Building Inclusive Labour Markets in Kazakhstan

A FOCUS ON YOUTH, OLDER WORKERS AND PEOPLE WITH DISABILITIES



OECD

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Please cite this publication as:
OECD (2017), *Building Inclusive Labour Markets in Kazakhstan: A Focus on Youth, Older Workers and People with Disabilities*, OECD Publishing, Paris.
http://dx.doi.org/10.1787/9789264273023-en

ISBN 978-92-64-27560-7 (print)
ISBN 978-92-64-27302-3 (PDF)

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Foreword

The Kazakhstani economy and society underwent deep transformations in the last decades, passing from a period of economic unrest in the 1990s to a sustained period of rapid growth in the years 2000s. The most impressive achievement of this progress lies in the extent to which growth has been inclusive, witness significant improvements in the living standards of the population, declining poverty and income inequalities and growing employment.

Looking forward, Kazakhstan is planning to become one of the 30 most developed countries worldwide by 2050. In order to achieve this objective, Kazakhstan will need first of all to promote economic diversification but also to build inclusive labour markets that help vulnerable groups to access productive employment opportunities.

Within this context, the Government of the Republic of Kazakhstan has expressed an interest in the OECD carrying out a review on the labour market situation of disadvantaged groups, with a particular focus on youth, older workers and people with disabilities. The main objective of this collaborative project is to analyse the key challenges related to the access to good jobs of these population groups in Kazakhstan and identify suitable policy responses for improving their labour market and social outcomes.

This work builds on the extensive reports and country reviews that the OECD has carried out previously on youth labour market and vocational education and training system ("Investing in Youth", "Jobs for Youth", "Learning for Jobs" and "Skills beyond School"); older workers' participation in the labour market ("Working Better with Age" and "Live Longer Work Longer"); and the employment of people with disabilities ("Sick on the Job" and "Transforming Disability into Ability").

As highlighted in *Building Inclusive Labour Markets in Kazakhstan: A Focus on Youth, Older Workers and People with Disabilities* the main issue for Kazakhstan is not the lack of jobs, as such, since open unemployment tends to be low. Rather, it is the lack of quality jobs and opportunities for access to more productive employment opportunities that raises the greatest concerns.

The OECD is proud to contribute to Kazakhstan's endeavour to design and execute a comprehensive approach for improving sustainable economic growth objectives and support the employability of most vulnerable population groups.

Acknowledgments

The work on this report was carried out in the Directorate for Employment, Labour and Social Affairs (ELSA). The report was prepared by Alessia Forti, Anton Nivorozhkin and Rienk Prins under the supervision of Alessandro Goglio. Valuable research and institutional support was provided by Alizhan Omarov (seconded to the OECD from the Ministry of Labour and Social Protection of the Republic of Kazakhstan). Andrea Bassanini calculated and provided the employment protection legislation indicators for Kazakhstan. Kristoffer Lundberg calculated and provided pension modelling results. The report also benefited from useful comments provided by Stéphane Carcillo, Anne Saint-Martin, and Christopher Prinz respectively on the youth, older workers, and people with disability chapters. Other useful comments were also provided by Stefano Scarpetta and Mark Pearson, Director and Deputy-Director of ELSA. Editorial assistance was provided by Marlène Mohier.

To prepare the report, a team from the OECD Secretariat visited Astana in September 2015 and engaged in wide-ranging discussions with ministries, senior officials, experts, social partners and international organisations. The OECD Secretariat would like to thank the Ministry of Labour and Social Protection of the Republic of Kazakhstan for the excellent support in carrying out this project and for organising the initial fact-finding mission and two dialogue seminars. The OECD Secretariat would also like to thank all parties met during and after the fact-finding mission and at the seminars for their time and useful insights. The OECD Secretariat is grateful for the many replies to requests for additional information and comments on the report that were provided by many officials from both the Ministry of Labour and Social Protection of the Republic of Kazakhstan and other ministries and organisations in Kazakhstan. In particular, Birzhan Nurymbetov, Akmadi Sarbasov, Daulet Argandykov, Balzhan Shamenova, Mairash Kozzhanova, Aigul Tabergenova, Nurken Tleuov, Arman Umerbayev, Saltanat Mustafina, Nastya Kornilova and Dina Suleimanova deserve special thanks for their considerable contribution to providing research support and to ensuring a successful completion of this project. The OECD Secretariat would also like to gratefully acknowledge the comments and feedbacks received from Giovanni Capannelli, Country Director, Asian Development Bank; Alper Dincer, Principal Inclusion Economist, European Bank for Reconstruction and Development; Talgat Umirzhanov, International Labour Office National Coordinator, in Kazakhstan; and Naveed Naqvi, former Head of the programmes for job creation and development of human capital for Central Asia.

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Acronyms and abbreviations

ALMP	Active Labour Market Programmes
BEEPS	Business Environment and Enterprise Performance Survey
BRIICS	Brazil, Russia, India, Indonesia, China, South Africa
BTEA	Basic tax-exempt amount
CCT	Conditional Cash Transfer
CEE/CIS	Central and Eastern Europe and the Commonwealth of Independent States
CPI	Consumer price index
DB	Defined benefit
DC	Defined contribution
EPL	Employment protection legislation
FTC	Fixed-term contract
GDP	Gross domestic product
IRP	Individual Rehabilitation Plan
JN	Job Network
JSCI	Job Seeker Classification Instrument
KZT	Kazakhstani Tenge
MCI	Minimum Calculation Index
MSE	Medical and Social Expert
NDC	Notional defined contribution
NEET	Youth not in employment, education or training
NGO	Non-governmental organisation
NRR	Net replacement rate
OHS	Occupational Health Service
PES	Public Employment Service
PISA	Programme for International Student Assessment

PIT	Personal income tax
PPP	Purchasing power parities
PWD	People with disabilities
SIA	Social Insurance Agency
SSC	Social security contribution
SSIF	State Social Insurance Fund
STW	Short-time work
TSA	Targeted social assistance
TWA	Temporary Work Agency
UPAF	Unified Accumulated Pension Fund
VAE	Validation of acquired experience
VAT	Value added tax
VET	Vocational education and training

Executive summary

Like other economies in the former Soviet Union, Kazakhstan underwent major economic and social transformations since it declared independence in 1991. The transition period that took place during the 1990s was characterised by hyperinflation, negative economic growth and massive job destruction. Following this temporary setback, however, since the early 2000s strong economic growth resumed, largely driven by the natural resources boom, making Kazakhstan one of the fastest-growing economies in the world.

Strong economic growth was pro-poor, which translated into rising living standards among the Kazakhstani population. Unemployment rates halved since the years 2000s, and youth unemployment rates decreased by a factor of five, bringing up per-capita incomes. The benefits of economic growth have been widely shared and led to a decline in income inequality and a stark reduction in poverty.

Despite these remarkable economic and social achievements, structural challenges remain. GDP per capita in Kazakhstan still remains below the level of most OECD countries. Following falling commodity prices and economic slowdown of neighbouring countries, real GDP growth in Kazakhstan decelerated abruptly more recently. A key priority for policy makers is to set the country on a path of economic diversification grounded in a new and more sustainable growth model, which will generate productive employment opportunities and tackle the strong dependence on natural resources head-on.

Policy makers will also need to factor in the additional challenge of job quality as they promote economic diversification, since labour informality is widespread and the labour market remains very unequal, with sizeable regional disparities, and a very large share of low-paid jobs. As this report argues, a well-functioning labour market with an effective safety net will be essential to spur better quality jobs, as will strengthening the role played by active labour market policies and investing in skills.

One primary aim of this report is to support the Kazakhstani Government in its ongoing efforts to improve access to good quality jobs for youth, create the conditions for continued labour market participation of older workers, and tackle the exclusion of people with disabilities from the labour market and society. Concrete recommendations include:

- Step-up efforts in areas where they are currently insufficient, such as the Public Employment Service whose capacity to help jobseekers seize good employment opportunities should be enhanced.
- Engage in a systematic and independent evaluation of employment measures, notably Active Labour Market Programmes, to identify best practices and channel resources to the most effective interventions.
- Provide more adequate social protection to those who need it and address gaps in income security during old age.
- Expand efforts to combat informality and strengthen compliance with labour regulations.

Assessment and recommendations

Economic progress has been inclusive in Kazakhstan

Kazakhstan has made major economic and social advances in the past decade and a half. After being plagued by hyperinflation and a deep recession in the first half of the 1990s, strong GDP growth resumed, making Kazakhstan one of the fastest-growing economies world-wide. Economic growth since the start of the century has resulted in impressive economic and social achievements, contributing to considerably improve the living standards of the Kazakhstani population.

Strong growth acted as a powerful engine of job creation. The unemployment rate has halved from the levels commonly seen in the 2000s, and youth unemployment rates are a fifth of the level they were. This, in turn, resulted in higher wages and increasing incomes. Poverty rates[1] declined dramatically, from 47% in the early 2000s to less than 3% in most recent years. Despite the weak role played by taxes and social transfers, income inequalities decreased considerably in the same period – the Gini coefficient passed from 0.319 in 1996 to 0.278 in 2014 – making Kazakhstan one of the least unequal countries across the OECD today.

Yet, Kazakhstan needs to sustain high growth rates in the future to converge towards the living standards of OECD countries. Despite high growth, GDP per capita still remains below the level of the average of the bottom ten OECD countries today. Moreover, Kazakhstan's achievements have recently been challenged by an uncertain economic outlook. Following falling commodity prices and economic slowdown of the neighbouring countries, economic growth dropped dramatically from its peak levels (10.7%) to just above 1% in both 2015 and 2016. In order to sustain high growth, Kazakhstan will first of all need to sustain the ongoing process of economic diversification. This will require the development of supportive labour markets, capable to generate productive employment opportunities in areas of the economy that remain underutilised at present.

While lack of jobs is not an issue, job quality needs to be improved

Kazakhstan fares relatively well in the international comparison along all the key dimensions of job quantity. However, sizeable differences across socio-demographic groups exist, and some vulnerable groups – such as women, the low-skilled, older workers, and people living in certain regions – are still lagging behind. In addition, job quality also raises concerns. Many workers have poor quality jobs, work informally or as self-employed, receive low incomes from work, and have little access to flexible work arrangements (e.g. part-time employment).

The Kazakhstani labour market is performing well in the international context

Unemployment and inactivity rates are generally lower and employment rates higher than most OECD countries. The incidence of long-term unemployment is low and affects only one in six unemployed people in Kazakhstan, compared to one in two across the OECD countries on average. The financial crisis and the economic recession have not impacted the Kazakhstani labour market outcomes, so far. Unemployment rates went down considerably since the onset of the crisis (from 7.3% in 2007 to 5% in 2014), while employment and inactivity indicators somewhat improved in the same period.

Unlike in most OECD countries after the crisis, Kazakhstani youth (ages 15-24) do comparatively well in the labour market: youth unemployment rates are around a quarter of the OECD average and lower than any OECD country. The labour market performance of young people is generally better than that of adults, a situation that is never found among OECD countries. Low unemployment and inactivity rates of youth mean that very few youth (less than 9%) are neither in employment, education or training (NEET) compared to an OECD average of 14.6%, which places Kazakhstan at the bottom of the ranking only after countries with particularly low levels of NEET rates such as Iceland, Luxembourg, Netherlands, Norway and Switzerland. Youth are also generally very successful in integrating into the labour market after leaving the education system. Estimations of the length of the school-to-work transition[2] (i.e. the time it takes young people to find work after leaving education) show that on average it takes only six months for Kazakhstani youth to transit from school to the world of work, which is an extremely short period of time by international standards. By means of a comparison with the worst OECD performers and selected non-member countries, in Argentina, Chile, Italy, India, South Africa and Turkey it takes on average over five years for youth to complete the school-to-work transition.

