

## PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC15199

<b>Project Name</b>	KZ SKILLS AND JOBS PROJECT (P150183)
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Country</b>	Kazakhstan
<b>Sector(s)</b>	General education sector (50%), Other social services (50%)
<b>Theme(s)</b>	Education for the knowledge economy (50%), Improving labor markets (50%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P150183
<b>Borrower(s)</b>	REPUBLIC OF KAZAKHSTAN
<b>Implementing Agency</b>	Ministry of Health and Social Development
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/ Updated</b>	03-Nov-2014
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<b>Estimated Date of Appraisal Completion</b>	28-Jan-2015
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<b>Concept Review Decision</b>	Track II - The review did authorize the preparation to continue

### I. Introduction and Context

#### Country Context

Over the past decade, Kazakhstan has built a record of strong macroeconomic management and a rules-driven fiscal framework. The country has enjoyed robust GDP growth since 2000, averaging 8 percent, which has contributed to a sharp rise in per capita income. Between 2001 and 2013, Kazakhstan more than doubled its GDP per capita, while economic growth was largely pro-poor. The share of the Kazakhstan population living in poverty went down from 47 percent in 2001 to about 3 percent in 2013, as measured by the national poverty line.

However, poverty is high by standards of higher income countries, and rural-urban disparities are large. Against a benchmark of a higher poverty line at the PPP-corrected US\$5 per capita per day (which is more appropriate for countries with a higher level of income per capita), some 42 percent of Kazakhstan's population were still living in poverty in 2009, though down from 79 percent in 2001. Furthermore, the share of people with income below the subsistence minimum varies widely

across regions, from 1.7 percent in Astana to over 10 percent in South Kazakhstan. Ethnic migrants often choose to live in southern and western regions, where Kazakh is more widely spoken and the culture is more familiar. However, these regions suffer from an over-supply of labor, while the population of the northern regions is shrinking.

The economy remains highly natural resource-dependent and the Government of Kazakhstan (GOK) is increasing its focus on diversified and inclusive growth for the future. Over the past decade, the country has made impressive policy strides, and absorbed large natural resource-based earnings responsibly by implementing a rules-driven fiscal framework. It is improving public management, reforming its business environment, and increasing resource allocation to improve social services and critical infrastructure to sustain growth. However, diversification remains a challenge for the country, with minerals, oil, and natural gas accounting for 73 percent of exports and 39 percent of GDP. The development strategy of the GOK focuses on modernization, improved competitiveness and a shift towards growth based on non-oil sources. Increasing emphasis is also being put on strengthening governance, business-enabling environment, and private sector enterprise.

Significant institutional and governance challenges remain, constraining the state's ability to effectively formulate and implement policies to boost poverty reduction and shared prosperity. Feedback from the private sector and from analytics such as the Business Environment and Enterprise Performance Surveys (BEEPS) and Life in Transition Surveys (LiTS), for example, consistently point to impediments to private sector growth. These include high levels of corruption, informality, and unskilled labor force.

The population of Kazakhstan reached 17.0 million in 2013, with a relatively high average annual growth rate of 1.5 percent from 2005-2011 (compared with 0.4 percent in Europe and Central Asia). Women comprise 55 percent of the total population, and 54 percent reside in urban settings. Although ethnic Kazakhs were the minority through the 1980s, by 2009 they comprised 63 percent of the population, followed by ethnic Russians (23 percent) and Ukrainians (2 percent).

Looking forward, Kazakhstan's development objective of joining the rank of the top 30 most developed countries by 2050 will depend on its ability to sustain balanced and inclusive growth. In the near- to medium-term, economic prospects depend on a continuation of stability-oriented macroeconomic policies which hinge on continued adherence to the rules-driven framework for resource earnings and sustainable financial sector development. Enhancing medium- to long-term development prospects depends on the country's ability to diversify its endowments—namely, creating highly skilled human capital, improving quality of physical capital, and strengthening institutional capital.

