social issues in 2012 (10.4 per cent of GDP), of which 34 per cent were allocated to education, 22 per cent to healthcare, 5 per cent to culture, sports, tourism and 42 per cent to social security and social assistance.<sup>26</sup> This implies that only 4 per cent of GDP is spent on social security and social assistance, which is very low, given the large number of persons not socially insured (see the number below).

Persons for whom employers contribute to the state insurance system are eligible for unemployment benefits in case they become unemployed, regardless of the reason for leaving their last job. The length of benefit payment depends on the duration of contribution: if the duration of contribution was between 6 and 12 months, the benefits are paid for 1 month, between 1 and 2 years for two months, between 2 and 3 years for three months and more than 3 years for 4 months. The level of benefits is calculated by multiplying the person's average earning for the last 24 months by the income replacement coefficient (fixed for all workers at 0.3) and by the insurance duration coefficient: if the contribution was paid for 6-12 months, the coefficient is 0.7, for 1-2 years 0.75, for 2-3 years 0.85, for 3-4 years 0.9, for 4-5 years 0.95 and for more than 5 years 1.0.

In March 2014, 5.8 million persons were insured, i.e. some 30 per cent of those employed are currently non-insured and therefore not eligible for unemployment benefits. The number of unemployment benefit recipients in the same month was 3,602, i.e. only 0.8 per cent of all jobless persons. The average amount of unemployment benefit was 17,118 tenge (appr. 94 US\$), i.e. 15 per cent below the minimum wage and the subsistence minimum. In international comparisons the generosity of the unemployment benefit system in Kazakhstan is thus very low, both in terms of the length of benefit payment and the level of benefits, and does not fulfil the expected role of protection against poverty in case of a job loss. It does not motivate workers to seek jobs in the formal sector and when they lose employment, to turn for assistance to labour exchanges.

<sup>24</sup> <http://zeinet.enbek.gov.kz/node/128>.

<sup>25</sup> [www.gfss.kz/ru/statistic/150](http://www.gfss.kz/ru/statistic/150), accessed on 18 May 2014.

<sup>26</sup> [www.minfin.gov.kz/irj/go/km/docs/documents/](http://www.minfin.gov.kz/irj/go/km/docs/documents/), in section 'Grazhdanam', under 'Osnovniye parametry respublikanskogo byudzheteta 2011 - 2013' the document entitled: 'Socialnaya sfera (obshchiye parametry)'.



Workers who are not insured by their employer or themselves (in case of self-employed persons) and those who have never worked or have been insured for less than 6 months can get targeted social assistance if their income is lower than 40 per cent of the subsistence minimum. If they are jobless, the condition for obtaining it is registration at the local employment department. The assistance is set at the level of one monthly budget indicator (1852 tenge (app. 10 US\$) as of 1 January 2014) for each family member, which is an extremely low amount.

Young people in general have only short employment tenure or no work experience in the case of school leavers and moreover, a number of those who have already started working are occupying non-insured, often informal jobs. As a result, young people are only rarely eligible for unemployment benefits. In any case, the level of benefits they could eventually gain is so low that it does not motivate them to undergo rather burdensome application procedure at the local labour exchange. Income support in unemployment is thus in no way a factor that would discourage young people (similarly as adult people) from taking up a job or from participating in active labour market policies (if one or the other option available) while its lack pushes many of them into the informal sector.

#### **4.3.4 Active labour market policies**

Executive bodies responsible for implementing the national employment policy at regional level (Oblasts, Astana-city and Almaty-city) are the Regional Departments for Coordination of Employment and Social Programmes (16 in total), which coordinate the activity of local (rayon and town) bodies – local departments of employment and social programmes and local employment centres. Regional departments are responsible for labour market projections and monitoring of supply and demand for labour in their region. They are also in charge of creating and maintaining a unified labour market information database for their region, development of active labour market policies, including public works and vocational education and training of jobless persons, and regulation of labour migration.

Local departments of employment and social programmes within local authorities (further in the text they are called labour exchanges) have the task of implementing regional roadmaps as well as for social protection and vocational rehabilitation of persons with disabilities. They register jobless persons and mediate their job placement or offer them appropriate active labour market policies. Special

attention in this respect is devoted to target groups.<sup>27</sup> They further analyze and project the labour market situation in their locality, maintain the database of local jobseekers and vacancies, organize job fairs and active labour market programmes, such as public works, social jobs, vocational training and retraining and internships, and provide all this information to local population and employers. They also offer job matching services to non-registered jobseekers regardless of their labour market status and help identify suitable job candidates for local enterprises. Finally, they are in charge of payment of social benefits and targeted social assistance.

Local employment centres, although formally subordinated to local employment and social programme departments, are actually a parallel structure charged with the execution of the Employment Roadmap 2020 at local level. They receive persons from the pool of self-employed, unemployed and socially weak who are interested in the programme participation, assess them and conclude social contracts with those selected for participation. Their primary task is to mediate jobs created by infrastructural projects launched within the Roadmap to persons who turn for assistance to the employment centres. If suitable jobs cannot be found, in line with the social contract that specifies the needs and constraints of the participants employment centres place them in active labour market programmes, such as social jobs with wage subsidies or youth internships or provide them with microcredits for business start-up. Agreements are made with enterprises that select some programme participants for vocational training subsidized by the employment centre and are ready to employ the trained persons. The centres also identify unsatisfied demand for labour and skills in localities with high economic potential, train interested job candidates if necessary and subsidize their move together with their families to such localities. Finally, they keep up-to-date statistical information on the implementation of the Employment Roadmap 2020.

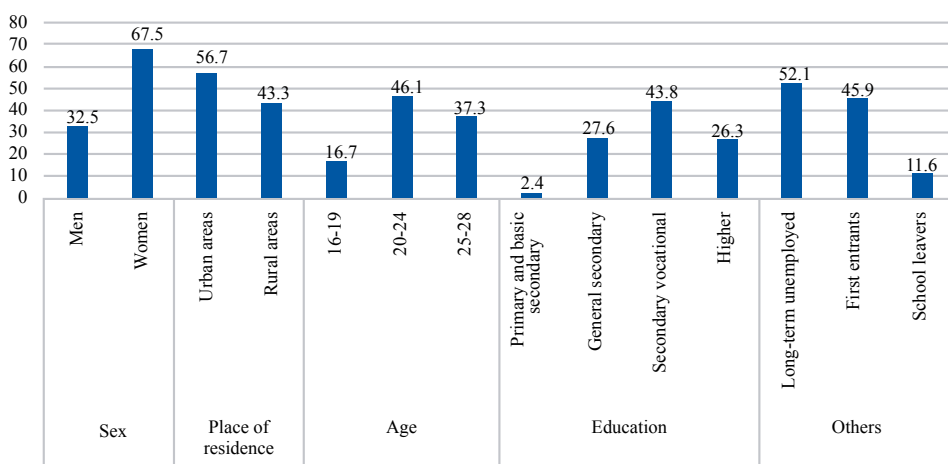
Main characteristics of the pool of young registered jobseekers are depicted in Figure 4.4. Young women seek job placement assistance of local employment departments more than twice as much in comparison with young men. Urban residents prevail among registered jobseekers. The most numerous age group are young people between 20 and 24 years of age, followed by the group aged 25-28. With regard to education, young people holding secondary vocational education are by far the most represented, close to 50 per cent of total registered youth unemployment, while young persons with general secondary and post-secondary education contribute slightly more than one-quarter each. The high shares of jobseekers with secondary vocational and tertiary education in registered joblessness (the combined share of 70 per cent) are surprising as their unemployment

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<sup>27</sup> According to the 2001 Employment Law, target groups include youth below 21 years of age, youth from orphanages below 23 years, sole parents or parents with many children below 18, persons with permanent caring responsibilities, older persons with less than 2 years to retirement age, persons with disabilities, ex-soldiers, ex-prisoners, ethnic Kazakh immigrants (so-called oralmans), graduates of tertiary education facilities, laid-off persons and socially weak people. Local authorities may add some other groups of population depending on the local labour market and budget situation.