Finally, some indicators point to the fact that Kazakhstani workers are often hired under permanent contracts and enjoy stable positions with reasonable working hours. Only less than 5% of Kazakhstani employees who are in dependent employment work with a temporary contract, which is among the lowest across OECD countries but similar to the Baltic countries and the Russian Federation. The incidence of very long working hours (60 hours a week or more) is not an issue of major concern in Kazakhstan, as it is in many emerging economies, because it affects only a very small proportion of workers (less than 1%).

Despite good overall performance, some population groups are lagging behind

Although the lack of jobs, as such, is not a main issue for Kazakhstan, the aggregate statistics conceal considerable heterogeneity across groups and members of some of the most vulnerable groups are still struggling to find their place in the labour market.

The low-skilled are particularly struggling in finding their place in the labour market, suggesting that educational attainment plays an important role in shaping labour market outcomes. Those with primary education or below are ten times less likely to be employed, over three times more likely to be unemployed, and over four times more likely to be inactive than people with tertiary education.

Regional differences are also important and reflect different levels of development and economic activity. People living in southern and western regions of the country – such as South Kazakhstan, Kyzylorda, and West Kazakhstan – generally show poorer labour market performances.

Older workers in Kazakhstan also face significant barriers in remaining engaged in the labour market, especially after reaching retirement age. People aged 55-64 are more often inactive and less often employed than the OECD counterparts, and this gap is particularly large for women. The labour market performance of older workers deteriorates even further after 65. For instance, Kazakhstani people aged 65-69 are only half as likely to be employed as the OECD average. Older workers' rapid withdrawal from the labour market may reflect the fact that the retirement age (at 63 for men and 58 for women), is very low by OECD standards, and that there is little financial incentive to continue work after retirement age. It may also reflect rapid deterioration of older workers' (and especially men's) health status.

Finally, women are also often lagging behind reflecting the fact that childcare remains mainly the responsibility of mothers. Employment rates of women are over 10 percentage points lower than men, and inactivity rates 10 percentage points higher. However, it is worth noting that, although these gender gaps are an issue of concern and should be reduced, they are still lower than the average of OECD countries, where the gender employment and inactivity gaps are on average at 15.6 and 16.7 percentage points respectively.

Informality and self-employment affect the job quality of many workers

In this context, it is the lack of quality jobs that raises the greatest concerns. Many Kazakhstani workers find themselves holding low-quality jobs and may find it hard to transit into more productive employment. Informal workers – as defined by employees who do not pay social contributions and self-employed whose business is not registered – accounts for around 20% of total employment in the country. This is not particularly high compared to countries with a similar level of development – but still higher than neighbouring countries such as (urban) China and Russia. Informality traps many workers into jobs that offer no social security coverage, no protection provided by labour contracts, and little opportunities for career advancements. Self-employment is also widespread, representing around 30% of total employment. Self-employed people are generally concentrated in the least productive sectors of the economy (e.g. agriculture), often work informally, and are in many cases trapped into subsistence level occupations. Some population groups, such as the youth, older workers, and the low-skilled, are more likely to work informally or as self-employed, than other population groups.

Many workers still earn very low wages

Many workers in Kazakhstan hold low paying jobs. Around 28% of all employed people earn low wages (corresponding to a pay below two-thirds of median earnings), a rate which is very high by international standards. Indeed, this is higher than any OECD country – the highest incidence of low pay is 25% in the United States – but also higher than many emerging economies (such as Brazil and China for example). Unsurprisingly, and similarly to what is observed in other countries, low pay affects more often informal workers and the self-employed than wage employees.

Few part-time opportunities are available to workers

Part-time work is not widely available, with only 2.7% of employees in dependent employment working less than 30 hours per week, placing Kazakhstan at the very bottom of the OECD countries distribution but similar to levels observed in some post-Soviet Union countries. The low incidence of part-time employment in Kazakhstan is also found

among population groups that, in other countries, are typically more likely to work part-time, such as youth and older workers. While on the one hand the low incidence of part-time work is a good thing because it indicates high labour market utilisation, on the other hand it suggests that many vulnerable workers who would be willing to have flexible working hours – such as new parents, youth combining work and study, and older workers – are not able to do so and may remain excluded from the labour market altogether.

Kazakhstani policy makers recognise that building inclusive labour markets is a key priority

Building on the success of the past 15 years, Kazakhstan has recently set the objective to become one of the 30 most developed countries in the world by 2050. Under this milestone objective, the Kazakhstan 2050 Strategy sets priorities for economic, social and political developments. The reform programme includes 100 steps to support institutional and economic reforms. The success of the strategy will be assessed not only on the basis of economic performance, but also on the basis of citizens' well-being, and developments in social areas such as education, health, peace and stability. Above all, the 2050 strategy recognises the need to promote economic diversification to make the country less oil-dependent and build a new, more sustainable, growth model. Achieving these objectives would benefit from policy reforms outside the labour market, to promote competition in the product market and better business environment conditions, as such reforms would be conducive to the development of a more productive and viable private sector.

Still, sustaining the country's economic and social development will also require, as an essential pre-condition, the development of resilient and inclusive labour markets. Recognising this challenge, Kazakhstan is currently introducing overarching labour market reforms that aim to help the most vulnerable population groups to access productive employment opportunities. The flagship labour policy programme "Employment Roadmap 2020" – adopted in 2011 as "Employment programme" and then transformed to its current state – includes a number of active policies to provide training, job matching, wage subsidies, and facilitating regional mobility of workers. A far reaching law "About Employment of Population" was enacted in April 2016, based on the following key priorities: i) make collection of data more in line with international practices; ii) strengthen the role of the Public Employment Service; iii) strengthen the income protection system and reinforce the activation principles; iv) better target Active Labour Market Programmes; v) tackle regional differences in the job market; and vi) promote a better co-ordination of employment services.

Building inclusive labour markets in Kazakhstan requires a comprehensive approach

Within this ambitious policy framework, the new report *Building Inclusive Labour Markets in Kazakhstan: A Focus on Youth, Older Workers and People with Disabilities* provides a review of the labour market and social policies that could help Kazakhstan in its objective to build more inclusive labour markets. The report explores the role that institutions and policies play in helping vulnerable groups to access gainful and productive jobs, particularly focusing on three key groups: youth, older workers, and people with disabilities. More specifically:

- *Youth*: Chapter 2 looks at the demand- and supply-side barriers to good quality employment of young people in Kazakhstan. First, it analyses demand-side barriers to youth employment, with a particular focus on the cost of hiring (as determined by non-wages costs and minimum wages) and the employment protection legislation. Second, it discusses the extent to which labour market and social policies support the employability of youth in Kazakhstan, particularly looking at the role of skills in helping youth gaining access to high-quality jobs; the role that the Public Employment Service and Active Labour Market Programmes play to assist youth (back) into (formal) work; social protection mechanisms to mitigate the negative consequences of being out of employment; as well as family policies to support youth (and especially young women) better balance family and work responsibilities.

- *Older workers*: Chapter 3 analyses the situation of older workers in the labour market. It starts by looking at the magnitude of the demographic challenge and its impact on the employment prospects of older workers. It then discusses the policies that are needed to strengthen the employability of older workers in Kazakhstan, notably the health and safety standards at the workplace that enables them to continue working longer; the skills of older workers; and the (re-)employment services available to them. It goes on analysing the demand-side barriers to the hiring and retention of older workers, i.e. negative employers' attitudes towards older workers, the cost of hiring older workers and the employment protection legislation around hiring and firing older people. Finally, it discusses the policies that make work rewarding for older workers, notably the old-age pension system, and the official and de facto early retirement schemes.

- *People with disabilities*: Chapter 4 looks at the role institutions and policies in Kazakhstan play to help people with disability (re-)integrate the labour market and society. In particular, the chapter provides an overview of people with disabilities in Kazakhstan, alongside an evaluation of the institutional framework, including the role that the disability assessment plays as a gateway to income support and services; it analyses existing pathways to vocational rehabilitation; activation requirements attached to benefits; and the support provided by employment services to help people with disabilities (back) into work.

The report provides a comprehensive set of policies to increase the employment and employability of youth, older workers and people with disability in Kazakhstan. Evaluations and lessons from innovative experiences in OECD and other countries are used to formulate recommendations tailored to Kazakhstan.

Investing in Kazakhstani youth

While developing and sustaining economic growth will help youth find and remain in productive employment, it will not be sufficient to solve all the obstacles that young people – and especially the low-skilled – face in accessing good-quality jobs. In the first place, there is an urgent need to spur good-quality job creation, especially in the private sector. This requires the development of policies and institutions that encourage employers to create new jobs for youth in areas of the economy which are still underutilised and adjust flexibly to changing economic circumstances. These measures must be buttressed by complementary actions to address the employability of youth. The latter may include employment and social policies, such as skills enhancing reforms, an

adequate income protection system, effective employment services, other Active Labour Market Programmes (ALMPs), and family friendly policies.

Non-wage costs are low but are planned to increase abruptly in the near future

Non-wage costs (i.e. employers' social security contributions) in Kazakhstan are comparatively low by international standards and therefore do not exert a strong impediment to (formal) employment. At 7.8%, employers' social security contributions as a percentage of labour costs are around half the OECD average of 14.3%. At the same time, in the not-too-distant future, the government is planning to increase non-wage costs through two main channels: i) the introduction of a notional defined contribution (NDC) pension system, which will introduce an employer's social security contributions of 5% of the gross wage; and ii) the introduction of a contribution-based health system, which will impose an additional contribution of 5% of gross wages on employers. On the one hand, these policies will play an essential role to improve the adequacy of the old-pension system and support governments' move towards a contribution-based health care system. They can also be expected to foster workers' incentives to formalise, by allowing for more generous pension entitlements and health care insurance. On the other hand, however, they risk to increase the cost of labour, and may therefore encourage employers to adjust wages downwards, push employers to pay "envelop" payments on top of regular wages to avoid such higher costs, or deter formal job creation altogether. Complementary policies – e.g. monitoring and enforcement of labour regulations to reduce the use of informal practices – need to be implemented to counteract these possible negative effects.

Minimum wages are low but too rigidly set

Minimum wages represent another aspect of the cost of labour. The minimum wage in Kazakhstan is low by international standards. At around 18% of the average wage, it is lower than any OECD countries and many emerging economies. While a low ratio of the minimum to the average wage points to the fact that the minimum wage should not act as a barrier to formal youth hiring, such a low level may fail to address in-work poverty, while it may also have negative effects on workers' incentives to work (formally) and productivity. Another key institutional challenge is that the minimum wage in Kazakhstan is rigid and fails to reflect differences across regions and workers. Those emerging economies that have a similar minimum wage floor (e.g., the Russian Federation and South Africa) allow differentiating minimum wages across regions and/or categories of workers – whereas in Kazakhstan the minimum wage applies to all regions and categories of workers alike (with the exception of employees working in arduous jobs).