### **Sectoral and Institutional Context**

**Institutional Context.** The Partnership Framework Arrangement (PFA), agreed between the GOK, World Bank, IFC, and MIGA in May 2014, aims to support the Government's efforts to ensure sustainable development, economic diversification, and inclusive growth. The PFA includes support through investment and institutional capacity building projects, as well as technical assistance. The current Project comprises part of the umbrella program on PFA "Developing Job Skills for the Labor Market" and is aligned with two Joint Economic Research Program activities focused on labor and jobs, respectively. The GOK went through extensive restructuring in August 2014 in an attempt to enhance efficiency of government entities and reduce the number of ministries and

committees. The main counterpart for the proposed Project is the Ministry of Healthcare and Social Development (MHSD), and other key counterparts include the Ministry of Education and Science (MES) and the Ministry of National Economy (MNE).

**Sectoral Context.** Labor force participation and employment rates have been traditionally high in Kazakhstan, especially for women. In 2013, among those 15 years and older, 77 percent of men and 67 percent of women were economically active. In line with strong economic growth, unemployment halved between 2001 and 2013, decreasing from 10.4 to 5.2 percent. With such high levels of job access, the immediate jobs challenges for Kazakhstan lie more along the quality domain. For example, the GOK is concerned about high rates of low productive self-employment, given that 33 percent of those with jobs are self-employed and in rural areas, almost half of all self-employed are engaged in agriculture. Among the self-employed, 40 percent are engaged in low-productivity activities not earning income sufficient to satisfy their basic needs (“non-productive” employment or “underemployed”). Furthermore, informality is estimated at about 30 percent of total employment.

Education attainment is strongly linked with labor market outcomes and largely determines access to better quality and higher wage employment and jobs. Among wage employees, 41 percent have higher education compared to just 19 percent among the self-employed. This share is actually higher (25 percent) among those self-employed with higher earnings (“productive self-employed”) and particularly low among self-employed engaged in non-productive employment (11 percent). Among the latter, an overwhelming majority (62 percent) has only general secondary education or less and only 27 percent have technical or vocational secondary education (Figure 1).

There are signs of a growing mismatch between skills available in the workforce and those demanded by the labor market. In 2010, workers who completed higher and technical vocational education were in short supply compared to the levels demanded by employers. Those with basic vocational education were particularly in demand, with the shortage of workers with basic vocational education exceeding that of workers with higher education in 2010. Meanwhile, there was a surplus of workers with general secondary education or below.

Although large quantities of graduates enter the labor market each year, they may still lack the appropriate skills-mix to meet the needs of a diversifying and modernizing economy. Low relevance and quality has been one of the key challenges confronting skills development in Kazakhstan, which is reflected in the poor performance on international student assessments, such as the OECD’s Programme for International Student Assessment (PISA). The labor market supply and demand mismatch results from a predominately supply-driven orientation to skills development, weak linkages between education institutions and the labor market, and obsolete education standards and curriculum that are not based on occupational and functional analysis. The lack of a functioning and independent qualifications system exacerbates the challenge.

In support of the government’s goals to raise workforce productivity under the first phase of the State Program of Accelerated Industrialization and Innovation (SPAIIID), the World Bank’s Technical and Vocational Education Modernization Project (TVEM) was launched in 2011, with the objective to raise the quality, relevance, and efficiency of technical and vocational education through an improved policy framework and institutional capacity. The project set in motion a process to transform the supply-driven TVE system to a system that is aligned with the needs of employers and of a diversifying economy. The project, which is scheduled to close in December

2015, undertook three pilots: (i) development of occupational standards in priority sectors and use them as the basis to modernize education programs and curriculum; (ii) development of a National Qualifications Framework and realignment of qualifications assessment; and (iii) modernization of institutional accreditation procedures and practice to assure quality of provision.