rates measured by labour force surveys are low compared with other age groups (see Chapter 2). The probable explanations are two: many of such youth do not have any work experience as the proportion of first labour market entrants is 46 per cent and the high unemployment shares reflect mismatches between the field of study/specialization and the skills and qualifications required by employers. Even among registered jobseekers of all age groups skill mismatches play an important role, as persons with vocational secondary and tertiary education contribute 50 per cent to total registered unemployment. Over one-half of young jobseekers are on the register for more than one year, which points to serious obstacles in finding a

**Figure 4.4 Distribution of registered unemployment of youth, as of 1 January 2014**



Source: <https://www.enbek.kz/ru/obzor-rynka-truda/sodejstvие-v-trudoustrojstve-grazhdan-v-vozraste-16-28-let>

A comparison with the total number of young jobless persons identified by labour force surveys, however, shows that only a tiny 7.2 per cent of them were registered as jobseekers by labour exchanges as of 1 January 2014 (among all the unemployed it was even less - 6.4 per cent). The peak in registration of jobless persons was achieved in the recession year 2009 when 10 per cent of jobless people became registered. This discrepancy between registered unemployment and unemployment identified by labour force surveys is extremely high in Kazakhstan, compared with most other countries. For example in the Russian Federation 27 per cent of young jobless persons were registered as unemployed at the Federal Labour and Employment Service in 2012 while in the EU but also in the non-EU Balkan countries the number of registered jobseekers exceeds that of unemployed persons measured by labour force surveys. The reasons for this discrepancy in Kazakhstan

and similarly in the Russian Federation are manifold and include: the factual lack of income support in unemployment; the perception among people of low quality of vacancies reported to local labour exchanges by enterprises while employers also consider workers registered in local labour exchanges as problematic and are not always ready to recruit them; burdensome administrative procedures of registration and regular show-ups (once in 10 days in Kazakhstan), while transport to local labour exchanges may be costly especially for rural population; and the lack of information about policies and programmes supporting jobless persons in their search for new employment. Very high registration of jobless persons in labour exchanges in the European EU and non-EU countries is not only connected with higher income support in unemployment and with a broader access to active labour market policies but also with the fact that registration at the public employment service is a condition for covering sickness insurance and for the provision of maternity benefits and other forms of social assistance to jobless persons by the state.

An insight into the attitude of young Kazakh people to state labour market institutions is provided by the special youth employment module of the labour force survey presented in Chapter 3. Young employed persons (both employees and self-employed) aged 15-28 were asked whether they had ever turned in their life to local labour exchanges for job search assistance. Only 8.1 per cent responded positively. Three-quarters of them did so after finishing their studies, the rest after having lost their job or having dropped out of education. On the question concerning most important services provided by labour exchanges, three-quarters of respondents who had had experience with labour exchanges stressed the provision of information on available vacancies and assistance in job placement, while 20 per cent appreciated the provision of training and retraining. Those who had never turned to labour exchanges were asked about the reason. 41 per cent did not find it necessary while 36 per cent did not believe that these institutions would help them. However, when asked what they would do in case of losing their job, 16 per cent of employed youth responded that they would turn for assistance to state labour exchanges, which is more than double the percentage of jobless youth who currently register at local labour exchanges. This shows an already existing potential for increasing the impact of current labour exchanges. Nevertheless, 23 per cent of young people would seek new employment with the help of family, friends and colleagues, 22 per cent would turn directly to employers and 19 per cent through internet or newspaper advertisements. Urban residents and higher educated persons had more confidence in the support of labour exchanges than rural and less educated inhabitants.

While the share of jobseekers registered in labour exchanges is very small, actual results of their job placement activity are comparable to the achievements of public employment services in other countries as evidenced by Table 4.6.

**Table 4.6 Placements in jobs and active labour market policies by labour exchanges, 2011-2013, number of persons**

	2011	2012	2013
<b>Persons turning for assistance to labour exchanges</b>	322 537	344 503	325 300
<b>Persons placed in jobs or active labour market policies by labour exchanges, of whom:</b>	363 363	334 629	311 286
<b>Placed in jobs, of whom:</b>	235 013	213 381	200 915
Placed in social jobs	16 506	11 159	7 880
Placed in internships	22 836	6 822	5 350
Registered jobless persons	217 241	206 436	196 404
Youth aged 16-28	110 108	94 202	84 669
<b>Placed in public works, of whom:</b>	104 515	104 511	96 762
Registered jobless persons	103 025	103 130	96 202
Youth aged 16-28	36 495	36 425	31 961
<b>Placed in training, retraining or skills upgrading, of whom:</b>	23 835	16 737	13 609
Registered jobless persons	22 385	16 732	13 593
Youth aged 16-28	13 012	8 479	6 643
<b>Completed training, of whom:</b>	24 199	16 125	13 070
Placed in jobs	18 483	11 498	8 736
Started their own business	9	10	49

Source: Ministry of Health and Social Development.

In 2013, out of altogether 325.3 thousand jobless persons who turned to labour exchanges for assistance, of whom almost one-half (150 thousand) were young people aged 16-28, 187.7 thousand persons (57.7 per cent) were directly placed in regular jobs and 123.6 thousand persons (38 per cent) participated in active labour market policies (social jobs, internships, public works and training). For young jobseekers this percentage was lower – 52.3 per cent were placed in regular jobs and 29.8 per cent participated in active labour market policies.<sup>28</sup> Although the Employment Roadmap 2020 also envisages the participation of non-registered jobseekers and self-employed persons, the bulk of persons placed in jobs by labour market institutions or participating in active labour market policies were registered jobseekers (93.5 per cent of all persons turning for assistance to labour exchanges).

<sup>28</sup> It is however, not clear whether these data fully include also participants of the Employment Roadmap 2020 as figures provided in different materials of the Ministry of Labour and Social Protection vary.

However, there are wide differences across regions in the job placement rates as well as in the share of jobseekers participating in active labour market policies. While in 2012 in Almaty Oblast local labour exchanges were able to place over 90 per cent of registered jobseekers, in the city of Astana this share was only 30 per cent and in West Kazakhstan and Mangistau 45 per cent. Similar variations are in the share of jobseekers taking part in active labour market policies. Among the registered jobseekers 70 per cent participated in one or another employment promotion programme in the city of Almaty, but only 21 per cent in South Kazakhstan and Mangistau. While specificities of the regional and local labour markets, including large labour immigration to Astana and Almaty, are for sure affecting the outcomes of job matching services and active labour market policies, the ability of local labour exchanges to offer appropriate employment services and programmes to jobseekers in line with their needs and to cooperate with enterprises and offer them relevant services plays an even more decisive role. This ability depends on a number of factors. Many labour exchanges are struggling with high labour turnover due to low salaries, compared with the private sector, and thus the lack of experience and motivation of the staff. This may negatively affect the level of services offered to jobless persons, organization of active labour market programmes and access of unemployed persons to them. Another issue is the level of cooperation with enterprises. While according to the Employment Law enterprises are obliged to report to the local labour exchange vacant jobs within 3 days after their vacation, not so many enterprises do it. As a rule, the higher is tension in the local labour market, the more demanding and less cooperative enterprises are and their readiness to hire jobless persons sent to them by labour exchanges sharply declines. In poorer regions the availability of resources can also be a problem, which may not always be solved through subsidies from the republican budget. While all labour exchanges are equipped with computers, internet connectivity in rural areas is sometimes problematic and may constrain the access of jobseekers to up-to-date information on vacancies. In general, as also the youth employment module has confirmed, population especially in rural areas is often not well informed about employment services and available active labour market programmes organized locally or in the framework of the Employment Roadmap 2020, despite the promotion campaign of the government. More still needs to be done in this respect.

Unfortunately, no comprehensive information is available on the staffing of local labour exchanges, except for 205 employment centres employing altogether 1,980 staff, in order to assess whether they are appropriately equipped with human resources to provide effective employment services to their clients – jobless persons, other jobseekers and employers - and to offer individualized approach to harder-to-place jobseekers. The fact that active labour market programmes are organized by two parallel state structures makes any comprehensive monitoring of their outcomes, evaluation of real impacts on the labour market and assessment

of the effectiveness of different interventions rather difficult and non-transparent. For this reason no data are available as to the total amount of allocations on active labour market policies and their proportion to GDP.