Employment protection legislation is overly strict on permanent contracts and very flexible on temporary contracts, in principle pointing to labour market "duality"

The employment protection legislation (EPL) on regular contracts in Kazakhstan is overly strict. The OECD indicator on the strictness of the EPL on regular contracts (for individual dismissal) shows that – on a scale that goes from 0 (least strict) to 6 (most strict) – Kazakhstan scores 3.2, which is well above the OECD average of 2.04, stricter than any OECD country and many emerging economies (e.g. Brazil, Russia, and South Africa). On top of strict labour regulations, in Kazakhstan additional protection was, until recently, provided to vulnerable groups, such as youth who are recent graduates from vocational education and training (VET) schools or universities with no previous work

experience. Until the 2016 reform of the Labour Code (see below), regulation stipulated that: i) youth were exempted from any probation period; and ii) the duration of temporary contracts of youth should not be less than two years. On the other hand, EPL on temporary contracts is very lax. Kazakhstan scores 1.5 on the OECD EPL indicator on temporary contracts, compared to an OECD average of 2.08, with over two-thirds of OECD countries having stricter EPL on temporary contracts than Kazakhstan. The remarkable difference between the regulation of permanent and temporary contracts may, in principle, suggests the presence of a significant labour market "duality", i.e. a situation where insiders with permanent contracts enjoy much stronger protection, compared to outsiders with temporary contracts. As a matter of fact, however, very few youth are hired under a temporary contract in Kazakhstan – less than 9% of youth (ages 15-24) in dependent employment have a temporary contract compared to an OECD average of 25% –, suggesting that *de facto* labour market duality should not represent a major issue.

Enforcement of labour regulations remains very weak

Such an overly strict EPL on regular contracts can make it hard for employers to hire youth, and could – at least in theory – undermine job creation in the private sector. However, in practice inflexible labour legislation does not represent a burden to hiring because it is only weakly enforced. Indeed, the high incidence of informality, the widespread practice to conclude contracts through "agreement within the parties", and the weak role played by state labour inspectors, points to the fact that labour rules are often not adhered to. This is further confirmed by the results of the World Bank Enterprise Survey and the World Economic Forum's assessment of impediments of business developments, which reveals that – despite the existence of strict rules on regular contracts – the employment protection legislation appears to be among the least important constraint for business development in Kazakhstan.

The recent reform of the Labour Code goes in the right direction but further adjustments are needed

The recently adopted new Labour Code (enforced as of January 2016) introduces flexibility in labour relations. It relaxes regulation around permanent contracts by expanding the grounds for fair dismissal, and liberalises temporary contracts even further by allowing employers to renew temporary contracts (for a maximum of two times). Another important feature is the abolition of the special protection provided to vulnerable workers (e.g. youth, older workers, and people with disabilities). At the same time, the new Labour Code gives more responsibilities to social partners to negotiate around wages and labour standards. These steps go in the right direction because they reduce barriers to youth hiring. However, it will also be crucial that reforms to ease the employment protection legislation in Kazakhstan go hand-in-hand with measures that ensure that workers who are displaced receive the necessary social protection and assistance to find new jobs.

Investing in skills can help youth gain access to better quality jobs

One key long-term priority for Kazakhstan will be strengthening its human capital base. In Kazakhstan, as in many other countries, returns to education tend to be high. Investing in skills is particularly important to help Kazakhstani youth to gain access to high-quality jobs. The government has already undertaken several reforms of the education and VET systems, but poor achievements at school (as measured by PISA scores) as well as large skills mismatches and shortages claimed by firms, suggest that

more could be done in this area. One important priority for Kazakhstan should be to expand access to good quality education (including VET) and to improve career guidance for youth to assist them to make informed decisions.

The Public Employment Service (PES) plays a weak role in helping youth gaining access to productive employment opportunities

Very few unemployed youth (only 9.1%) register with the PES in Kazakhstan, which is by far the lowest registration rate compared to European OECD countries where on average 67% of unemployed youth register. Low registration rates are due to a number of factors, including the poor quality of vacancies offered, the very low and scarcely provided social assistance and unemployment benefits, as well as strict job-search requirements. Low registration of youth to PES is also the result of the lack of confidence young people have towards the PES: indeed, many youth claim that they do not register because they are not sure it can help. Another important characteristic of the Kazakhstani PES is that the vast majority (around 70%) of registered youth are highly qualified – i.e. have VET or university degrees – pointing to the fact that the PES is also failing to reach out to those who need most support in accessing good quality jobs, i.e. the low-skilled youth. This evidence highlights a strong case for the government to invest more resources in the PES and expand its role and outreach to youth, and especially the most vulnerable.

Participation and spending on Active Labour Market Programmes (ALMPs) are very low

At about 0.27% of GDP in 2013, expenditures on labour market policies remain well below the OECD average of 0.56% (2014). Reflecting austerity measures implemented by the government, in 2015 the budget devoted to ALMPs was reduced by as much as 60% from the previous year and cuts were continued in 2016, therefore deteriorating the position of Kazakhstan in international comparisons even further. In line with low spending in ALMPs and poor enrolments rates in the PES, only about 4.0% of the youth active population participate in ALMPs, corresponding to about half the average of European OECD countries. The main active labour market measures were wage subsidies, public works and training that were provided to registered unemployed, informal, self-employed workers and poorest households. These measures have likely preserved some jobs and cushioned the income shock of the unemployed, but it is difficult to gauge their impact on participants with any precision. Indeed, no formal impact evaluation assessment of ALMPs has been carried out in Kazakhstan thus far. Moreover, reflecting very broad eligibility criteria under the Employment Roadmap 2020, lack of targeting represents an issue, which implies that the system is prone to generate deadweight and substitution effects. Potentially large deadweight and substitution effects also reflect the generally positive performance of youth in the labour market and the overrepresentation of high-skilled youth among young participants.

Income support available to youth is often inadequate

The income support system in Kazakhstan is weak and does not provide adequate assistance to help (young) people to escape poverty and/or look for and find a well-matched job. Unemployment and targeted social assistance (TSA) benefits are among the most ungenerous by OECD standards. Unemployment benefits in Kazakhstan can at best replace 31% of previous net earnings and can last a maximum of six months.[3] By means

of comparison, the OECD average shows a net replacement rate of 64% for a maximum duration of 10.5 months. The net value of TSA benefits, measured as a percentage of median household incomes in Kazakhstan, is 8%, which compares to an OECD median of 25.9%.

On top of an ungenerous income support system, very few Kazakhstani youth qualify for receiving benefits. Only 2% of all unemployed youth receive unemployment benefits. Entitlement criteria for receiving TSA benefits are very strict and take-up is very dependent upon the specific administrative approach applied by each local authority, as suggested by the fact that regions with highest poverty rates have generally low coverage by TSA benefits, and many households do not receive benefits even though they would be eligible.

The weakness of unemployment and social assistance is not compensated by other forms of income support. Severance pay (which is equal to one month of salary regardless of job tenure) is also ungenerous in comparative terms, and therefore cannot exert the typical income protection function it has in many emerging countries. Unlike many OECD countries, in Kazakhstan there is no unemployment assistance (i.e. benefits provided to unemployed people with no recent contribution history) available to young jobseekers.

Overall, weak income support means that youth are more prone to accept low-quality jobs, rather than find a productive employment, as they simply cannot afford to be unemployed for too long. Within this context, it is important that Kazakhstan introduces a more supportive income protection system, and promotes more generous unemployment and social assistance benefits. Increasing the generosity of income support in case of job loss is particularly important in Kazakhstan when considered alongside the recent reform of the Labour Code, which introduces elements of flexibility in the employment protection legislation. At the same time, and in order to avoid that out-of-work support translates into a "subsidy" to informal employment and/or reduced job-search efforts, it will be important that the introduction of a more generous income support system is combined with strengthened activation measures for recipients.

Family policies can be supported further to help young parents better balance work and family life

Caring for children remains primarily the responsibility of mothers in Kazakhstan. This partly reflects the current design of child-related leave, which provides no paternity leave, and little incentives for fathers to take up parental or childcare leave. These institutional bottlenecks foster a culture whereby mothers are seen as the principal carers of young children. Family cash benefits generally do not provide adequate income support to poorer families with children, and especially to families with specific needs (e.g. sole-parents families). Quality and affordable childcare is rarely available, especially for children aged 0-2. Indeed, OECD PISA data shows that the percentage of students who had not attended pre-primary education is one of the highest among PISA participating countries and economies (65%, rank 2 out of 64 countries). Furthermore, there is a large variation in access to childcare across income groups and regions, with poorest households and regions such as Astana, Almaty and South Kazakhstan facing the greatest challenges. These factors could have possible negative consequences on parents' (and grandparents') ability to integrate the labour market in the years following childbirth.

Box 0.1. Summary of key recommendations for Kazakhstan: Youth

Containing the cost of labour

Policies should ensure that the cost of hiring does not hinder the demand of the most vulnerable youth – such as the low-skilled and the least experienced workers – or encourage firms to hire them informally. At the same time, policies should ensure that young workers are paid decent wages that are in line with their productivity. The OECD suggests to:

- *Maintain low non-wage costs and evaluate carefully the consequences of increasing employers' social security contributions.* A higher tax burden on employers could push employers to adjust wages downwards, reduce formal hiring, and/or pay envelope payments on top of regular earnings to compensate for increased non-wage costs. Complementary policies – e.g. monitoring and enforcement of labour regulations to prevent the spread of informal practices – need to be implemented to counteract possible negative effects.
- *Maintain the momentum provided by recent efforts to ensure that minimum wages are revised based on accurate, up-to-date and objective information that reflect current labour market conditions and the views of social partners.* An independent expert commission, which includes trade unions and employers' organisations, is best placed to account for a wide range of economic and social factors.
- *Introduce a more differentiated minimum-wage structure.* For example, allow minimum wages to vary by regions, to reflect differences in economic conditions and living standards.

Balancing the employment protection legislation

The new Labour Code goes in the right direction, but should be accompanied by policies that prevent the creation of a dual labour market, reinforce compliance with labour legislation, and ensure that adequate protection is provided to dismissed workers. The OECD suggests to:

- *Liberalise temporary contracts cautiously.* This is important to avoid the creation of a dual labour market characterised by too different regulations between permanent and fixed-term contracts.
- *Strengthen monitoring and compliance with labour legislation.* One immediate policy option would be to increase the number of public state inspectors and strengthen their role and responsibilities.
- *Ensure that labour reforms to relax regulations around permanent and fixed-term contracts are complemented by measures to ensure that workers who are displaced receive the necessary social protection and assistance to find new jobs.* This will involve the provision of effective (re-)employment services and adequate income support in the event of job loss (see below).

Investing in skills

Skills should represent one of the top government strategies to help youth gaining access to good quality jobs. Therefore, the OECD suggests to:

- *Expand access to high-quality education.* In particular, it will be important to eliminate persisting geographic and socio-economic inequalities in access to good quality schooling; and enhance the overall quality of education system to improve schooling outcomes.
- *Strengthen career guidance to help youth make informed decisions about their studies.* Students should receive comprehensive information on employment and pay prospects on all the potential careers they may wish to pursue. Improve data collection and use of existing data sources (for example on labour demand forecasting) will be crucial to this end.