Some non-government institutions exist that promote better alignment of education and employer needs, but their capacity varies across sector and regions. One of the functions of sector associations is to facilitate access to skilled labor to meet industry needs. There are more than 100 sector associations, but their scope and capacity vary significantly across sectors and regions. In September 2013, the National Chamber of Entrepreneurs of the Republic of Kazakhstan (NCE) was established with membership mandatory for all registered firms. NCE has an explicit objective to promote human capital and skills of the workforce. It is leading the development of several regional industry-based clusters consisting of an industry/sector association, firms, industry certification centers, and public/private training providers. The goal of such clusters is to promote training, retraining and upgrading qualifications of industry employees and to develop a new pipeline of qualified workers. While promising, at the moment these are very nascent initiatives.

The public sector continues to play a dominant role in the labor market. According to the Agency for Statistics of the Republic of Kazakhstan (ASRK), of the 8.3 million people employed in 2011, 1.9 million (or 22 percent) were employed by “public entities.” The public sector is a major employer for waged workers, accounting for 31 percent of non-agricultural employment, and 34 percent of dependent (wage) employment. Furthermore, the public sector represents 41 percent of employment in medium and large firms (i.e. firms employing 50 or more workers), which in turn represents 47 percent of total employment.

To address some of the labor market challenges, the GOK launched the “Employment Roadmap 2020” program in September 2012. The Employment Roadmap 2020 focuses on those vulnerable in the labor market, i.e. unemployed and underemployed, and groups facing additional difficulties in the labor market: youth, rural women, pre-retirement population, early retirees, etc. The program supports: (i) provision of employment through infrastructure and housing and communal service programs, or quotas for public works; (ii) development of entrepreneurs in rural areas through micro-credits; (iii) free training and retraining, including support for relocation; and (iv) overall job search assistance and intermediation services. The latter also includes a program of wage subsidies for the unemployed and a government-subsidized paid internship program for youth.

In the coming years, the GOK aims to address a number of critical challenges that are interrelated with the skills development and jobs agenda. Specifically, the PFA includes a pillar that focuses on stimulating private sector investment and developing public-private partnerships (aligned with the Concept of Industrial and Innovative Development 2015–2019), aimed at more focused support for the manufacturing industry through a combination of targeted industry/cluster/company-specific support and systemic measures. Other PFA pillars include increasing the role of the private sector by fostering the development of small and medium enterprises (SMEs) and improving the business climate, as well as fostering science and innovation. SMEs play a critical role in Kazakhstan’s economy, comprising 95 percent (approximately 1.5 million) of all registered businesses, even though they contribute only 20 percent and 30 percent to GDP and employment, respectively. However, only about 55 percent of SMEs are economically active and the majority (over 70 percent) was in the form of individual entrepreneurship without the creation of a legal entity. SMEs tend to operate in a few, traditional sectors such as trade and services sectors, where two thirds of

SMEs are concentrated, agriculture (23 percent), transport and communications (8 percent), and manufacturing (3 percent). In addition, 40 percent of SMEs are located in two cities: Astana and Almaty.

### **Relationship to CAS**

The Country Partnership Strategy (CPS) from May 1, 2012 identifies three objectives for the Bank's involvement in Kazakhstan: (i) promote diversification, innovation, investment in human capital, and international trade integration for employment generation; (ii) promote improved governance in public administration and service delivery (including modernizing the judiciary and civil service); and (iii) ensure that development is environmentally sustainable. The Project is consistent with and contributes to first objective of the CPS by seeking to develop skills to meet the changing needs of the labor market and to improve employment outcomes.

## **II. Proposed Development Objective(s)**

### **Proposed Development Objective(s) (From PCN)**

The proposed PDO is to enhance the quality assurance, relevance, and equity of skills development programs and labor market services.

### **Key Results (From PCN)**

- Share of employers satisfied with education standards/curriculum
- Independent qualification assessment mechanism in place
- Share of beneficiaries under TGP window 1 who are formally employed within 6 months after having completed training (indicator to be tracked/measured at the aggregate level as well as separately by gender)
- Number of unemployed/underemployed beneficiaries under TGP window 1 who completed training, of whom “hard to reach” (indicator to be tracked/measured at the aggregate level as well as separately by gender)
- Share of firms under TGP windows 2 and 3 who agree that employee productivity increased as a result of training provided through project

## **III. Preliminary Description**

### **Concept Description**

The estimated total Project amount is US\$147 million. Further Project details are provided below.