Apart from registering unemployed persons, providing information on available vacancies, employment promotion programmes and social protection measures to jobseekers, organizing job fairs and delivering job matching and job placement services, local labour market institutions provide the following active labour market programmes: vocational training and retraining, social jobs, public works, internships and within the Employment Roadmap 2020 also entrepreneurship support and subsidized move to regions experiencing labour shortages. In addition, there are special youth employment promotion programmes. All of them will now be analyzed in more detail.

*Vocational training and retraining* is offered in the first place to registered jobseekers who do not have professional qualifications or have skills not demanded by the labour market. The share of jobseekers undergoing vocational training and retraining has considerably declined from 11.5 per cent in 2010 to 7.4 per cent in 2011, 4.9 per cent in 2012 and 4.2 per cent in 2013. Among registered unemployed youth only 4.4 per cent received training in 2013 and of them slightly less than two-thirds got employment after completing training. Again regions broadly vary in the attention paid to training of jobseekers, ranging from zero in Aktobe to 18 per cent of registered jobseekers in the city of Almaty. Given the extent of skill mismatches in the labour market, the percentage of jobseekers and among them youth directed to training is very low and, what is even more worrying, sharply declining since 2010. The job placement rate after its completion is comparable with most other countries but could be significantly increased if training were provided for the known employer or directly on-the-job. It is therefore very important that within the Employment Roadmap 2020, vocational guidance and vocational training and retraining is provided to selected programme participants in line with employers' needs and that the employers guarantee employment to these persons. Duration of such training is up to 12 months for those without vocational qualifications (in practice usually up to 10 months), up to 6 months for persons in need of retraining and up to 3 months for skills upgrading. It should use to the extent possible dual form of training with the practical part provided by the enterprise that has initiated such training. The trained person is also entitled to income support during training. In addition, in cases of severe shortages of certain professions, employers may turn to local employment centres with the request for subsidization of retraining or skills upgrading of their workers. For example, in Astana 137 employed persons participated in skills upgrading courses financed by the employment centre. Such practice is quite widespread in economically advanced countries and contributes to higher relevance of labour exchanges for the region and for local enterprises.

*Social jobs* are a form of temporary employment with subsidized wages designed solely for target groups among registered jobseekers who encounter particular difficulties in finding a job. The long list of target groups is mentioned above and the Employment Roadmap 2020 adds several others – see earlier in section 4.3. The proportion of jobseekers placed in social jobs is traditionally very low, in 2013 only 2.4 per cent while a tiny 0.5 per cent of jobseekers aged 16-28 were provided with social jobs in 2013. Similarly as for training, the share of persons employed in social jobs shrank to less than one-half between 2011 and 2013. Within the Employment Roadmap 2020 the person can remain in a social job for one year and his/her wage is currently subsidized at 35 per cent by the employment centre. Originally it was planned that the employer would conclude a labour contract with the worker for the following six months and pay him/her full wage but due to the lack of interest from the side of employers this condition was dropped. While subsidized employment belongs to more expensive labour market programmes and the transition to regular employment may not always be successful, experience from the EU countries shows that if well targeted at disadvantaged groups of population, including disadvantaged youth, it is an effective tool promoting employment of hard-to-place persons.

*Youth internships* are organized for young jobless persons who have completed professional education at vocational secondary schools, post-secondary schools and universities and have no work experience. The aim is to help them gain first practical experience through subsidized temporary employment in enterprises or organizations that can facilitate their subsequent employment in regular jobs. Enterprises pay no wage to interns as these still have to work under the supervision of experienced colleagues, while the programme gives interns a stipend equal to 18 monthly budget coefficients, i.e. 31,736 tenge (some 174 US\$) in 2014. According to Table 4.6, only 5,350 internship places were created in 2013, which was less than one-quarter of places created in 2011. However, another document from the Ministry of Labour and Social Protection (2014) shows that in 2013, enterprises offered some 30 thousand internship places and local labour exchanges directed more than 25 thousand school leavers there, which was 94.5 per cent of all those who completed professional education and turned for employment assistance to local labour exchanges. Subsidized youth internship is provided for up to six months. In the draft Employment Roadmap 2020 this internship period was supposed to be followed by another six months of employment with the same employer but already covered by regular labour contract and fully paid but unfortunately, it was not finally approved due to resistance from the side of employers. The combination of subsidized internship and a regular employment spell would be very effective in helping young people to get a stable job as experience from other countries, including the EU member states, shows.



*Public works on infrastructural projects* have been the most widely used active labour market programme in Kazakhstan. In 2013 almost 100 thousand persons, i.e. 30 per cent of those who turned for assistance to the state labour market institutions, took part in this scheme and of them 32 per cent were young people (their share in all registered unemployed youth was 21 per cent). Among young people this programme is evidently not attractive. Rather surprisingly, the yearly number of public works participants has been moving around 100 thousand since 2008, despite the fact that during the recent recession the number of those who decided to solve their employment problems with the help of public labour exchanges more than doubled, compared with the pre-crisis situation. In 2009 the share of registered jobseekers placed in public works was thus only 19 per cent. Interestingly, women take part in public works more than twice as much in comparison with men. Public work schemes combine the provision of temporary employment to persons unable to find a regular job with activities beneficial for the municipality from the economic, social and environmental point of view. Typical participants in public works are lower skilled persons, many of them jobless for longer period, and public work schemes give them income above the subsistence minimum and maintain their working habits. Public works are usually used in situations of mass unemployment during economic crises or for placing long-term unemployed persons. However, international experience shows that the transition from public works to regular employment is very low unless it is combined with vocational training and skills upgrading.

*Subsidized move to regions with high economic potential* was already been organized within the anti-crisis Employment Roadmap programme for 2009 and 2010 and is also an important part of the Employment Roadmap 2020. This measure is part of a complex approach to increasing the mobility of the labour force, which apart from covering the costs of move for the person and his/her family also includes the possibility of providing service housing or at least rooms in dormitories for youth, vocational education and training and job placement assistance, including in jobs created by projects on construction of housing and technical infrastructure, in the new places of residence. In a country with vast territory, scattered population and a large diversity in the economic level of regions and localities like Kazakhstan, such policy of organized move is very important and needs to be further strengthened as so far only a limited number of families have used it.

*Support in small business development* is currently provided mainly to jobless, self-employed and poor persons living in rural areas lacking vacant jobs within the Employment Roadmap 2020. Unlike in previous support programmes, a more complex approach has been adopted with the aim to help overcome existing barriers for doing and expanding business. It includes not only the provision of microcredits up to 3 million tenge (appr. 16,700 US\$) and in core villages up to 5

million tenge (appr. 27,800 US\$) for 5 years, but also free business training combined with income support, assistance in elaborating the business plan, in marketing, legal advice and accounting. Nevertheless, even this may not be sufficient for running profitable business and especially young inexperienced persons would benefit from relevant vocational training, more systematic counselling or mentoring provided by well trained staff in business advisory centres, assistance in access to modern technologies and more stable markets e.g. through promoting clustering of small enterprises or through stable linkages to large and profitable enterprises etc.

A special project “With diploma into the village” has been launched in 2009 and directed to graduates from tertiary, post-secondary and vocational secondary schools specialized in healthcare, social care, education, culture, sport and veterinary care, without or with short work experience, and ready to work in these fields in rural areas lacking such specialists. The project provides one-off subsidy plus subsidized housing loan and remuneration in higher wage tariffs. According to results so far, some 24 thousand young people have gone through this project, most of them teachers. Another project “Zhasyl Yil” provides seasonal employment to young people in the field of tree planting, foundation and maintenance of parks and other green areas and other environmental projects. The Ministry of Health and Social Development is also currently running an information portal “Labour” that provides information about some available vacancies and advice on how to prepare a CV or motivation letters and how to prepare for an interview with the employer. Some vacancies in selected regions are also available on the web portal “Electronic youth labour exchange”.