Box 0.1. Summary of key recommendations for Kazakhstan: Youth *(cont.)*

Strengthening the role of Public Employment Services (PES) and Active Labour Market Programmes (ALMPs)

The capacity of the PES and the role of ALMPs need to be strengthened in order to better support young jobseekers to find well-matched jobs. The OECD suggests to:

- *Strengthen the role of the Public Employment Service and its capacity to reach out to youth.* This may be achieved through a mix of policy measures, for example by expanding the PES staff and/or improving the quality of the vacancy bank. Providing more generous benefits would also likely result in increased incentives to register with PES.
- *Conduct rigorous impact evaluation studies on the impact of ALMPs on the employment outcomes of participants.* The results of impact evaluation studies would help policy makers to assess whether programmes should be continued or expanded, and would allow the continuous improvement of programmes or the termination of unsuccessful ones.
- *Scale-up (or maintain) spending on ALMPs that are most effective, especially during economic downturns.* In other words, expenditures on those programmes that have proved effective should be continued or expanded during economic recessions.
- *Ensure that ALMPs target participants who are most in need.* It is crucial to allocate existing resources to the most effective interventions, particularly in a situation of constrained government budgets. Age, *per se*, is not a valid target. Jobseekers should be profiled upon registration to offer them targeted solutions, and each programme should be separately managed and have its well defined target group.
- *Given the presence of large skills mismatches and shortages in Kazakhstan, invest proportionally more resources in skills-enhancing programmes.* This includes a particular focus on training programmes (third direction of the Employment Roadmap 2020).

Providing adequate income support

The government should ensure that adequate social protection is provided to youth to support them to look for and find productive employment. The OECD suggests to:

- *Strengthen the income protection system, for example by providing more generous unemployment and social assistance benefits for a limited duration.* This is particularly important in view of the recent reform of the Labour Code which has introduced further elements of flexibility in labour regulations.
- *Eliminate regional differences of access to targeted social assistance benefits and increase transparency.* Establish more transparent practices for rewarding targeted social assistance benefits across local authorities.
- *Continue to activate benefit recipients, both by means of unemployment benefits and targeted social assistance.* This is important in order to ensure that a more generous income protection system does not translate into a subsidy to informal employment and/or reduced job-search efforts.

Reshaping family policies

Young families should be provided further support to be able to successfully balance work and family responsibilities. The OECD suggests to:

- *Introduce policies to encourage fathers to better share family responsibilities with mothers.* These may include increasing individual paternal entitlements to leave; increasing payment rates for fathers taking leave; and encouraging take-up of flexible leave options (e.g. part-time).
- *Strengthen the income support available to parents by expanding family cash benefits and/or introducing some form of (non-wastable) tax breaks for earners with dependent children*. It would be particularly important to introduce additional benefits targeting families with specific needs (e.g. sole-parents).
- *Facilitate access to good-quality childcare, by strengthening both the supply and the demand of childcare facilities.* This is particularly important in certain regions, and for poorer households. It will also be crucial to develop more childcare facilities that can enrol children aged 0-2.

Working longer with age in Kazakhstan

One of the key concerns for Kazakhstan is the weak labour participation of older people (and especially older women). Older people in Kazakhstan are more likely to be inactive or unemployed and less likely to be employed than their OECD counterparts. Participation in the labour market stops abruptly at, and sometimes before, retirement age; and those few people who continue working often hold low-quality jobs in the informal sector of the economy. Given the relatively low labour utilisation of older people, encouraging and enabling older workers to work longer should be a policy priority for Kazakhstan. Against this background, it is crucial that existing institutions and policies create an environment as much as possible conducive to support older workers' participation in the labour market. For a start, in order to make longer working lives a reality, older people should have sufficient health that allow them to work longer, the skills required in today's labour market, and adequate access to targeted employment services to help them (back) into employment. Demand-side barriers to the hiring and retention of older workers – such as negative employers' attitudes towards older workers; wages that reward seniority rather than workers' productivity; and strict employment protection rules - also have to be removed. Finally, it is necessary to develop an old-age pension system that makes work rewarding at older ages and provide incentives to continue working.

Addressing poor health of older workers should be the first key priority to make longer working lives a reality

A particular challenge for Kazakhstan is the poor health of the older population. Life expectancy in Kazakhstan is 70.2 years (65.7 years for men and 74.7 years for women) around ten years below the average of the OECD countries. Even those who survive, however, often experience an early deterioration of their health conditions. Indeed, Kazakhstani men and women are expected to stay healthy only for 59.8 and 66.8 years respectively on average (which compares to an OECD average of 69.2 and 72.7 years for men and women respectively).

Poor health conditions negatively affect older people's well-being and quality of life, while they also undermine labour market outcomes. Many Kazakhstani older people (especially men) cannot expect to reach retirement in good health, and therefore many of them have to withdraw from the labour market well before reaching retirement age. While better health will require substantial improvements in the quality of the general health system, promotion and enforcement of occupational health and safety standards at the workplace will also be crucial to make longer working lives a reality. In 2012, one-fifth (22.1%) of all workers in Kazakhstan were exposed to harmful and dangerous working conditions. In 2013, there were 3.1 fatal injuries per 100 000 workers in Kazakhstan, compared to an OECD-EU average of 2.

Older workers' skills are obsolete

Today the skills of older workers in Kazakhstan are frequently obsolete and not in demand by the labour market. Prior to the transition of Kazakhstan to a market economy, the skills that workers received were dictated by the focus on sectors strongly dependent upon the demand accruing from heavy industries, including the military. The content of the educational system reflected this bias. In addition, the initial phase of the economic transformation was characterised by decreasing spending in education, which acted as a drag to the expansion of enrolment rates. Indeed, spending on education fell from 6.5% of

GDP in 1991 to 3.2% in 2001, and the number of students in vocational education fell from 225 600 to 87 327 people in the same period. While the skills of older workers are obsolete, subsequent rapid improvements in the educational attainment of Kazakhstani youth meant that large cohorts of high-skilled youth could access the labour market. Many more young people obtain higher education than in the past, and improvements in PISA scores (albeit from low levels) are noticeable. To ensure that older workers' skills are up-to-date and high-skilled youth do not crowd out older workers, the Kazakhstani Government should provide incentives to both firms and workers to invest in the skills of older workers, develop a tax system that encourages lifelong learning, and introduce a system that recognises the skills acquired through experience.

Older workers make little use of employment services available

The role of employment services in helping older workers in the labour market is weak in Kazakhstan. While international comparisons are difficult to make due to the lack of comparable data, evidence suggests that – despite the fact that older workers are one of the priority groups in the Employment Roadmap 2020 – registration to the Public Employment Service (PES) and participation in Active Labour Market Programmes of older workers remain very low. Only 6% of unemployed older people register with PES, which is lower than total (7.2%) and youth (9.1%) groups. Participation in ALMPs is also very low. Indeed, only 1% of the older labour force participates in ALMPs, which is significantly lower than participation rates for youth (4.3%) and somewhat below the average for the total population (1.2%).

Incentives for employers to induce early retirement are strong

Information to depict employers' attitudes towards older workers in Kazakhstan is scant. Yet anecdotal evidence suggests that employers are not only more willing to hire young employees rather than older workers, but that they are also less willing to retain older workers. In fact, reflecting the existing wide gap between skills and competences of young and older generations, older workers are generally perceived as being less skilled, less productive, and less readily adaptable to changing firms' needs compared to youth workers. Moreover, the compensation practices of Kazakhstani employers (at least in the public sector) are often seen to result in wages that partly increase with work tenure regardless of performance, which suggests that the cost of employing older workers might begin to exceed their productivity well before the age at which most workers retire from the labour market. This provides strong incentives for employers to induce early retirement. In this context, one key to increasing the incentive to hire older workers and to reduce the incidence of early retirement is to tie wages more closely to productivity and less to seniority. Measures have been taken in recent years by the Government of Kazakhstan to promote a stronger alignment between real wage growth and productivity growth. For example, the government is currently reviewing with the trade unions the wage setting agreements in the public sector with a view to decouple compensation from seniority and to ensure that it better reflects productivity growth and merits. Successful end of these discussions is important since there can be a demonstration effect stemming from the good practices introduced by the public sector. Indeed, such good practices can be followed by the private sector with beneficial effects for the labour market at large.

Labour regulation is too strict but the new Labour Code introduces elements of flexibility

Another factor undermining employers' willingness to hire older workers and encouraging use of early retirement is the employment protection that regular workers

enjoy, especially in large firms where unions have stronger presence. As mentioned earlier, EPL on regular contracts (individual dismissal) is very strict in Kazakhstan by international standards, and therefore it could discourage firms from adapting rapidly to changing economic circumstances and may represent a barrier to the formal employment of older workers. Moreover, until very recently the EPL in Kazakhstan provided additional protection to older workers. Older workers were protected from dismissal from the age of 55 until retirement age, i.e. special EPL rules protected from layoff older workers with less than eight years (form men) or three years (for women) remaining until retirement age. Kazakhstan has recently taken actions to address these challenges, as part of the new Labour Code of January 2016, which makes labour regulation around hiring and firing (of older workers) more flexible. In particular, it reduces the special protections from dismissal provided to older workers (from eight years for men and three years for women, to two years for both men and women) and introduces a new provision according to which retirement age becomes a reason for fair dismissal.

Fighting discrimination against old-age workers should be intensified

The government efforts to counteract discrimination against old-age workers could also be intensified. Article 7 of the Labour Code explicitly prevents discrimination depending on age, among other forms. In addition, Kazakhstan could consider more specific measures to enforce the law and prevent unjustified discrimination against older persons in recruitment or employment and age discrimination with regard to working conditions. Public awareness campaigns to eliminate biases in recruitment, promotion and training of older workers could also be intensified, in consultation with the social partners.

The old-age pension systems is undergoing deep transformations

In January 1998, Kazakhstan introduced a major old-age pension system reform that aimed at gradually replacing the public pay-as-you-go defined benefit (DB) regime with one based on mandatory fully funded defined contribution (DC) to individual accounts, based on the Chilean model. The DC will become the dominant source of retirement as soon as the DB plan is completely phased out. This and other policy reforms over recent years have led to the development of a four-pillar pension system involving: i) State basic pension paid to all citizens of Kazakhstan upon reaching retirement age; ii) Public pay-as-you-go defined benefit (DB) system, funded by the state budget; iii) Mandatory defined contribution (DC) fully funded system with individual accounts, managed by the Unified Accumulated Pension Fund (UPAF); and iv) Personal voluntary pension savings, also managed by UPAF. More recently, the government has introduced a large reform of the old-age pension system which aims to provide more adequate old-age pension benefits and increase the incentives to contribute. The main features include the gradual increase in retirement age of women, the introduction of pension credits, the integration of a notional defined contributions (hereafter NDC) plan, and a revision of the calculation of the state basic pension. Despite favourable improvements in the design of the old-age pension system, however, some challenges remain (see below).

The low standard pensionable age needs to be addressed

One reason for the low participation of older workers in the labour market is the low standard pensionable ages in Kazakhstan: 63 for men and 58 for women. Most OECD countries have now the same pensionable ages for men and women, often around 65 at present but with plans to raise it to 67 or even higher. The relatively short life expectancy (especially among men) has been used as an argument against increasing the pensionable

age in Kazakhstan. This is understandable considered that life expectancy of men is only 65.7, and that men are expected to stay healthy only for 59.8 years on average. However, in light of the fact that life expectancy in Kazakhstan is nine years higher for women than men, the current gender unbalance in standard pensionable ages is difficult to justify. Recognising this challenge, the most recent old-age pension system reform is planning to gradually increase retirement age of women to the level of men by 2027. Looking forward, any future adjustments in male and female standard pensionable ages should be linked to evolutions in life expectancy.

