

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA18100

Project Name	KZ SKILLS AND JOBS PROJECT (P150183)
Region	EUROPE AND CENTRAL ASIA
Country	Kazakhstan
Sector(s)	General education sector (50%), Other social services (50%)
Theme(s)	Education for the knowledge economy (50%), Improving labor markets (50%)
Lending Instrument	Investment Project Financing
Project ID	P150183
Borrower(s)	REPUBLIC OF KAZAKHSTAN
Implementing Agency	Ministry of Healthcare and Social Development
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	12-Jan-2015
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Decision	

I. Project 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 regional and rural-urban disparities are large. Against a benchmark of a 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), about 35 percent of Kazakhstan's population were still living in poverty in 2010, though down from almost 80 percent in 2001. Furthermore, the share of people with income below the national poverty line 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.

While the country has made strong strides in policy reforms, the economy remains highly natural resource-dependent. Over the past decade, the country has made strong 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 80 percent of exports and 37 percent of GDP.

In the wake of the February 2014 devaluation and the current oil price shock, the Government of Kazakhstan (GOK) launched economic support packages to bolster domestic demand and employment. The February 2014 devaluation had negative wealth and price effects on economic growth and the labor market, with GDP growing at 4.2 percent in Q3-2014 and official unemployment rate rising slightly from 5 percent to 5.1 percent. A large informal economy (about 28 percent in 2013) likely absorbed much of the unofficially employed. The halving of oil prices since July 2014 is expected to compound these negative effects. The recent fall in oil prices has affected Kazakhstan's oil export earnings and official foreign currency reserves and, if oil prices continue to fall or remain low, they may well lead to another substantial adjustment in the exchange rate. The oil price drop and a potential second tenge adjustment would adversely affect GDP growth and the labor market in 2015. To mitigate negative implications of the 2014 devaluation, the GOK announced a US\$5.5 billion economic support program in February 2014 and in the wake of the oil price fall, announced a second support package of about US\$18 billion dollars in November 2014. Both packages aim to support domestic demand and employment through a large, medium-term investment program and reform of the banking sector.

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 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 two thirds 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 (“unproductively” employed 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. Unemployment rate for those with basic secondary education or below is almost double the national unemployment rate and is also high for women with general secondary education. 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”, defined in Footnote 6) 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.

Employment growth has been higher for occupations that require medium to high skills, although many workers remain low-skilled. In line with changes in the economy, manual and skilled agricultural workers have been in less demand with employment contracting by more than 6 percent between 2000 and 2011, while employment growth for workers with medium qualification and for those employed in the services and trade sector was about 2-3 percentage points. This is in sharp contrast to demand for employees with the highest qualifications whose employment rate has grown by 4 percentage points. Despite growth in high skill employment, a large share (approximately one fifth) of workers remains low-skilled and work in manual jobs. As the economy continues to develop and diversify, there will be a need for high skilled specialized employees, as well as a need for the low-skilled to upgrade their qualifications to be able to secure better jobs.

Although large quantities of graduates enter the labor market each year (in 2012/13, approximately 172,000 and 185,000 from higher education and TVET, respectively), they may still lack the appropriate skills mix to meet the needs of a diversifying and modernizing economy. Low relevance 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) . Low relevance results from a predominately supply-driven orientation to skills development, weak linkages between education institutions and the labor market, and obsolete education standards and curriculum that are not based on occupational and functional analysis. The lack of a functioning and independent qualifications system exacerbates the challenge of reducing inefficiencies due to unnecessary or irrelevant education and training provision.

Opportunities for training, retraining, and upgrading qualifications may be insufficient. Besides concerns about relevance, access to training opportunities also appears to be limited. Very few people receive formal training in the workplace. In 2013, only 3.4 percent of the employed undertook training, retraining, or upgrading qualification courses in the previous 12 months .

Some private sector-led institutions 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.

In support of the government's goals to raise workforce productivity under the first phase of the State Program of Accelerated Industrialization and Innovation (SPAIID), the World Bank's Technical and Vocational Education Modernization Project (TVEM, P102177) 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, supported 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.