Any assessment of the quantity, relevance and targeting of active labour market policies should go out of the premise of the government of Kazakhstan to rely on the policy of stimulating active participation of the working age population in the labour market and gaining income from wage employment or self-employment instead of being dependent on social transfers. In line with this premise the government has significantly liberalized labour relations and limited social protection almost entirely to those unable to work. The activation policy combined with reducing dependence on social transfers is in line with global trends. However, it should not lead to an opposite extreme of pushing people to take any available job as soon as possible regardless of their education and skills, experience and interests out of fear not to fall into poverty due to poor social protection because it would demotivate people and result in significant losses of human capital affecting negatively labour productivity.

Indeed, economically advanced countries are aware of this danger and expand the offer of active labour market policies to help people find a job or start profitable business in combination with decent temporary but strictly conditional income support. Such active policies range from vocational guidance of pupils

at schools as well as adults with obsolete skills, through job matching and job placement services to all jobseekers (not only those registered as unemployed), to an individualized approach to those not matched with available jobs in order to identify their strengths and weaknesses, and on this basis provide them with appropriate programmes addressing their disadvantages. During the period of active job search, including participation in active labour market programmes, the jobseekers can rely on decent income support. In case of non-cooperation, e.g. the refusal to take up 2 offered suitable jobs or take part in suitable labour market programme without serious reason, the unemployment benefits and other forms of assistance are suspended. Public employment services are also offering services to enterprises and increasingly cooperating with private employment agencies in order to facilitate new employment or re-employment in suitable jobs for as many people as possible. Jobless persons are thus motivated to turn to public employment services for getting full information on vacancies and for using their assistance and programmes.

In Kazakhstan, the above mentioned opposite extreme is rather true. Income support in unemployment is almost non-existent, vacancies and employment services offered to unemployed persons by labour exchanges are considered as rather poor and active labour market programmes are limited in their scope while their relevance and efficiency for gaining good regular employment has never been properly evaluated. This lowers attractiveness of labour market institutions for people and pushes them to use other channels for finding employment. Those who are not successful finally accept low quality jobs or self-employment just to survive.

The former Employment Programme 2020 and now the Employment Roadmap 2020 go in the right direction. They target the vulnerable groups of population and try to unlock and better use their underutilized potential while at the same time tackle economic and social development challenges of the country. For their implementation a new territorial structure of employment centres has been created but the overlap of activities and competences of the old local employment and social policy departments and the new employment centres creates coordination problems, confuses the population and further lowers attractiveness of local labour exchanges. Moreover, there are large differences in the performance of regional and local labour market institutions connected with the quantity and quality of their staffs, their motivation and experience, diversity in their approach to clients and in the administration of active labour market programmes as well as in the availability of financial resources.

The Ministry of Health and Social Development can currently provide only guidance but cannot directly manage regional and local labour exchanges, strengthen low performing offices through capacity building and re-distribution

of financial resources in line with needs, standardize employment services and policies, and better coordinate the implementation of all existing employment programmes at different levels. Therefore it would be highly recommendable to re-establish the public employment service at its full territorial structure and put it in charge of not only registration of jobseekers and the provision of employment services and income support in unemployment but also the implementation of the Employment Roadmap 2020 while integrating the currently run active labour market policies fully into the Programme. Financial resources allocated to the functioning of public employment services and to active labour market programmes, including those stipulated in the Employment Roadmap 2020 should not only be fully spent but further increased in order to include as many people as possible from the vulnerable groups of population, including youth. Individual active labour market policies should be regularly evaluated as to their gross outcome (i.e. the share of participants placed in productive jobs or self-employment), net impact (i.e. placement as a direct result of the applied policy) and effectiveness of the spent resources. Finally, it would be useful to increase income support in unemployment that would attract many more jobseekers to apply for assistance to the public employment service but link its provision strictly to active job search or participation in appropriate labour market programmes.

# 5

## POLICIES AND INSTITUTIONS FOR YOUTH EMPLOYMENT

### 5.1 Conclusions

The decade prior to the global financial and economic crisis was very successful for the national economy of Kazakhstan that belonged to the fastest growing economies of the world with annual GDP growth rates moving above 9 per cent in this period. Rapid economic growth was fuelled by large foreign direct investment flowing in particular into the hydrocarbon and mineral extraction industries, by increasing oil export revenues but also by domestic investment channeled mainly into construction and real estate. Prudent countercyclical macroeconomic policies helped stabilize public finances, reduce the general government debt and alleviate strong inflationary pressures through directing a large part of oil revenues to the National Oil Fund - an important fiscal buffer and source of development investment. A large-scale tax reform based on low and flat rates for corporate, personal income, VAT and other taxes, simplified taxation for small enterprises and individual entrepreneurs as well as legislation on the protection of property rights and free competition were introduced or amended with the aim to improve the business environment, attract foreign investors and stimulate entrepreneurship.

An easy access of domestic banks to cheap loans in the foreign financial markets accelerated the demand for credits in the domestic economy so that the indebtedness of enterprises and households reached 75 per cent of GDP in 2007, half of them denominated in foreign currencies. When the global financial crisis started and the external borrowing costs of banks sharply increased, the banks reacted by reducing immediately the availability of credits, with a negative impact on the non-oil enterprise sector. This in combination with massive capital outflows and withdrawals of savings by households led to the weakening of the national currency, while real estate prices fell dramatically and a large part of loans turned out to be non-performing. Domestic demand substantially dropped, similarly as revenues from exports due to declining global commodity prices, and the economy slipped into recession. In this moment the government came up with a large anti-crisis policy package worth some 21 billion US\$ (20 per cent of

GDP, one of the largest anti-crisis packages globally). Half of this amount was devoted to the stabilization of the banking sector and the rest to the support of the construction sector, among others through embarking on a new programme of housing construction and several large infrastructural projects, and to the launch of countercyclical measures. They assisted enterprises to overcome the credit crunch, facilitated business development and stimulated consumer demand through the indexation of pensions, public wages' increase and stronger social protection and assistance. The national currency devaluation in February 2009 together with a gradual recovery of world hydrocarbon and other commodity prices helped stabilize the economy and return to solid economic growth. The timely use of the fiscal stimulus package thus helped the country avoid economic crisis and the package was financed from resources accumulated during the boom period.

Nevertheless, economic growth has not reached the pre-crisis level and has recently slowed down. One of the reasons is the still weak banking sector burdened by large non-performing loans that undermine the ability of banks to provide enough credits to enterprises. Widening external imbalances as well as the endeavour to improve the competitiveness of Kazakh exports in foreign markets and substitute imported goods by domestic production have recently forced the government to devalue again the national currency. While the devaluation raises inflation in the short run, any significant positive effect on increasing the competitiveness of domestic non-oil production is a longer-term task due to the low level of productivity of the non-oil sector in international comparisons. A large part of revenues is still generated by oil export complemented by exports of minerals and grain, while the share of manufactured goods is small. In fact, a recent ADB analysis has documented that at present the Kazakh economy is more dependent on oil and commodities than it was a decade ago. The government thus launched an important Programme on Accelerated Industrial-Innovative Development of Kazakhstan for 2010-2014 in 2010, with the aim to ensure sustainable economic growth through stimulation of diversification and higher competitiveness of the national economy. Currently a second phase of this Programme is under preparation. The Programme contributes towards the implementation of the Strategic Plan for Development of the Republic of Kazakhstan till 2020 that intends to place the country among 50 most competitive countries of the world with favourable business climate attracting foreign and domestic investors into non-extraction sectors.