Ensuring that adequate pension benefits are granted to pensioners

The most recent old-age pension reform undoubtedly takes steps to improve the adequacy of the benefits for future generations. The Ministry of Labour and Social Protection estimates that the new reform will enable meeting the recommendation by the ILO to at least maintain the replacement rate at 40% of previous earnings. OECD pension projections for Kazakhstan roughly corroborate this expectation. For people previously earning the average wage, they foresee a net replacement rate at close to 45% of previous earnings in 2057. Despite these positive policy developments, however, some challenges remain. Although the portion of the population protected against the risk of old age enjoys fairly generous benefits, many workers remain outside the mandatory pension system, often because they work informally. The World Bank pension data shows that in Kazakhstan in 2009 the coverage of the pension system (as measured by the number of people contributing as a share of the labour force) was fairly low. At 62% it was well below most high-income OECD countries, although similar to OECD countries with a large informal sector (namely Chile, Mexico, and Turkey), alongside many Asian countries. On top of this, very few workers (0.5% of the workforce in 2015) contribute to voluntary pension savings. Low coverage of the mandatory and voluntary systems means that many pensioners will only be entitled to the state basic pension (which as of 2016 represents only 52% of the minimum wage) and therefore may face a high risk of poverty. While low life expectancy and poor health at older ages may explain why Kazakhstani people are reluctant to save for old age, other institutional factors play an important role. Addressing labour market informality and helping people to access good quality jobs should be the first and most important priority for ensuring that decent old-age pension benefits are paid to pensioners. There is also a strong case for encouraging workers to rely more heavily and more often on other forms of savings, such as voluntary private pension systems.

More could be done to enhance financial incentives to work after retirement age for those able to work

While Kazakhstan has been successful in discouraging early retirement, more could be done to enhance incentives to work after retirement age for those capable to work. Kazakhstani older workers rarely remain employed after retirement age, and when they do so they generally hold low-quality jobs in the informal sector and/or work as self-employed. The employment rate after reaching retirement age is 13% for men and 14% of women, and the inactivity rate is 86% and 85% respectively. Of those employed after retirement age, around half work informally. While the abrupt withdrawal from the labour market at retirement age may reflect deteriorations in the health status of older people, institutional bottlenecks embedded in the old-age pension system and the lack of financial incentives to continue working may also play an important role. *First*, although work and pension can be combined, very few older workers manage to work part-time or have access to other flexible work arrangements. Indeed, less than 5% of pensioners in dependent employment work part-time. *Second*, unlike what is observed in many OECD countries, take-up of

old-age pension benefits cannot be deferred in Kazakhstan, nor is it possible to withdraw partial old-age pension entitlements. *Third* and last, even though older workers are allowed to work past retirement age, additional years of work do not generate more pension entitlements. Indeed: i) under the DB system, benefits are calculated at the moment of retirement age and it is not possible to increase benefit entitlements by working beyond retirement age; ii) under the DC plan, older workers who work beyond retirement age are exempted from paying pensions contributions, and therefore they cannot save any money into the mandatory individual accounts; and iii) the level of the state basic pension is not increased by any additional years of contributions accumulated after retirement age, even after the amendments of the recent old-age pension reform. This evidence suggests that pensioners have very weak incentives to work and points to a strong case for better designing the pensioners' work incentive framework.

Box 0.2. Summary of key recommendations for Kazakhstan: Older workers

Strengthening the employability of older workers

Older people should have health that allows them to continue working, the skills required in today's labour market, and adequate access to targeted employment services to help them (back) into employment. The OECD suggests to:

- *Improve occupational health and safety for workers at all ages.* This will assist current and future generations of older workers to work in safer environments and remain in employment longer. The first step in this direction would be to strengthen monitoring and compliance with existing occupational health and safety regulation. Effective occupational health care services can also play an important role, both in preventing work-related health problems and in promoting employment reintegration.
- *Ensure that lifelong learning policies encourage constant upgrading of skills over the working life.* This should be done by providing targeted incentives to both firms and older workers to invest in skills.
- *Strengthen the role of (re-)employment services in helping older workers get back to (formal) employment.* To this end, it is important that participation of older workers in ALMPs is increased, and existing programmes are well targeted to those most likely to benefit from the programme (age alone is not a valid target). Early job-search assistance in case of dismissal is also crucial to maintain older workers' attachment to the labour market.

Encouraging employers to hire and retain older workers

Information on employers' attitudes towards older workers in Kazakhstan is scant. Yet anecdotal evidence suggests that the employers are not only more willing to hire young employees rather than older workers, but they are also less willing to retain older workers. The OECD suggests to:

- *Continue efforts to better align wages to productivity and qualifications, rather than seniority.* The government is currently reviewing with the trade unions the wage setting agreements in the public sector with a view to decouple compensation from seniority and to ensure that it better reflects productivity growth and merits.
- *Address discrimination in employment on the basis of age.* This can be achieved by taking measures, such as reinforcing legislation preventing age discrimination to eliminate discrimination in the recruitment, promotion and training process. But legislation alone is not sufficient and strong implementation mechanisms are necessary for the legal provisions to be implemented, along with the support of public-awareness campaigns to change mind-sets.

Box 0.2. Summary of key recommendations for Kazakhstan: Older workers *(cont.)*

Making work rewarding for older workers

More could be done in Kazakhstan to make work rewarding for older workers and encourage them to work longer. The OECD suggests to:

- *Ensure that adequate old-age pensions are provided to the elderly.* This is particularly important as the DC scheme gradually replaces the DB pension system. To ensure old-age pension adequacy, a number of policies should be implemented:
  - Combat any form of informality in the economy, so as to expand the coverage of the DC pension system and thereby guarantee more adequate old-age pension benefits at older ages. To this end, a comprehensive government strategy is needed, which tackles both demand- and supply-side barriers to formalisation.
  - Provide incentives to take-up voluntary private pensions. This could be achieved by providing financial (e.g. tax reliefs; matching contributions) and non-financial (e.g. automatic enrolment; compulsion) incentives to enrol in voluntary private pension schemes. It will also be important that greater flexibility regarding contributions is provided, allowing withdrawals in limited circumstances and reflecting part-time or seasonal work. Using existing infrastructures to reach out to informal workers could also prove effective in helping them to save for old age.
  - Maintain efforts to disseminate information about the pension system and the benefits of longer working careers. However, these efforts could be undermined by frequent regulatory changes of the pensions system, which could generate uncertainty and erode trust in the system.
  - Prevent older women from falling into poverty. The gradual increase in the retirement age of women is a step in the right direction. However, the large gap in life expectancy between men and women, together with expected gains in life expectancy in the future, raise the question of whether further increases in retirement ages (especially for women) will be necessary in the future, for example by connecting the retirement ages to longevity.
- *Enhance incentives to work beyond retirement age for those still able to work.* This could be achieved by a mix of policies: i) introducing more flexible work arrangements and part-time opportunities to older workers; ii) offering the option of partial or deferred withdrawal; and/or iii) providing financial incentives to work past retirement age. Wider utilisation of part-time work by older workers may help them remain attached to the labour market while taking into account changes in their health and physical capacities. Partial or deferred withdrawal would facilitate a gradual phase-out from the labour market. Establishing a legal basis to ensure further accrual of pension rights when working beyond the state pension age would strengthen incentives to work longer. Rights should continue to be accrued when withdrawal of the pension has begun.

Including people with disabilities in the labour market and society

Ensuring that people with disabilities (PWD) are not excluded from society and the labour market and that they are empowered to participate as fully as possible in the economic and social life lies at the centre of the economic policy agenda of Kazakhstan. While many countries, both OECD members and emerging economies, face the same challenge, it is particularly pressing in Kazakhstan reflecting the convergence of several concomitant forces. For a start, the economic downturn currently experienced by Kazakhstan raises the possibility that, with a time lag, many of the long-term unemployed end up increasing the caseload of disability beneficiaries. In the past, too many people of working age relied on sickness and disability benefits as their main source of income during the onset of an economic recession in many countries. Globalisation pressures also

matter. Insofar as the transmission effects of globalisation on technological progress tend to be skills-biased, they hit the employment opportunities of disadvantaged people particularly strongly. This includes the opportunities of many workers with disability. Adding to these sources of pressure, in Kazakhstan the share of people with disabilities in total adult population is very low. The official figures set it at approximately 3.5%, which compares with a share of 14% for the EU average, reflecting a much narrower range of eligibility criteria used by Kazakhstani to qualify for disability. This raises the possibility that registration claims will increase going forward, following measures undertaken by Kazakhstan to progressively conform to the international definition.

Averting old stereotypes

One key institutional background that sets Kazakhstan apart from other countries is the legacy of outdated language and words to describe people with disabilities. For example, the law of 2005 on the directions for disability policy uses the word "invalid". On top of being discriminatory, this terminology underscores an outdated logic whereby assisting a person with disability is essentially a matter of undergoing health treatments and medical rehabilitation. The approach contrasts starkly with the broad international support for the expression "person with disability", a wording that Kazakhstan should also embrace more systematically in its legal setting. Likewise, international practice suggests that any differentiations in regulation by categories of clients (such as, the blind and the deaf, for instance), should be avoided.

Anti-discrimination law should be strengthened

Anti-discrimination is a key to ensure equal treatment of people with disability (and other disadvantages) in job promotion. While anti-discrimination is already an integral part of the Kazakhstani legislation, as it is in most OECD countries, proper enforcement remains challenging. The Labour Code of Kazakhstan recognises two circumstances under which an employer can, on the ground of disability, refuse to hire an employee, terminate a contract, or transfer an employee to another job without her/his consent. These occur respectively, when there is a need to protect the health of the person and/or the safety of others. However, the burden of the proof is on the employers, which could lead to abuses. One way to tackle this risk is through moving towards a shared decision approach, involving both the employers and the workers' representatives.

Completing the transition from disability assessment to work capacity assessment

The Medical and Social Expert (MSE) committees are the institutions responsible for carrying out the disability assessments. In principle, the committees are enabled to conduct the assessments using an interdisciplinary approach, taking a combination of medical, social and labour market aspects into account. In practice, these assessments remain very strongly focused on the medical diagnosis of the individual's loss of physical and/or mental functioning. No, or limited, attention is paid to rehabilitation. In fact, the composition of most committees' teams is skewed towards the medical practitioners, with typically three out of five members being doctors – the other are clerical staff. Furthermore, available evidence suggests that there seldom emerge differences of opinion between doctors operating in the same MSE team, which casts doubts on the efficacy of keeping three practitioners. Kazakhstan must implement a more streamlined approach in order to enhance the capacity of the committees to cope with a large amount of applications. Hungary, Norway, New Zealand, the Slovak Republic and Switzerland are

telling examples of OECD countries that, like Kazakhstan today, have in the past confronted the challenge to move away from the medical focus. These countries have opted to keep the medical file under the responsibility of the doctor, while delegating to a multidisciplinary team the assessment of the client's social characteristics, work abilities and aspirations. In Kazakhstan, such a multidisciplinary team need to be made up of a labour expert, a vocational rehabilitation expert and a social worker, and co-ordinated by the case manager of the benefit authority.

Creating pathways to early vocational rehabilitation

Kazakhstan pays too little attention to people with disability who can and wish to work. Official figures from the nationwide survey on disability show that only about one quarter of PWD have access to an IRP. By and large, the low take-up of employment and rehabilitation programmes by those with work capacity reflects a problem in the way the rules have been conceived. Indeed, the MSE committee has no obligation to carry out the social and vocational assessment, since this particular feature is contingent upon a specific request by the client. OECD countries, particularly European ones, e.g., Austria, Germany, Hungary, Luxembourg and Switzerland, have for long placed considerable attention to the integration of rehabilitation into benefit assessment. In Denmark, for example, the regulation states that possibilities for rehabilitation must have been exhausted before a disability benefit can be granted. In Austria, each claim for a disability benefit is automatically treated as a request for rehabilitation. Early intervention kicks in each time the present job cannot be resumed. Hence Kazakhstan needs to apply a similar rehabilitation *before*-benefit principle.