Component 1. Building the Foundation of a National Qualifications System (Total US\$12m). The objective of this component is to enhance the institutional capacity for improving the quality assurance and relevance of pre-employment vocational and technical education and in-service training. This will be achieved by establishing the key building blocks of a national qualifications system that is well aligned with labor market demands.

Sub-component 1.1. Expansion and operationalization of occupational standards (US\$4m). This Sub-component will support technical assistance and capacity building to expand the occupational standards to include economic sectors for which standards do not exist and/or for which standards do not correspond to changing labor market demands. The standards will also address the needs of large, as well as small and medium enterprises (SMEs). The methodology for developing the occupational standards will be driven by the private sector and build on prior experience of the respective private sector organizations, the MHSD, and the World Bank's Technical Vocational

Education Modernization (TVEM) Project implemented by the MOES. The occupational standards will also be expanded to cover all four levels of competencies of occupations, ranging from technical vocational, professional, to management. The Sub-component will also establish a process for regular review and updating of occupational standards to ensure ongoing alignment with labor market fluctuations.

The specific activities to be supported by the Project include: (i) development of a national classification of occupations; (ii) review of the existing regulatory framework to identify gaps for adjustment; (iii) harmonization of the processes and methodologies developed to date; and (iv) selection of developers based on established criteria through competition. A national body representing industries and firms will coordinate the development of occupational standards through the competitive selection of developers representing respective industries and sectors in accordance with established criteria. The Sub-component will also support the adoption of the standards developed for modernizing the educational and training standards and curriculum.

Sub-component 1.2. Modernization of educational and training standards and curriculum (US\$4m). This Sub-component will build on the achievements of the TVEM Project and support the continued modernization of educational and training standards and curriculum towards competency-based modular programs aligned with occupational standards. This effort will build on prior good practice and with strong ownership and participation by the private sector. The education and training standards and curriculum should include career guidance norms, as well as attention to a balance among cognitive, job-relevant, and life skills development. A process will also be put in place for ongoing review and updating of educational standards and curriculum. The MHSD will begin a pilot of the development of educational and training standards and curriculum, in conjunction with Kasipkor Holding, with selected colleges and universities. Once the selection criteria for educational and training institutions are developed, the Project will determine whether the pilot institutions are eligible for inclusion.

The Sub-component will support the following activities: (i) review of international experiences and ongoing pilots in Kazakhstan on modernizing educational and training standards and curriculum; (ii) refinement of methodology for developing the standards and curriculum; and (iii) selection of developers based on established criteria through competition. A national body will coordinate this effort through a competitive selection of developers in accordance with established criteria to assure quality and cost effectiveness.

Sub-component 1.3. Enhancing independent qualifications assessment and award system (US\$4m). This subcomponent will support technical assistance and capacity building to enhance the qualifications assessment and award system by piloting sector/industry specific skills testing and certification, and build the capacity of assessment and awarding institutions towards an independent institutional structure and practice. A process will also be put in place for ongoing review and updating of the qualifications assessment and award system.

The Sub-component will support the following activities: (i) pilot of three sector-specific skills testing and certification centers—in mining, energy, and tourism—and an evaluation of the pilot before a system-wide scale up; (ii) review of the regulatory framework and structures of the existing qualifications assessment and award system; (iii) development of a roadmap for a comprehensive system and build capacity to undertake independent assessment and award of qualifications aligned to the National Qualifications Framework; and (iv) development of accreditation procedures and

practice for in-service training programs that target firm employees under Component 2.