The period after 2000 also saw a significant improvement of the labour market and social situation in the country. While in 2001 still 47 per cent of the population lived below the poverty line, their share rapidly shrank to 5.3 per cent in 2012 and in the same year the proportion of population with income below the minimum food basket fell to a mere 0.2 per cent. Between 2001 and 2013 1.88 million new jobs were created and the rate of open unemployment declined from 10.4 per cent to 5.2 per cent. The decline in unemployment was spectacular

especially among youth aged 15-24 that in 2001 faced almost twice as high rate, compared with total population, i.e. a similar relation as in most countries of the world, while in 2013 the youth unemployment rate was even 1.4 percentage points below the rate for population 15+. Consequently, demographic indicators also much improved and the number of population started increasing as a result of: an increase in the birth rate; a reversal of the negative trend in life expectancy; and a sharp decline in emigration that turned to net immigration since 2004. However, unemployment and poverty reductions were not equally distributed among the population in all regions. The highest regional youth unemployment rate in Zhambyl still exceeds 2.5 times the lowest regional rate in Atyrau. Interestingly, research shows that the extent of poverty reduction depends on the ability of the regional economy to create employment opportunities of local population: even poorer regions with more diversified and labour-intensive production base are more effective in poverty reduction than richer regions depending on capital-intensive production, such as oil, gas and mineral extraction.

The formal educational attainment of the Kazakh population is high and further increasing in young population. In 2012 the share of youth with post-secondary education accounted for one-third of all young people aged 15-28 (the national definition of youth) and exceeded this proportion among total population aged 15+ by 10 percentage points, while the share of youth possessing only primary and basic secondary education equaled 13 per cent and was 6 percentage points lower in comparison with total population. Higher education level correlates with significantly higher economic activity and employment and lower unemployment both for youth and adults (with the only exception of persons with incomplete tertiary education). Labour market indicators for youth in Kazakhstan are thus markedly better, compared with the majority of economically developed countries.

However, this in general positive picture hides some important challenges, in the first place large-scale mismatches between skills possessed by young people (and the whole population) and skills demanded by the labour market. About 60 per cent of young people complete the last two years of their compulsory education in general secondary schools and only 40 per cent in secondary vocational schools. In addition, a large part of secondary vocational education is oriented to social, economic and similar studies, while the enterprise sector is desperately looking for skilled manual workers with technical skills. Employers often complain that young people have theoretical (and not always up-to-date) knowledge but lack practical skills and they call for a dual type of education. However, especially small and medium-sized enterprises claim that the provision of a practical part of dual education in their premises would be too costly for them. The majority of leavers from general secondary schools have aspirations to continue studies at university and many of them again prefer social and humanity studies, law or economics, but the labour market is saturated by these professions. This contrasts

with unsatisfied demand for technically qualified specialists. Those general school leavers who do not succeed to enter university, do not attend post-secondary vocational schools or cannot afford further studies for financial reasons thus remain without any professional qualifications, which worsens their future prospects for gaining decent employment. All these challenges prolong the transition of young people from school to work (around one third of employed youth reported to have had problems with finding their first job) and are the reason why only less than two-thirds of youth work in jobs requiring specialization they studied.

There are also large regional differences in the quality of education associated with the type of schools in the region (rural regions with scattered population have a large percentage of ungraded schools with several grades in one classroom that tend to provide lower quality of education), their equipment, quality of teachers and other factors. In some regions places in primary and secondary schools are missing, children cannot be transported easily from their homes to schools and there is a lack of suitable premises for children with special needs. This results in the relatively low net level of enrollment in primary and secondary education (only 88.3 per cent of children of the official school age attended primary and lower secondary school in 2011). International comparisons, such as PISA, indicate important weaknesses in the quality and efficiency of education in Kazakhstan, namely that it encourages memorizing and retrieving information and theoretical knowledge but does not develop the capacity for higher order thinking, such as applying and reasoning in mathematics or evaluating and reflecting on the read texts. PISA comparisons also reveal that a high percentage of students are performing below the baseline proficiency level, i.e. they are unable to demonstrate the functional skills and competencies. In relation to this the OECD criticizes the lack of systematic addressing of underachievement of students, which may become an important obstacle for absorbing new technologies and moving to production and services with higher value-added.

Young people are more often than adults concentrated in self-employment, mostly as own account workers. While in urban areas their share in total youth employment was 20 per cent, in rural areas it was almost 50 per cent in 2012. Nearly 60 per cent of young self-employed persons are active in agriculture and more than 20 per cent in trade, the two sectors that tend to require lower education and provide low productive jobs. This indicates that many young people, in general better educated than older age cohorts, are engaged in low productive jobs below their achieved level of education and without more promising employment prospects for the future.

One quarter of total employment in Kazakhstan are working informally, of them some 40 per cent as wage workers and 60 per cent as self-employed. No statistics is available on the age structure of informal workers but indirect evidence



shows that informality is significantly more widespread among young people, compared with adult population. Young workers are thus less covered by labour legislation protecting their labour rights and health and safety at work and also less socially secured. In this relation it is interesting that in the special youth employment module of the labour force survey only 16 per cent of young people expressed their dissatisfaction with their current job. The two main reasons of dissatisfaction were low remuneration and underutilization of their skills (important mainly for higher educated youth). However, when asked what young people would recommend to improve their labour market position, over 40 per cent stressed the need to create new jobs, nearly 30 per cent suggested higher remuneration and 11 per cent better working conditions.

With regard to sectors of the formal economy where new jobs are created, over three-quarters of new jobs have recently emerged in small and medium-sized enterprises in Kazakhstan, similarly as in other comparable economies. Nevertheless, two-thirds of workers employed in the registered business sector are still concentrated in large enterprises, while only 19 per cent in registered small and medium-sized firms that is very different from most other countries. Apart from the legacy of the centrally planned economy, this can also be explained by higher vulnerability of smaller enterprises to changing market conditions, as only three-quarters of registered medium firms and one-third of small firms were active in 2010. Moreover, over one-third of large and medium-sized enterprises were unprofitable in 2012, which is especially precarious in the case of large firms that are main employers in certain towns or regions. The four major obstacles for doing business (and new job creation) in Kazakhstan, indicated by businesspeople and executive managers in 2013, include corruption, inadequately educated workforce, ineffective government bureaucracy and access to financing. In international comparisons of countries' competitiveness Kazakhstan is steadily improving its position. While macroeconomic stability, liberal labour market regulation, high correlation between wages and labour productivity, large share of women's employment and low tax burden belong to Kazakhstani comparative advantages, the serious shortcomings include unsatisfactory financial market development, lower quality of education and underdeveloped innovation ability and business sophistication.

The liberal nature of labour market regulation, i.e. low employers' costs of hiring and firing of workers, is also confirmed by the small value of the index measuring strictness of employment protection legislation for contracts without limit of time, temporary contracts and for regulation of collective dismissals in Kazakhstan when compared with its value for the Russian Federation as well as for the old and new EU member countries. Moreover, this assessment also reveals a significant gap between a bit more strictly regulated permanent contracts and very liberal temporary contracts that point to a dual character of the Kazakhstani

labour market providing better protection against dismissal to core workers holding permanent contracts, typically prime age male workers, and practically no protection to non-core workers, in the first place young people. Nevertheless, the share of temporary contract holders in the formal economy is very low in Kazakhstan, therefore it affects only a small proportion of young workers. However, many more youth occur in the informal sector without enjoying any protection against lay-off nor against occupational and social risks. Employment protection legislation thus does not impose any obstacle for hiring young people. The minimum wage has the same minimal impact on recruitment of youth as its level does not even reach 20 per cent of the average wage. The otherwise positive high correlation between wages and labour productivity development is however mainly achieved through shortening of working hours or administrative leaves without or with little compensation and through the non-payment of wages when the enterprise loses profitability. The combination of liberal and on the top poorly enforced labour legislation with large-scale informal employment and the downward movement of wages indicates high labour market and wage flexibility and low job and income security for workers that affects in the first place young people.

In economically advanced countries additional job security is provided through collective bargaining. Collective bargaining exists in all levels – national, regional, branch and enterprise level - in Kazakhstan and collective agreements are concluded in one-third of active enterprises within the formal business sector. Some of them include employment preservation at times of economic difficulties of the enterprise but as young people are less unionized than adult workers they enjoy less additional job security through collective bargaining.