Addressing challenges arising from fragmented policy structures and existing co-ordination gaps between institutional bodies is also a key priority. Kazakhstan could draw inspiration from the example of Sweden, which has recently implemented measures to increase the co-ordination between the Social Insurance Agency (SIA) and the PES by encouraging the two bodies to work more closely together on clients capable of vocational rehabilitation. These changes have resulted in more positive institutional interactions, including at the local level, as staff from both agencies can now plan together the best use of available resources.

One-stop-shop service provision to help early engagement with clients

The speed of rehabilitation assessments is essential to avoid that claimants remain inactive for too long, thus risking to loose contact with the labour market. In a welcome step, in 2014 the Government of Kazakhstan announced measures reducing the number of administrative documents required to undergo disability claims. At the same time, the database of persons with disabilities was centralised within a unified register. Thanks to these measures, several MSEs were able to shorten their assessment process from ten to one day. In addition, the government is currently introducing measures to better manage the sharing of information between MSEs and the state social security, which will allow reducing paperwork and administrative procedures. To keep the momentum of these achievements, Kazakhstan should consider implementing a one-stop-shop benefit and service provision for people with disability.

Complementary tools to support activation

Clients identified as being in need of help, through a timely activation-oriented assessment will, as a next step, need to undergo a properly identified activation process

conducive to find an occupation adapted to their work capacities. As a first requisite, employment and rehabilitation services should profile their clients in line with the results of assessments. International experience points to the critical importance that sufficiently individualised and effective profiling plays in bringing together all client's relevant information, based on medical files, the employment history, and any services hitherto provided. The profile should be sufficiently standardised so to ensure that its quality is independent from who had profiled the case and where it had been kept. Secondly, to encourage clients to move into the regular labour market whenever possible a close relationship with caseworkers should be maintained over the duration of service use. "Mainstreaming", i.e. giving people with disability access to generic employment programmes, is a good practice in many OECD countries but their experience clearly shows that effective mainstreaming will be hard if the PES is not adequately staffed and not sufficiently funded. In a similar vein, new forms of sheltered employment, more closely related to the regular labour market, should be developed. Following a practice common to most countries, Kazakhstan makes recourse to sheltered employment, albeit less intensively than in the past. In Kazakhstan, where the PES is already heavy-burdened, successful provision of activation services will require a more ambitious expansion than originally planned of the number of PES case workers. These additional case workers should be trained to provide specialised assistance for hard-to-place jobseekers.

Towards a more effective use of employment quotas

In Kazakhstan only about one third of quota jobs are actually filled by employees with a disability. Firstly, this reflects the fact that quota jobs are often used to preserve the jobs of existing workers, particularly people with emerging health problems, rather than to provide employment opportunities to jobseekers with health problems or disability. In addition, the employers often complain that existing contractual obligations are too burdensome and excessively costly. Another concern is enforcement. In fact, the employers typically declare that, although they are willing to hire people with disabilities, they find it difficult to recruit workers with the right qualifications. All in all, if not finely managed, the quota system can inadvertently reduce the employment opportunities of unemployed people with disabilities.

There are no obvious solutions to the above pitfalls. Where policy makers have responded by adopting an integrated approach, involving not just actions to improve enforcement of the quota system, but also other employment promotion measures, such as vocational rehabilitation, results have been encouraging. International practice also points to the critical importance to structure incentives in a way that is acceptable by all parties involved – people with disabilities, employers and the state. Furthermore, the quotas should be fixed realistically. In Kazakhstan, a country characterised by wide differences in the structure of labour markets across regions and sectors, this could require providing the local executive bodies (*akimats*) with some discretion to influence the local quota rates, rather than to have one national rate. To better reflect specific circumstances and capacities to provide suitable jobs for people with disabilities, the local quotas should be the outcome of a concerted process, involving the *akimats*, the representatives of the social partners and the associations of people with disabilities.

To strengthen enforcement some decisional freedom should be given to the employers as to how to fulfil the regulations. If, for example, due to the limited range of skills available, employers are unable to hire enough people with disabilities to meet quota level, they must have the possibility to opt for the payment of a levy, rather than being

forced to pay a fine. The revenues from the collection of the levy should be used to finance apprenticeships or on-the-job training programmes for people with disabilities. As an alternative to the payment of the levy, the employer could decide to subcontract part of the company's production to the network of social enterprises, or to buy products from them.

Promoting the scheme and monitoring its performance will require the support of the PES. To this end, workers in the PES should be trained to interact with the employer sector by providing information about the levies, advice on workplace adjustments that will make fulfilling the quotas easier, on the subsidies available and how to create special vacancies for disabled workers. Information campaigns could be launched to raise employers' awareness about the quota system.

Set out disability benefit as a transitory payment

Except for a few people with severe health problems, disability benefit, like other working-age benefits, should be a temporary payment. To implement this principle many countries, including Austria, Germany and Poland, follow the practice to reassess entitlements at periodic intervals. Similarly, in Kazakhstan, re-examination of an (adult) recipient may take place after half a year, one year, or two years, depending upon the type of disability and the age of the recipient. However, evidence of very low "denial rates" in re-assessments suggests that entitlements tend to endure for an overwhelming majority of recipients. At the root of the problem is that the evaluating commissions are presently heavily understaffed, as shown by the fact that the MSEs serve as many as 15-20 000 clients in many regions, a number that remains increasing, particularly in the countryside. Thus unsurprisingly, evaluation procedures are to a great extent confined to a "box ticking" exercise, largely based on the review of the medical dossier provided by the treating health professional. Face to face contact with the disabled person is minimal. Kazakhstan could consider introducing some flexibility in the system of re-assessments at fixed time intervals. One possibility is to grant the benefits for a defined period, whose length is determined at the time of the assessment. At each reassessment, the period until the next review is set.

Making incentives work

Subsidies are the most commonly employed policy measure in OECD countries for promoting employment opportunities for people with disability. Employers who create or retain jobs for people with disabilities can be compensated financially in two ways: i) subsidies destined to support the costs of making accommodations to a workplace; and ii) wage subsidies supporting the costs of employing a worker with a chronic health problem or disability. Workplace accommodation subsidies have gained momentum during the spreading of anti-discrimination legislation across OECD countries. The main lesson is that the notion of workplace accommodation is much broader than the elimination of technical and architectural barriers, as such. While the latter is an essential objective, workplace accommodation involves a range of interdependent components, which also need to include training measures (before and after recruitment of a person with disability), on-the-job assistance and awareness-raising coaching for managers and co-workers. It is the package of these components that should constitute the target of the subsidy. On wage subsidies, they are most efficient when they are well targeted to the needs of both the employer and the employee and flexible enough to reflect the person's work capacity, including progress achieved. For example, effectiveness increases when the level of the subsidy is differentiated according to the assessed work ability of the

person, rather than being set at the same share of the compensated wage for all cases. Moreover, the subsidised share could gradually decrease in line with the experience gained and the skills acquired. Like in the case of the quotas, information campaigns help increasing employers' awareness of available state subsidies to facilitate contracting disabled job applicants. The tax and benefit regimes for persons with disability should provide the best financial incentives to take up jobs, remain in work and increase work effort.

Political economy considerations

Sickness and disability system reform is a huge task. Successful change not only needs the right elements of reform but also has to pay sufficient attention to the way in which reform is being argued, designed and put in place. An issue that arises when governments are considering comprehensive reform is the ability to communicate clearly and convincingly to stakeholders both the need for reform and the desirability of the proposed solutions. The rigor and quality of the analysis underlying a reform can affect both the prospects for its adoption and the implementation and the quality of the policy itself.

Quality data and benchmarking

In order to generate enough attention to policy benchmarking outcomes and policies against other countries and information sharing across institutions and governments, Kazakhstan needs quality data. As quality data start being collected, sharing of information should promptly follow for policy improvement to materialise. Different regions can develop and trial their own creative policy responses, and the outcomes of such diverse approaches must be compared with others experiences. This will hasten the identification of optimal policy alternatives. Trial-and-error, new regional schemes and approaches and pilots in a few service units, can be a useful approach before a country-wide roll-out. To the extent possible, evidence should be based on rigorous scientific evaluation with a comparison/control group.

Box 0.3. Summary of key recommendations for Kazakhstan: People with disabilities

Averting old stereotypes

The terminology currently used in rules and policies can be perceived as being discriminative in Kazakhstan. The OECD suggests to:

- *Promote a "people first" language, which is now common practice in the OECD countries.* Particularly, Kazakhstan should use the expression "person with disability" more systematically in its legal setting. Any differentiations in regulation by categories of clients (such as, the blind and the deaf, for instance), should be avoided.

Anti-discrimination law should be strengthened

The Labour Code recognises two circumstances under which an employer can, on the ground of disability, refuse to hire an employee, terminate a contract, or transfer an employee to another job without her/his consent. However, insofar as the burden of the proof is on the employers, it can also result in abuses. The OECD suggests to:

- *Ensure that any decisions to refuse to hire an employee, terminate a contract, or transfer an employee to another job without her/his consent on the ground of disability be taken following a concerted approach.* This should involve both employers and workers' representatives.

Box 0.3. Summary of key recommendations for Kazakhstan: People with disabilities *(cont.)*

Assess work capacity, not disability

The Medical and Social Expert (MSE) committees are responsible for carrying out the disability assessments. In principle, the MSE committees conduct the assessments using an interdisciplinary approach. In practice, the medical diagnosis of the individual's loss of physical and/or mental functioning dominates. The OECD suggests to:

- *Strengthen the priority given by the assessment to remaining work capacity of persons applying for a benefit, providing them with adequate employment supports so to ensure that they remain in contact with the labour market.* These measures are important to avoid unnecessary benefit claims and make the best use of people's remaining work capacities.
- *While the medical file could be kept under the responsibility of the doctor, the assessment of the client's social characteristics, work abilities and aspirations should be delegated to a multidisciplinary team.* Such a multidisciplinary team could comprise a labour expert, a vocational rehabilitation expert and a social worker, and co-ordinated by the case manager of the benefit authority.

Early intervention

Several welcome steps have been undertaken by Kazakhstan in the recent past to accelerate assessments. The OECD suggests to:

- *Efforts undergoing to ensure that the assessments and corresponding supports be done quickly go in the right direction and should be maintained.* They are essential to counter the risk that claimants remain inactive for too long, thus losing contact with the labour market.
- *Consider implementing a one-stop-shop benefit and service provision for people with disability.* This will help reducing risks that clients are continually shuffled between agencies.

Creating pathways to early vocational rehabilitation

Too little attention is paid to people with disability who can and wish to work in Kazakhstan. The OECD suggests to:

- *Automatically treat each claim for a disability benefit as a request for rehabilitation.* This will help strengthening access to rehabilitation. Some countries use a rehabilitation-before-benefit principle and countries such as Switzerland have recently tried to tighten this by moving towards a rehabilitation-instead-of-benefits principle.
- *Revise the content and format of the Individual Rehabilitation Plans with a view to making its recommendations on services and provisions more specific.* This will ensure that the Plans can work as an effective tool to set out the individual's path to vocational training and job search.