Component 2. Providing more relevant and equitable training to the working age population (Total US\$130m). The purpose of this component is to provide more relevant and equitable training to the working age population, contributing to the longer-term objective to improve worker and firm productivity and earning capacity. The proposed approach is to address existing constraints to the provision of relevant training, which include market failures and inefficiencies in public delivery of training services. The activities will enhance access to and financing of training, which are selected based on improved information on labor and skill demand as well as on the relevance of available training opportunities. The increased demand and financing of relevant training is expected to have a positive impact on the provision of demand-driven training supply.

Target beneficiaries are the unemployed and underemployed, as well as current employees. Target beneficiaries who are hard-to-reach (for example, people residing in rural areas or with disabilities) will be a particular focus. Currently, only about 10 percent of the approximately 500,000 unemployed and almost none of the approximately 1 million underemployed benefit from employment services. Training of employees of small and medium enterprises (SMEs) is an additional focus area, as approximately 95 percent of all registered firms are SMEs and these firms face particularly substantial constraints to accessing demand-driven training. For all beneficiaries, the training will offer a balance between cognitive, job-relevant, and life skills development. Proposed sub-components include: (i) the establishment and implementation of a Training Grant Program (TGP) which will finance the provision of demand-driven training; (ii) outreach activities to encourage TGP participation of hard-to-reach and under-served target beneficiaries and of potential training providers; (iii) capacity building activities for the TGP's implementing institutions and coordination of stakeholders; and (iv) activities to modernize the integration, analysis, and use of labor market information to improve labor market services.

Sub-component 2.1: Increasing access to relevant training through a demand-driven Training Grant Program (TGP) (US\$70m). This sub-component will establish a TGP, which will apply a demand-driven approach to financing training activities with increased relevance. The TGP will be advised by a high level entity that will, at minimum, represent the private sector, MHSD, and MOES. The TGP is an umbrella program that will deliver training to all target beneficiaries (unemployed, underemployed, and current employees) through three windows. There will be a gradual nationwide roll-out of the program, whereby the findings from evaluations of initial interventions will inform adjustments in further program design and implementation.

The first window will focus on unemployed and underemployed workers, while the other two will offer options for either customized or pre-identified training for firm employees. For the first window, in addition to the unemployed and underemployed, self-employed or unregistered SMEs will qualify for training. The first window will be administered by Employment Centers or Employment Units (EC/EU) staff. The other two windows will target firms, with a focus on registered SMEs, and will be designed to encourage deeper collaboration across firms and also across firms and training providers. These two windows will provide grants in response to proposals prepared by firms to provide training to current employees, which should enhance the relevance of the content and pedagogy of the training programs. The administration of the last two windows will be determined during project preparation. However, an explicit strategy will be put in place to ensure private sector ownership and leadership of the training programs for current employees. This will include regular and broad stakeholder consultation, with representatives from SMEs, sector

associations, and other industry/economic zone groups.

Sub-component 2.2 Integration of hard-to-reach workers, firms, and training providers into the TGP (US\$20m). This sub-component will conduct outreach to potential beneficiaries (unemployed, underemployed, current workers, and firms), and training providers that are difficult to integrate through regular communication channels. Those living in rural or remote areas will be a focus, but also potential beneficiaries who may not consider themselves as good candidates for the program because they are older/youths, have disabilities, or are single parents. The outreach effort under the sub-component is important given Kazakhstan's geographic size and the difficulty for the EC/EUs to inform all the potential beneficiaries of the new training opportunities, the traditionally low uptake among underemployed workers, and the difficulty of integrating people with disabilities into the labor market. The sub-component will expand training coverage to unemployed, underemployed, and current workers by enhancing outreach through the use of media (TV, radio, web, SMS, etc.) and mobile units.

The sub-component will also conduct outreach to training providers to ensure that all providers that meet the standards of prequalification are included in the TGP. The outreach will be conducted through the provision of information about the programs (i.e., the benefits) and about the prequalification criteria. The outreach will also include awareness building about the distinction between pre-employment training and training that targets the unemployed, underemployed, or firm employees. Training providers in rural or remote areas will be a focus and the outreach will also include sensitization about the importance of providing training to microenterprise employees, people with disabilities, or people in low wage/productivity jobs.