In line with the flexicurity concept, the low job and income security for workers should be compensated by a broad access of those laid-off as well as new labour market entrants to job mediation services and labour market policies - both active measures promoting employment and passive ones protecting against a fall into poverty during job search. Economic recession towards the end of the 2000s prompted the government to launch the Employment Roadmap programme for 2009 and 2010 as part of the anti-crisis policy package. The Roadmap was aimed both at employment preservation and assistance in the job placement of laid-off workers and persons entering the labour market either in regular jobs or in jobs created by municipal infrastructural projects or by their participation in suitable active labour market programmes. Successful implementation of the Roadmap 2009 and 2010 convinced the government to elaborate first the Employment Programme 2020 adopted in 2011, and then in reaction to new labour market developments to replace it with the Employment Roadmap 2020 in 2013.

The Employment Roadmap 2020 targets not only jobless persons but also persons in low productive self-employment and socially weak population groups

and its first priority group are young people. The three components are directed both to the demand and supply sides of the labour market, i.e. they stimulate job creation through supporting infrastructural projects at local and regional level, promote productive business start-ups, and address skills mismatches through training and re-training and territorial mismatches through subsidized moves to regions facing labour shortages. In this way they complement job placement services and active labour market policies organized by local labour exchanges. However, the number of persons (predominantly registered jobseekers) covered by the Roadmap programme and by services of labour exchanges is very low, compared with total unemployment, and the number of unemployment benefit recipients (as well as the level of benefits) is negligible.

There are several reasons explaining this low market share of public labour institutions, including: the lack of trust of both jobseekers and employers in the quality of their services; information lacunae among the population concerning the Programme; lack of experience and motivation among the staff due to their high turnover, etc. However, one of the reasons is the actual parallel structure of local labour exchanges in charge of jobseeker registration and provision of employment services and of employment centres in charge of the Roadmap 2020 implementation. It makes interventions non-transparent and overlapping and hinders proper evaluation of individual programme components and active labour market policies as to their impact and efficiency.

## 5.2 Policy recommendations

### *Development of a national action plan promoting productive employment of youth*

The Employment Roadmap 2020 specifies the goals of national employment policy for the current decade and the types of intervention on both sides of the labour market that should lead towards their achievement. As such it complements and supports the above mentioned Strategic Plan of Development until 2020, the Accelerated Industrial-Innovative Programme, the Business Roadmap 2020, the State Programme for Education Development 2011-2020 and other important programmes and contributes to the strategic vision Kazakhstan 2050 outlined by the President of Kazakhstan. The Employment Roadmap stipulates one important goal, namely that any governmental or sectoral development programme should be coordinated with the Ministry responsible for labour market issues with regard to their job creation possibilities. However, so far this goal remains more in the form of declaration than in reality although the global financial and economic crisis has revealed the necessity of putting employment objectives in the centre of economic and social policies.

Youth is mentioned as one priority group in the Employment Roadmap 2020 but no specific targets are set with regard to quantitative and qualitative aspects of youth employment. In view of the high number of young people who will enter the labour market in the upcoming decade the generation of a sufficient number of new, productive and decent jobs should be stimulated so that the country fully utilizes this favourable demographic dividend for its rapid advancement. Therefore it would be useful to develop a national action plan on youth employment closely coordinated with the Employment Roadmap 2020 and other relevant strategic documents that will further elaborate the employment part of the Concept of the State Youth Policy “Kazakhstan 2020: Path into the Future”. The national youth employment action plan would set clear targets for youth employment policy, ensure its coherence with economic, educational and social policies, define responsibilities of all relevant stakeholders and improve the institutional framework necessary for the achievement of the set targets. The important elements of this integrated approach include measures aimed to

1. Increase the employment content of economic and fiscal policies;
2. Ameliorate further the business environment, with a special focus on expanding and strengthening the small and medium-sized enterprise sector;
3. Use an appropriate combination of stimuli and sanctions for a gradual formalization of the informal sector and of informal employment;
4. Ensure the full coverage of young people by vocational guidance and improve the quality and relevance of the national education and training system;
5. Create conditions for higher adaptability of enterprises and workers on the one hand and for much stronger employment, income and social security of workers on the other;
6. Increase the relevance and impact of public labour market institutions through reforming their system and through closer cooperation with clients and other important agents; and
7. Improve the design, targeting and structure of active labour market programmes, expand their coverage and ensure their regular monitoring and net impact evaluation.

### *Increase the employment content of economic and fiscal policies*

The prudent macroeconomic policy of the government ensures relatively stable economic environment for business development. Business climate is positively influenced by large infrastructural projects financed mainly from oil revenues. The government should further accelerate diversification of the economy from over-dependence on (labour saving) oil and mineral extraction sectors towards manufacturing based on new technologies, modern management and organization of production and the use of domestic resources and local workforce

that will deliver competitive products for export but also for replacing imported goods. Simultaneously, productivity in agriculture and services should be raised so that the quality of existing jobs improves and new, more productive jobs are created for young labour market entrants. International experience shows that for more developed countries (Kazakhstan is now transiting from an efficiency-driven to an innovation-driven economy according to the 2013 Global Competitiveness Report) industrial policy stimulating diversification and competitiveness should switch to indirect forms. The government then broadly defines priority industries but the selection of promising investors and competitive projects to support should be the task of private financial institutions and the implementation, financing and strict monitoring and evaluation of investment projects done in close public-private partnership. This approach, however, requires a sound financial sector with well-developed services, which remains a big task for the government and the National Bank of Kazakhstan.

The fiscal decentralization has left the financing of local infrastructure, education, health care, labour market policies and social institutions and policies largely to the local budgets. However, tax revenues collected into the local budgets are not sufficient and as transfers from the republican budget are not well predictable due to frequently changing rules and many exceptions, local governments especially in poor regions are often facing severe budget constraints impacting negatively on economic, labour market and social development of the region. The government could consider a return to the progressive personal income tax that would bring additional tax revenues into the local budgets to be used for development policies and to strengthen the sense of solidarity among the population. Stricter control by financial offices should be introduced in order to reduce still widespread tax evasion. Finally, collection of tax revenues could be re-distributed between the republican and the local budgets and rules for transfers from the republican budget to the local budgets clearly directed toward promoting the catching-up of less economically developed regions, job creation and poverty alleviation.

### *Improve the business environment and strengthen the SME sector*

Kazakhstan has made big progress in improving the conditions for doing business in the area of legislation protecting investments and property rights, simplification of establishment of new enterprises, tax reform lowering and simplifying taxes for small and medium-sized firms and individual entrepreneurs, and in upgrading the infrastructure. Nevertheless, still a lot more can be done to improve the business environment. One big problem is the proper enforcement of legislation, which is closely connected with widespread bureaucratic practices and corruption especially at local level and with the large informal sector. The government should enforce compliance with legislation and fight against corruption

by strengthening financial (tax revenue) offices, labour inspection and the judiciary and promoting their close cooperation, and by increasing penalties and fines in case of revealed violations of legislation and corruption, including criminal liability for more severe cases. Young people are especially vulnerable to illegal practices of employers and information on their legal rights and how to protect them should become part of school curricula.

Another challenge is the limited access of firms to new technologies but also a low capacity of the business sector to absorb and implement technological innovations in their production. This is not only the matter of the necessity of more investment in R&D by the state in partnership with the private sector, close cooperation of R&D institutions with enterprises and subsidization of the technology transfer in particular to SMEs, but also the issue of improving the workforce capacity through regular skills upgrading so that they can efficiently use new technologies, and of enhancing their motivation to come up with innovative ideas.

SMEs as the main generators of new jobs in Kazakhstan are benefiting from special programmes as well as from support of specialized development institutions. However, detailed analyses have shown that the assistance provided is often fragmented and inefficient as evidenced by the high share of non-active SMEs, on average low productivity of small firms and individual entrepreneurs and still the low share of the registered SME sector in total employment. Many SMEs reported tax regulations and tax rates, constraints in gaining credits, connection to electricity and competition with informal businesses as their main obstacles for development. Empirical evidence shows that package approaches for SME support tend to perform better than single interventions and best international experience could serve as a model for such a holistic approach. The government should also support the development of social enterprises that pursue both economic and social aims: they provide useful and increasingly demanded services to individuals and communities and create innovative employment opportunities, including for vulnerable groups of population.