Supporting activation

Clients identified as being in need of help, through a timely activation-oriented assessment will, as a next step, undergo a properly identified activation process conducive to find an occupation adapted to their work capacities. The OECD suggests to:

- *Take measures to strengthen the capacity of employment and rehabilitation services to profile their clients in line with the results of assessments.* Profiling should be sufficiently individualised and effective in bringing together all relevant information for each client, based on medical files, the employment history, and any services hitherto provided. At the same time, the profile should be sufficiently standardised so that its quality is independent from who had profiled the case and where it had been kept.
- *Design and deliver services in such a way to encourage clients to move into the regular labour market whenever possible.* Maintaining a close relationship with caseworkers is essential over the duration of service use to ensure that caseworkers can promptly and systematically refer their clients to the services needed at each stage and continue to help them adapt to the labour market. Any negative incentives – for either clients or caseworkers – that may hamper such progress should be removed.

Box 0.3. Summary of key recommendations for Kazakhstan: People with disabilities *(cont.)*

- *Ensure that people with disability are given access to generic employment programmes.* This "mainstreaming" is used in many OECD countries, as good practice.
- *In a similar vein, develop new forms of sheltered employment that are more closely related to the regular labour market.*
- *Successful provision of activation services will require a more ambitious expansion than originally planned of the number of PES case workers.* These additional case workers should be trained to provide specialised assistance for hard-to-place jobseekers.

Employment quotas

In Kazakhstan only about one third of quota jobs are actually filled by employees with a disability suggesting ample scope to improve the effectiveness of the quota system. The OECD suggests that:

- *Rather than setting a national rate, Kazakhstan should provide the local executive bodies (akimats) with more flexibility to decide upon the regional quota rates in collaboration with the representatives of the employer sector and the associations of people with disabilities*.
- *A fixed quota is set out only for hard-to-place people with disabilities, while using other promotion measures for people with light disabilities.* Alternatively two quotas could be envisaged – for people with disabilities in general and applying, within this broader group, a special higher quota for those with more severe impairment.
- *More options are provided to the employers to meet the quota, taking into account the specific circumstances of their businesses.* If, for example, due to the limited range of skills available, it is difficult for an employer to hire enough people with disabilities to meet the quota level, she/he could decide to pay a levy, or alternatively opt to provide and finance apprenticeships or on-the-job training.

Disability benefit as a transitory payment

Staying on disability benefit for a long time is particularly harmful particularly for younger people, who have more to lose in terms of reduced opportunities for better social and economic integration. The OECD suggests to:

- *Use disability benefits as a temporary payment (like other working-age benefits) with the exception of people with severe health impairments.* Improved work capacity can be quite frequent at young ages despite an unchanged medical condition, thanks to the ability to manage conditions more quickly than adults and because youth are better off in terms of handling conditions at the workplace.
- *Consider introducing some flexibility in the system of re-assessments at fixed time intervals.* One possibility is to grant the benefits for a defined period, whose length is determined at the time of the assessment. At each reassessment, the period until the next review is set. In this way, re-evaluations can be more focused and reduce the work load (and costs) of the assessment team.

Making incentives work

Subsidies are the most commonly employed policy measure in OECD countries for promoting employment opportunities for people with disability. The OECD suggests to:

- *Define broadly the subsidies destined to making workplace accommodation in such a way to allow targeting more than just accessibility.* While accessibility represents a key objective, the subsidy needs to address a package, which further to accessibility must involve supporting training measures (before and after recruitment of a person with disability), on-the-job assistance and awareness-raising coaching for managers and co-workers.
- *Ensure that the wage subsidy system is well targeted to the needs of the employer and the employee and flexible over time to reflect changes in the person's work capacity.* The subsidised share should decrease gradually and in line with the experience gained and the skills acquired as these are reflected in productivity.

Box 0.3. Summary of key recommendations for Kazakhstan: People with disabilities *(cont.)*

Political economy of reforms

Successful change not only needs the right elements of reform but also has to pay sufficient attention to the way in which reform is being argued, designed and put in place. The OECD suggests to:

- *Take measures to ensure that both the need for reform and the desirability of the proposed solutions be communicated clearly and convincingly to stakeholders.* Together with the rigor and quality of the analysis underlying, this can significantly affect the prospects for reform's adoption and the implementation and the quality of the policy itself.

Monitoring

A major challenge in Kazakhstan is the lack of data on the outcomes of active labour market policies for people with health problems or disability, and where data exist, the limited flow of information across institutions and governments. The OECD suggests to:

- *Strengthen the effort to improve the quality of the data available ensuring that the information collected is shared promptly*. Timely information sharing is essential for policy improvements to materialise. Different regions should be enabled to develop and trial their own creative policy responses. The outcomes of such diverse approaches should be shared among all regions in order to hasten the identification of optimal policy alternatives.

Notes

1. Defined as the percentage of the population living below the national poverty line.
2. The school-to-work transition in this report is calculated as the difference between the average school-leaving age and the average age at which 50% of youth are in employment.
3. This applies to a single person previously paid at a low wage (67% of the average wage) with a long contribution history (60 months).

Chapter 1

Key labour market challenges in Kazakhstan

This chapter explores the labour market situation of Kazakhstan from an international comparative perspective. At a first glance, labour market outcomes suggest that Kazakhstan performs well in the international comparison. However, these figures should be used with some caution as they mask important challenges with regards to job quality. Informality and self-employment are widespread, especially among youth, older workers, and the low-skilled, suggesting that these workers have often access to poorly paid jobs, with limited access to training, little or no social security coverage, or protection provided by labour contracts. The incidence of low pay is quite high by international standards, and it is particularly high for informal and self-employed workers.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

Kazakhstan's economic progress has been outstanding in the past decade. Largely driven by the recent resource boom, Kazakhstan's economic development was characterised by strong GDP growth, a stark reduction in poverty and unemployment rates (especially for youth) and decreasing income inequalities. At a first glance, labour market outcomes suggest that Kazakhstan performs well in the international comparison. However, these figures should be interpreted with caution as they mask important challenges with regards to job quality. Informality and self-employment are widespread, especially among youth, older workers, and the low-skilled, suggesting that these workers have often access to poorly paid jobs, with limited access to training, little or no social security coverage, or protection provided by labour contracts. The incidence of low pay jobs is high by international standards, and it is particularly high among informal and self-employed workers.

The first section of this chapter depicts the economic and social background of Kazakhstan in the past years from an international comparative perspective. The second section goes on discussing the key challenges in the Kazakhstani labour market, touching upon both job quantity and quality issues such as informality, self-employment, and job satisfaction for different population groups. Some of the key findings of the chapter are summarised below.

Economic and social indicators

- After being plagued by hyperinflation and a deep recession in the first half of the 1990s, strong GDP grow resumed in the early 2000s and peaked at 10.7% in 2006. The rate of GDP growth fell to 1.2% in 2015.
- Poverty rates declined from 47% (around 7 million people) in 2001 to less than 3% (around 500 000 people) in 2014.
- Income inequalities decreased considerably in the past two decades: the Gini coefficient stands at 0.278 in 2014, down from 0.319 in 1996.

Job quantity

- The employment rate of the population (15 and over) in Kazakhstan is much higher than the OECD average (67.1% versus 55.9%), while unemployment (5% versus 6.8%) and inactivity rates (29.3% versus 40%) are significantly lower.
- One in six unemployed people in Kazakhstan are long-term unemployed, compared to (slightly less than) one in two across the OECD.
- Youth unemployment rate (ages 15-24) is around four-folds lower than the OECD average and the lowest across all OECD countries.
- On average it takes only six months to Kazakhstani youth to transit from school to the world of work, which is a short period by international standards.
- Older workers (ages 55-64) in Kazakhstan are more likely to be inactive (42.4% versus 38.9%), and less likely to be employed (54.8% versus 58.1%) than their OECD counterpart. Their labour market outcomes deteriorate faster than OECD countries as they grow older.

Job quality

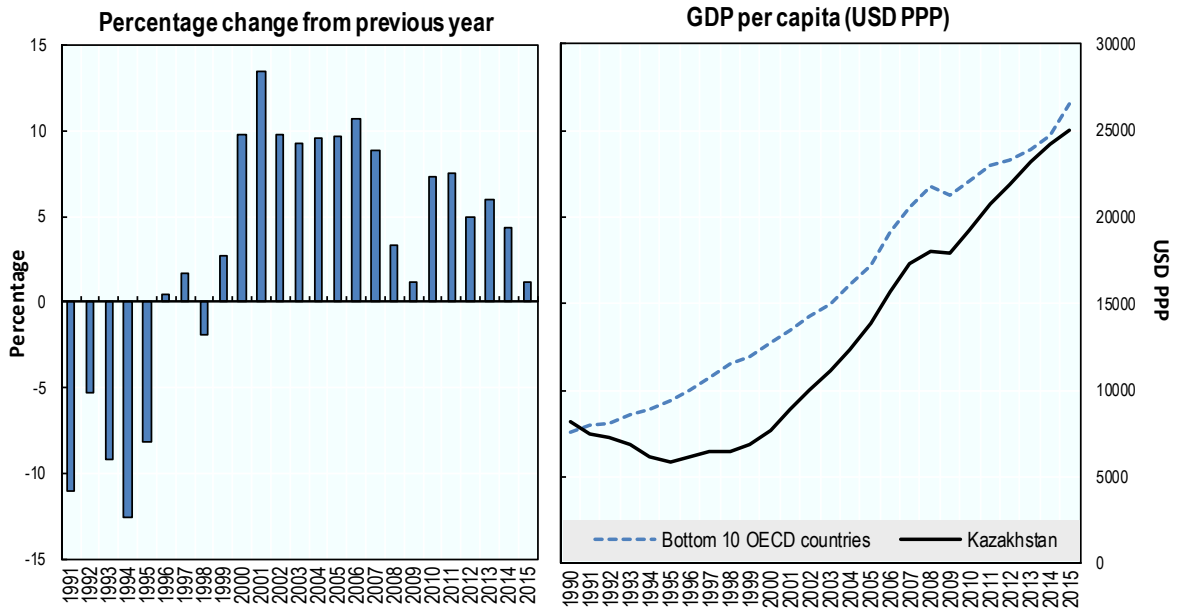
- Informality accounts for 20% of total employment in the country, and self-employment around 30%. Youth, older workers, and the low-skilled are considerably more likely than other population groups to work informally or as self-employed.
- At 28% of the working population, the incidence of low pay is relatively high, and is particularly widespread across informal workers and the self-employed.
- Less than 5% of Kazakhstani employees work with a temporary contract – roughly half the OECD average.
- Less than 2.7% of Kazakhstani employees work part-time – over five times less than the OECD average – and very few (less than 1%) work very long hours.
- Levels of job satisfaction are marginally lower than the OECD average. Older workers have lower job satisfaction reflecting the lack of valuable job possibilities for these groups.

Economic and social indicators

After being plagued by hyperinflation and a deep recession in the first half of the 1990s, Kazakhstan's economic fortunes rapidly improved since the early 2000s. GDP grew at about 10% per year between 2000 and 2007 (Figure 1.1), making Kazakhstan one of the fastest growing economies in the world. While recovering from a setback in 2008 and 2009 – when the economy was hit by a banking crisis and the effects of the global financial crisis – growth has been more erratic since 2010. More recently Kazakhstan took the hit of falling commodity prices and real GDP growth slowed to 1.2% in 2015. The prospect of weak growth in a number of neighbouring countries makes it even more pressing to address structural problems which existed even before the global crisis.

Kazakhstan has made significant progress in catching-up to the income levels of the more advanced economies over the past twenty years. Nevertheless, there remains a large convergence potential both in terms of income and well-being. Today, GDP per capita (USD PPP) in Kazakhstan is at the level of the average of the bottom ten OECD countries (Figure 1.1). Despite vast labour utilisation (see below), employment remains concentrated in the least productive sectors of the economy *(*e.g. agriculture) (see also OECD, 2016). Much of the remaining catching-up thus needs to come from economic diversification and productivity increases.