Sub-component 2.3 Strengthening capacity and collaboration of key stakeholders involved in skills development programs and labor market services (US\$10m). Capacity building and enhanced collaboration will focus on two levels: (i) administration and management of the TGP and (ii) higher level coordination of the linkages between skills development programs and labor market services as well as key stakeholders such as training providers, firms, industry/sector associations, and government and employee representatives at both national and local levels.

For the administration and management of the TGP, the activities will include the establishment (where necessary) and capacity building of TGP management and implementing entities, including the EC/EU. Given the complexity of the TGP, with respect to a diverse group of target beneficiaries and the three modalities of training delivery, effective administration and management of the program is critical. This includes strengthening coordination and information flow among firms, working age people, and training providers. This Sub-component will also ensure the integrity and transparency of the process for selecting the grantees and prequalifying training providers. On a broader level, this Sub-component will support effective coordination between the TGP and other skills development programs and labor market services, as well as with broader national programs. For example, the Damu Entrepreneurship Development Fund and technical assistance provided through the European Bank for Reconstruction and Development (EBRD) provide capacity building to entrepreneurs, some of whom (or their employees) may be potential beneficiaries of the TGP. The Project also needs to link to national level efforts to generate better quality jobs, stimulate the private sector, or enhance trade and competitiveness: without which the TGP is constrained. The Sub-component will provide technical assistance to ensure that the TGP remains relevant, responsive, and coordinated with other initiatives to diversify Kazakhstan's economy. It will also promote collaboration and coordination among key stakeholders such as training providers, firms,



industry/sector association, and government and employee representatives at both national and local levels around skills development and job creation policies.

Sub-component 2.4 Strengthening the integration, analysis, and use of information management systems to improve labor market services (US\$30m). This subcomponent aims to improve the manner in which visitors to EC/EU are assigned to training and other labor market programs or services by supporting three key activities. First, the subcomponent supports a jobseeker profiling and targeting tool which helps EC/EU staff to assess degree of support a jobseeker needs and assign beneficiaries into the various labor market programs (including training) depending on their background and characteristics. Second, the subcomponent supports strengthening information available to beneficiaries to help them make more informed labor market choices. Third, the subcomponent will maintain information about prequalified training providers and their performance.

Component 3. Project management and monitoring and evaluation (Total US\$5m). A small Project Management Unit (PMU) will be financed within the MHSD to manage the fiduciary aspects of the project, supervise the entities involved with the implementation of the project, ensure project monitoring, and prepare and submit timely reports. The PMU will also ensure that the project is well coordinated with the diagnostics and technical assistance offered through the two Joint Economic Research Program (JERP) engagements, respectively focusing on labor and jobs. The PMU will also develop a rigorous monitoring and evaluation framework to track the intermediary and PDO level indicators of the project. Thus the PMU will ensure that the project remains flexible in its design so as to accommodate emerging recommendations from the JERP engagements, results of the project M&E, as well as feedback from stakeholders and beneficiaries. An important task of the PMU will be to update the Project Operations Manual (POM) on a regular basis. The staff comprising the PMU will be determined during project preparation.

#### IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	<b>x</b>		
Natural Habitats OP/BP 4.04		<b>x</b>	
Forests OP/BP 4.36		<b>x</b>	
Pest Management OP 4.09		<b>x</b>	
Physical Cultural Resources OP/BP 4.11		<b>x</b>	
Indigenous Peoples OP/BP 4.10		<b>x</b>	
Involuntary Resettlement OP/BP 4.12		<b>x</b>	
Safety of Dams OP/BP 4.37		<b>x</b>	
Projects on International Waterways OP/BP 7.50		<b>x</b>	
Projects in Disputed Areas OP/BP 7.60		<b>x</b>	

#### V. Financing (in USD Million)

Total Project Cost:	147.00	Total Bank Financing:	100.00
Financing Gap:	0.00		
Financing Source			Amount

Borrower	47.00
International Bank for Reconstruction and Development	100.00
Total	147.00

## VI. Contact point

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