Collapsing large enterprises that are main employers in mono-industrial towns and regions are a special problem in Kazakhstan and the government has recently launched a special programme for development of mono-industrial towns targeted at 27 such towns. The programme is inspired by similar programmes from economically advanced countries that combine the restructuring of large enterprises that are potentially sound with diversification of the local economy through the upgrading of local infrastructure and stimulation of SME development as well as the provision of large-scale retraining and other active labour market and social programmes for local population, including subsidization of their move to more prosperous regions with vacant jobs. Detailed experience from analogous foreign

regions having gone through large-scale restructuring could help Kazakhstan avoid their mistakes and find the most effective development paths and new decent employment opportunities for people.

Promote gradual formalization of the informal sector and of informal employment registered enterprises, in particular SMEs, complained of dirty practices of the informal sector as the second main obstacle for their own business development, according to the latest World Bank Enterprise Survey conducted in 2013. Deliberate evasion of taxes and social protection contributions, undeclared labour or under-declared earnings of formal workers are indeed practices that undermine fair competition and deprive the republican and local budgets of significant revenues that could otherwise be used for stimulating business development and job creation. Informal firms have restricted access to markets, credits and new technologies and informal workers are exposed to significant occupational safety and health risks as well as social risks. Young people are overrepresented among informal workers. However, for a large part of informal workers informality is not a choice and they are pushed into it by a lack of good formal employment opportunities. In most cases such informal workers are engaged in poor quality jobs or as own-account workers they perform low productive and often unsafe activities, typical for agriculture, construction and some kinds of services, as detailed in section 2.2.3.

A plan of action on gradual formalization of the informal sector, elaborated and implemented in close cooperation of the government with the social partners, should thus be multi-dimensional so that it tackles all the main reasons of informality. First of all, it should be closely linked to the economic development programmes and to the employment programme aimed at promoting formal employment creation so that more formal jobs of good quality are created and available in the labour market. In addition, it is important to increase the cost of informality through stricter sanctions for tax avoidance and violation of labour rights. However, sanctions need to be combined with the creation of an enabling environment that would mitigate barriers to formalization and open the access of informal enterprises and workers to legal protection, productive resources and appropriate programmes of assistance addressing the weaknesses and development needs of informal enterprises and workers. A broad public information campaign also needs to be launched to strengthen the awareness of people on negative consequences of informal employment on workers, the national economy and society in general, as well as disseminate information on sanctions on the one hand and on support packages for formal small enterprises and individual entrepreneurs on the other.

## *Improve the quality and relevance of education of the population*

The ambitious development goals of Kazakhstan to join the group of 50 most competitive economies of the world by 2020 and the group of 30 most developed countries by 2050 are impossible to achieve without improving the quality and relevance of education and skills of the whole population. With regard to primary and lower secondary education, it is important to reduce regional gaps in the quality of education through higher motivation and upgrading of skills of teachers, better material equipment of schools, and resolving of other existing shortcomings. The current policy of stimulation of high performance needs to be complemented by a systematic tackling of underperformance so that the overall level of accomplishment of pupils increases. Simultaneously the focus of teaching needs to be shifted from the accumulation of theoretical knowledge towards encouraging critical thinking, problem solving, team work and applying acquired knowledge in practice.

Vocational guidance as well as basic entrepreneurship training must become an integral part of curricula of all secondary schools to help young people decide on their further studies and professional career, including a possibility to start their own business, and motivate all of them to gain vocational skills in line with their talents, capacity and interests on the one hand and good employment prospects in the labour market on the other. The quality and prestige of secondary and post-secondary vocational schools and training centres needs to be raised so that they attract more and better students, and through the combination of theoretical education with practical in-company training within the dual system using up-to-date technologies and equipment they provide students with relevant, high quality and nationwide formally recognized professional skills. In this respect much higher involvement of the enterprise sector and the social partners in the technical and vocational education and training system is needed for shaping the contents of education and training, constantly upgrading the knowledge and teaching methods of teachers, determining the professional standards and participating in the co-financing of the system.

The state financing of secondary and tertiary schools should take much more into account the quality and relevance of education they offer, which are determined on the one hand by results of independent assessments, including international comparisons of students' achievements, and on the other hand by the easiness of finding jobs in line with the gained professional skills. The share of co-financing of studies by households is high in Kazakhstan and may discourage youth from poor families from gaining higher professional education and subsequently better jobs. The government may consider expanding financial support to such youth but also better using financial leverages (in combination with vocational guidance) in order to motivate young people to study specializations necessary



for a diversified and highly competitive national economy. Reliable projections of future demand for skills and qualifications that are also increasingly carried out in economically advanced countries can provide a good guidance for further development of the national education system and for the state education grant system.

Finally, the country needs to invest much more in adult education and training in line with the principle of lifelong learning. The government should establish appropriate incentives for enterprises to invest more in regular training and skills upgrading of their workforce, including retraining associated with redeployment of redundant workers instead of their layoff, and can utilize good international experience in this area. Public labour market institutions play an important role in adult training as they enable jobless persons to upgrade their skills necessary for gaining new employment. However, they may also offer subsidization of workforce training to enterprises in economic problems and help them recover and regain competitiveness. Activity of labour exchanges in both directions should be much expanded in Kazakhstan, in view of the existing extensive skills mismatches.

### ***Create conditions for higher adaptability of enterprises and workers and balance it with stronger protection of workers***

Liberal labour market regulation makes hiring and firing of workers cheap for enterprises so that they can adjust relatively easily their staff numbers to changing economic conditions. However, this so-called numerical flexibility is only one, smaller part of the desired adaptability of enterprises to new opportunities and challenges occurring in the market and it also has significant negative consequences for the enterprise in terms of possible large workforce turnover and losses of skilled and experienced workers. High productivity and competitiveness of the enterprise crucially depends on the managerial and organizational competencies of executives at all levels as well as on professional skills and motivation of the workforce. For their stimulation the enterprises should substantially increase their investment into regular skills upgrading of their managers and other workforce but also develop an efficient system of remuneration and in-kind benefits rewarding high performance and initiative. The state can support such endeavours through appropriate incentives and collective bargaining can also play an important role there.

Liberal labour market regulation means low job security for workers, in particular those less competitive because of their low or obsolete skills, poorer health or other disadvantages. It therefore needs to be compensated by higher assistance in re-employment, broad access to suitable active labour market

programmes mitigating the re-employment obstacles and also by decent income support during the period of active job search or participation in active labour market programmes to avoid jobseekers' fall into poverty. Although a lot has recently been done in Kazakhstan to strengthen the security side by improving the structure and targeting of active labour market programmes and increasing the level of social benefits, it is not sufficient. Income support in unemployment is practically non-existent, which pushes jobless people to take up any job as early as possible, regardless of their qualifications, and unemployed people often have to turn to the informal sector in order to survive. Also, the access of disadvantaged jobseekers to suitable labour market programmes is very limited. Those who cannot find a job due to their disadvantages or who are unable to work are thus dependent on low social benefits and are struggling with poverty. There is also a very weak linkage between social protection and active labour market programmes. All this demotivates people and results in significant losses of human capital with a negative impact on labour productivity. Kazakhstan as an upper-middle-income country that aspires to become soon a high-income country should re-consider its approach and allocate more resources to social protection of jobless population but strictly condition it for those able to work by active job search or participation in appropriate employment promotion programmes.

### *Strengthen the impact of public labour market institutions through their restructuring and capacity building*

The current weight of public labour market institutions is extremely low in Kazakhstan both in terms of the proportion of unemployed persons turning for employment services there and of the share of job placements by public labour exchanges in the total number of recruitments. If their impact is to increase to the level usual in economically advanced countries, they should reach out to as many clients, both jobseekers and employers, as possible by offering them relevant, high quality employment services and labour market programmes. They also need to closely cooperate with all the important stakeholders in the regional/local labour market – local authorities, enterprises, employers' organizations, trade unions, education facilities, private employment agencies and non-governmental organizations, including community-based ones and social enterprises. Only through real and mutually beneficial partnerships can the number and quality of vacancies reported to and occupied through public labour exchanges be raised, similarly as the outcomes of employment promotion programmes. A nationwide database on vacancies should also be established and widely promoted, among others through the current internet portal “Labour” that needs to be made more user-friendly. All this will have a positive feedback in attracting more and better jobseekers to turn for assistance to labour exchanges and will dispel the stigma of dealing only with the low end of the labour market.