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 vulnerable populations in the labor market, i.e. unemployed and unproductively self-employed, 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.

Only a small percentage of unemployed people in Kazakhstan are served by either Employment Centers or Employment Units (EC or EU) . In 2013, of the 471,000 unemployed people identified in the Labor Force Survey, only about 30,000 of them (or 6.4 percent) were registered at the ECs. There are 209 ECs in Kazakhstan, with almost 2,000 total employees, and a similar number of EUs are distributed across the country. Few people receive benefits that they value and hence, EC or EU registration is not very common. For example, only 0.4 percent of the economically active people received contributory unemployment benefits in 2011. Labor market intermediation consumes a large portion of EC or EU staff time as they match job seekers with available vacancies. This process continues with low capacity staff and with a labor market information system (LMIS) that is not exploited to the fullest. The LMIS has considerable information on jobseekers but there are four main weaknesses: (i) the number of vacancies in the database is low; (ii) EC or EU staff cannot advise the beneficiaries about career options based on labor market demand conditions; (iii) EC or EU staff cannot advise beneficiaries about the labor market programs that might be best suited to

their needs based on statistical methods; and (iv) EC or EU staff cannot provide beneficiaries with information about training provider performance data so that beneficiaries can make more informed choices.

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. The World Bank has a strategic engagement with the GOK to support the economic diversification, skills development, and jobs agenda. In recent years, a series of investment projects and analytical or technical assistance programs have emerged to support the GOK's efforts to enhance jobs creation and productivity.

II. Proposed Development Objectives

To improve employment outcomes and skills of target beneficiaries and to improve the relevance of technical and vocational education and training and higher education programs.

III. Project Description

Component Name

Building the Foundation of a National Qualifications System

Comments (optional)

Component Name

Enhancing Skills for Improved Employment Outcomes and Productivity

Comments (optional)

Component Name

Project Management and M&E

Comments (optional)

IV. Financing (*in USD Million*)

Total Project Cost:	147.00	Total Bank Financing:	100.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			47.00
International Bank for Reconstruction and Development			100.00
Total			147.00

V. Implementation

On behalf of the Government of Kazakhstan, the Ministry of Healthcare and Social Development (MHSD) will be the implementing agency for the project. The Skills and Jobs Working Group,

already established under the Partnership Framework Arrangement, will serve as the national inter-ministerial/agency coordination entity. The Working Group is chaired by the Minister of MHSD and comprised of senior level members from MOES (Vice Minister), MNE (Vice Minister), and NCE (Deputy Chairman).

A Project Steering Committee (PSC) will be established, to be chaired by the line Vice Minister of MHSD and will comprise of technical staff from the MHSD (Department of Labor and Social Partnership, Department of Employment, and the Information Analytics Center), MOES (Department of Technical and Vocational Education, Unit of Higher Education, and the Information Analytics Center), MNE (Department of Entrepreneurship), and NCE (Department of Human Capital). The PSC will oversee management of the project and provide timely technical guidance.

A Project Management Unit (PMU) will be established within the MHSD to manage the day-to-day implementation of the project. The project will make resources available to finance the PMU. The PMU will be headed by a Project Coordinator, who will report regularly to the PSC. The PMU will consist, at minimum, of the following staff: (i) project coordinator, (ii) financial management specialist, (iii) accountant, (iv) procurement specialist(s), (v) monitoring and evaluation specialist, (vi) environmental/social safeguards specialist as needed, (vii) national qualifications system specialist, (viii) employment services specialists (one for employment services and one for LMIS), and (ix) workforce training specialist. The PMU will also need to include an assistant and, as needed, access to translators. Each specialist hired by the project will have capacity building of counterparts and stakeholders included in the terms of reference. It is critical that this PMU is physically located within or in close proximity to the MHSD.

VI. Safeguard Policies (including public consultation)

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

Comments (optional)

VII. Contact point

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