The current staffing of labour exchanges is not known and does not allow any assessment of its appropriateness vis-à-vis the number of clients. Nevertheless, the attraction of many more jobseekers would for sure need to strengthen their staffing and capacity so that labour exchanges are able to offer a standard set of employment services to all jobseekers and target intensive individualized assistance to harder-to-place groups of jobseekers. Currently the list of target groups is very long (both those listed in the Employment Law and in the Employment Roadmap 2020) and does not differentiate between those who really need strong support and other jobseekers. It would be useful to review the list from this perspective.

The efficiency of functioning of public labour market institutions will increase if the parallel structure of local labour exchanges and local employment centres, which in many areas offer similar services and may even confuse the clients, merges. There are large regional differences in their approach and quality of services, which significantly affect their results, and guidance from the Ministry of Health and Social Development is too soft for making much difference. It would be advisable to re-establish the public employment service in its full territorial structure so that the Ministry of Health and Social Development could standardize employment services and policies across all regions and better coordinate their implementation, regularly train the staff and motivate them through better remuneration, and make periodical quality checks to identify and strengthen low performing offices. This would also allow to better re-distribute financial resources from the republican budget in favour of poor regions confronted with the challenge of high unemployment and large low-productive self-employment. Other advantages would include gaining of a consistent overview of the total number of served clients and a reliable regular assessment of the results achieved that will help improve the efficiency of functioning of the public employment service.

### *Expand and increase the impact of active labour market policies*

The coverage of jobseekers by active labour market programmes is very low and biased in favour of programmes mainly used by developing countries, such as public works, while programmes tackling the major challenges – territorial and skills mismatches and joblessness of persons with more severe disadvantages – are limited in scope and some important interventions practically non-existent. The Employment Roadmap 2020 has already partially addressed some of these gaps but still more on paper than in reality. This concerns first of all vocational guidance that needs to cover youth at schools and help them make an informed decision on their future professional career path so that their time as well as state and their own resources are not wasted in education with low employment prospects in the labour market, as well as to cover youth and adults without or with obsolete professional skills. Training, retraining and skills upgrading needs to be significantly expanded

not only for jobless persons. It should also reach out to discouraged inactive people, low-productive self-employed persons and even be offered to SMEs e.g. in poor regions for their staff training in order to help them improve their business and productivity. Similarly the possibility of subsidized moves from depressed regions to regions offering good development and employment prospects needs to be expanded.

Jobseekers with more severe disadvantages should benefit from complex programmes that offer longer-term solutions by developing their capabilities and compensating for obstacles. For example employment promotion programmes for persons with disabilities, and among them especially young disabled people, should provide a range of possible interventions in line with the identified needs, including vocational rehabilitation combined with appropriate training and job placement assistance, subsidized employment, adjusted workplaces and aid tools, sheltered workplaces/enterprises, etc. Early intervention in the case of young people is particularly important and should offer individually tailored assistance addressing their labour market barriers and combining remedial programmes (such as professional training or retraining, preceded by social integration programmes for socially disadvantaged youth; internships, subsidized employment, subsidized move and other appropriate interventions) with help in finding regular employment or with business start-up assistance. Public works programmes also have their important place among active labour market programmes, especially in cases of mass unemployment or for long-term unemployed persons but need to be combined with training, otherwise they do not help much in finding regular jobs.

All jobseekers should have access to quality employment services and appropriate active labour market programmes upon their need, and therefore the scope of active labour market programmes needs to be expanded in comparison with the current state. At the same time, the impact and efficiency of these interventions needs to be significantly ameliorated through their regular monitoring and net impact evaluation that will provide a valuable feedback for refining their design, targeting and implementation and for achieving good cost-effectiveness.

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## Annex 1 - Main social protection programmes in the Russian Federation

Programme	Eligibility	Benefit	Source of financing
Child birth allowance	Persons taking care of a child irrespective of participation in the social insurance system	One-off payment equal to 30 monthly budget indicators (MBI) for the first, second and third child, 50 MBI for the fourth and further child	Non-contributory, financed by the republican budget
Maternity allowance	Participants in the social insurance system	One-off payment equal to the average monthly income multiplied by the length of maternity leave in months	Contributory, financed by the Social Insurance Fund
Maternity benefit	Participants in the obligatory social insurance	Monthly cash benefit equal to 40 per cent of the average monthly income, with lower and upper limit, paid until the child reaches 1 year	Contributory, financed by the Social Insurance Fund
Childcare allowance	Persons taking care of a child irrespective of participation in the social insurance system	Monthly cash benefit, paid until the child reaches 1 year For the first child - 5.56 MBI, for the second child - 6.81 MBI, for the third child - 7.85 MBI and for the fourth and further child - 8.9 MBI	Non-contributory, financed by the republican budget
Child benefits for poor families	Persons taking care of a child irrespective of participation in the system of social insurance with income per person below the subsistence minimum	Monthly cash benefit paid until the child reaches 18 years, the level is 1 MBI per child	Non-contributory, financed by local budgets
Benefit for disabled child	Persons taking care of a child irrespective of participation in the social insurance system	Monthly cash benefit, paid for the whole period of child's disability. The level is 1 minimum wage.	Non-contributory, financed by the republican budget
Special state benefit	Disabled persons, war invalids, mothers with many children, labour heroes etc.	Monthly cash benefit, the level ranges from 1 to 15 MBI, depending on the category	Non-contributory, financed by the republican budget
State disability allowance	Disabled persons	Monthly cash benefit, the level equals the subsistence minimum multiplied by a coefficient ranging from 0.74 to 1.42 according to disability group	Non-contributory, financed by the republican budget
Social benefit in case of the loss of working ability	Participants in the social insurance system	Monthly cash benefit, the level depends on the degree of disability and the length of participation in the social insurance system	Contributory, financed by the Social Insurance Fund
Survivor's benefit in case of the loss of breadwinner	Orphans and family members incapable of work	Monthly cash benefit, the level equals the subsistence minimum multiplied by a coefficient ranging from 0.69 to 2.05 depending on the number of surviving family members incapable of work	Non-contributory, financed by the republican budget

## Annex 1 - Main social protection programmes in the Russian Federation (continued)

Programme	Eligibility	Benefit	Source of financing
Old-age pension	Men aged 63 and women aged 58 (the age of women will gradually increase), contributing into the pension system	Monthly cash benefit	Contributory, three pillars – pay-as-you-go pillar, funded pillar and voluntary pillar. Financed by the national pension fund
Social pension	Persons reaching the retirement age (63 for men, 58 for women, the age of women will gradually increase) but not eligible for pension from the Pension Fund	Monthly cash benefit, the level equals half of the subsistence minimum	Non-contributory, financed by the republican budget
Unemployment benefit	Persons having lost their job and participating in the social insurance system	Monthly cash benefit, the level of benefit equals the average monthly wage for last 24 months multiplied by 0.3 and by the insurance length's coefficient ranging from 0.7 to 1.0). Duration of its payment (from 1 to 4 months) depends on the length of insurance payment.	Contributory, financed by the State Insurance Fund
Special social allowance	Persons reaching 58 years for men and 48 years for women with at least 25 years of employment (men) and 15 years (women), of which one half in mines or working under hazardous conditions. Persons (men and women) reaching 53 years with at least 20 years of employment, of which one half in mines and working under hazardous conditions.	Monthly cash benefit, the level is 9 MBI for the first group and 8 MDI for the second group.	Non-contributory, financed by the republican budget
Burial allowance	Families having lost the recipient of pension, state social allowances, state special allowances	One-off payment.	Non-contributory, financed by the republican budget
Targeted social assistance	Families with per capita income below 40 per cent of the subsistence minimum	Monthly cash benefit of 1 MBI per family member	Non-contributory, financed by local budgets
Housing allowance	Families with per capita income below 40 per cent of the subsistence minimum	Monthly housing subsidy	Non-contributory, financed by local budgets