Figure 1.1. Real GDP growth, Kazakhstan, 1990-2015



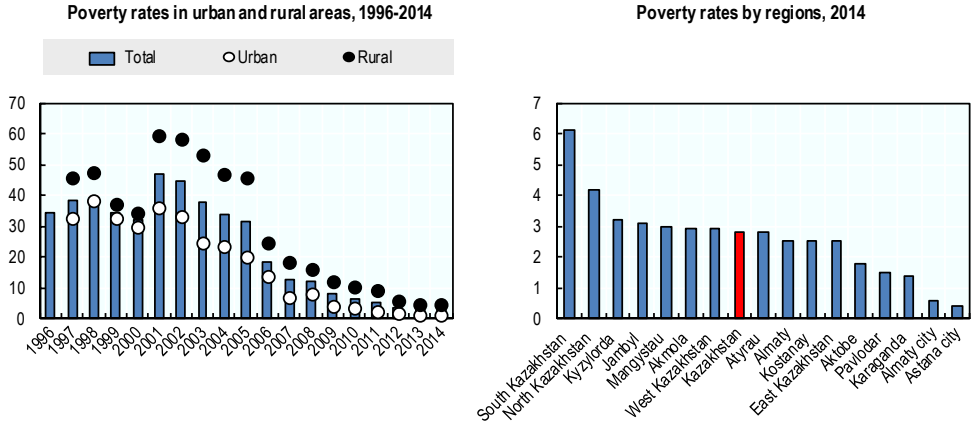
Note: Bottom ten OECD countries is the unweighted GDP average of Chile, Estonia, Greece, Hungary, Mexico, Poland, Portugal, Slovak Republic, Slovenia and Turkey.

Source: World Bank Database, *OECD Productivity Database*.

Although living standards declined significantly in the first decade of independence, the share of population living at, or below, the national poverty line fell dramatically since the early 2000s – from 47% (around 7 million people) in 2001 to less than 3% (around 500 000 people) in 2014 (Figure 1.2). As a result of this progress, poverty rates[1] in Kazakhstan are now very low by international standards, when compared to a number of Asian, BRIICS and OECD countries for which data is available (Figure 1.3). Poverty is concentrated mainly in rural areas, in which more than 45% of population live. Indeed, in 2014 poverty rates in rural areas (4.7%) were more than 3.5 times higher than in urban areas (1.3%). Poverty rates also vary significantly across regions. In 2014, regional poverty rate in Astana city (0.4%) was seven times lower than the national average, and in Almaty city (0.6%) it was five times lower the national average. At the bottom of the scale, South Kazakhstan's poverty rate (6.1%) was more than twice the national average (Figure 1.2). These results are also corroborated by OECD (2016), which places Kazakhstan among the most unequal countries in terms of regional inequality.

Figure 1.2. Poverty headcount ratio at national poverty lines in Kazakhstan

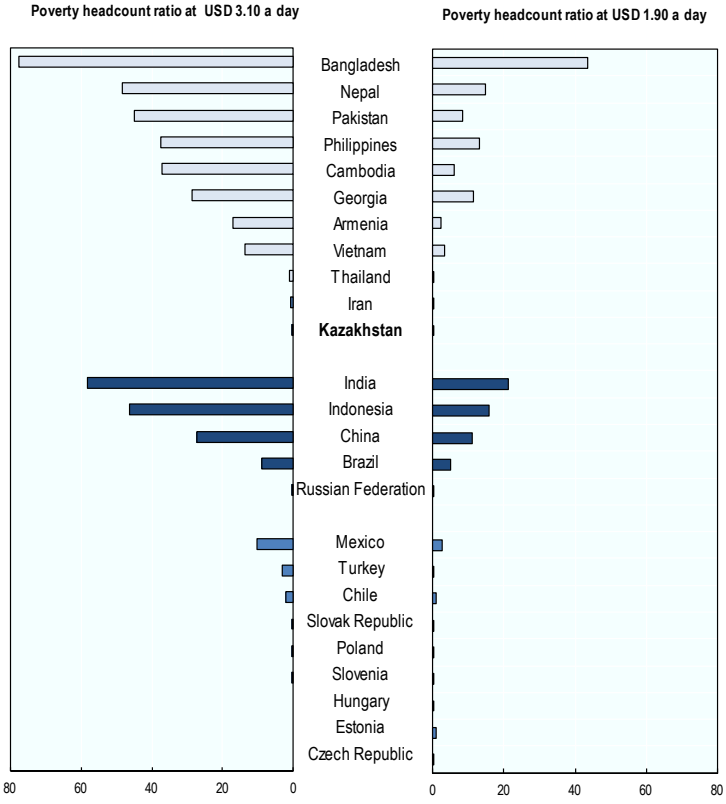
Percentage of population



Source: Agency of Statistics of the Republic of Kazakhstan.

Figure 1.3. Poverty headcount ratio (2011 PPP), Kazakhstan, Asian, BRIICS and OECD countries, 2013

Percentage of population

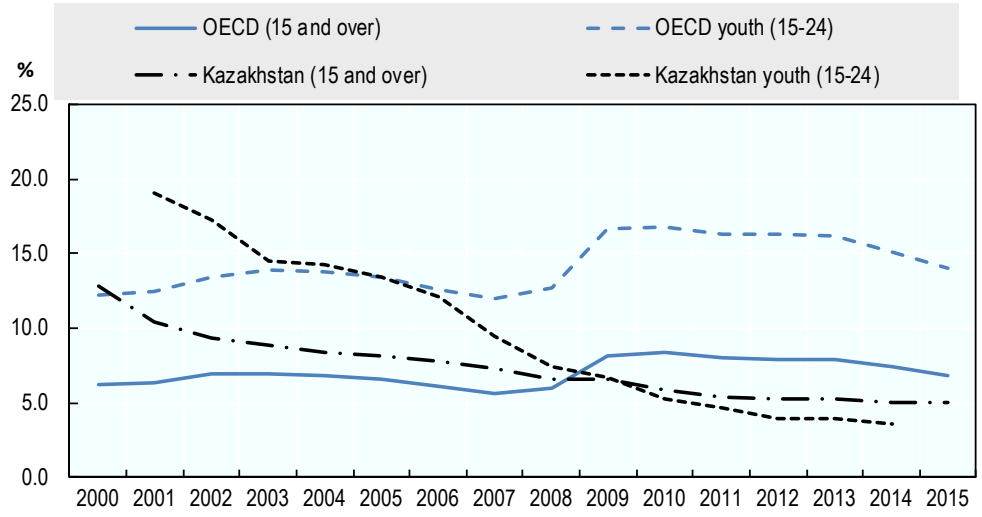


Note: Data for Cambodia, Philippines, South Asia, Thailand, Vietnam, the Czech Republic, Estonia, Hungary, Mexico, Poland, Slovak Republic, Slovenia, and Turkey refers to 2012. Data for India and the Russian Federation refers to 2011. Data for Bangladesh, Nepal, Pakistan, China and Indonesia refers to 2010.

Source: World Bank Database.

Economic growth acted as a powerful engine of job creation with the unemployment rate of the population (aged 15 and above) more than halving from 12.8% in 2000 to 5% in 2015. The fall in youth unemployment (15-24) was even more spectacular, from 19.1% in 2001 to 3.6% in 2014, which is below the level of unemployment of the working-age population (Figure 1.4). While in the early 2000s unemployment rates in Kazakhstan (for both the total population and youth) were higher than the OECD average, today they are far below OECD countries on average.

Figure 1.4. Unemployment rates, Kazakhstan and OECD, 2000-15

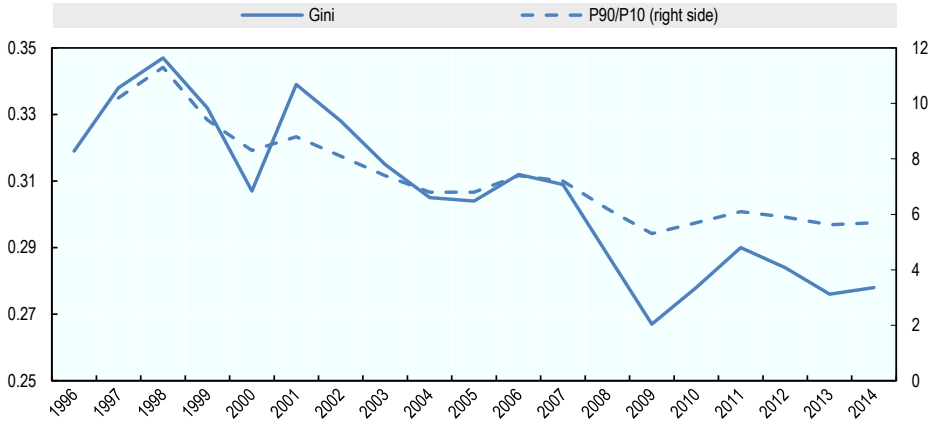


Source: *OECD Labour Force Statistics Database*; Agency of Statistics of the Republic of Kazakhstan; World Bank Database.

Strong growth also resulted in upward wage pressures and increasing incomes. At the same time, the dividends of the rise in incomes appeared to be relatively more pronounced for those at the bottom of the income distribution, leading to a decline of income inequality. Unlike many OECD countries, where the Gini coefficient – a standard measure of a society's level of inequality which ranges from 0 (perfect equality) to 1 (maximal inequality) – increased since the middle of 1990s from 0.305 to 0.320 in 2014, income inequality in Kazakhstan declined overtime. The Agency of Statistics of the Republic of Kazakhstan estimates that the Gini coefficient stands at 0.278 (in 2014), which compares to 0.319 in 1996 (Figure 1.5). As another indicator, in 1998 in Kazakhstan, the average income received at the top decile of the distribution was 11 times higher than that at the lowest decile (P90/P10). The same indicator was almost halved by 2014 (Figure 1.5).

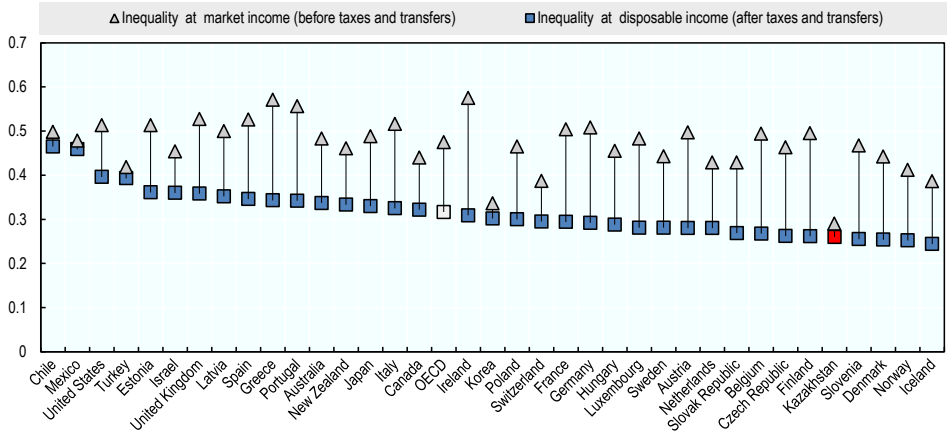
Today, Kazakhstan is one of the least unequal countries compared to OECD countries, and is placed at the bottom of the distribution together with countries such as Denmark, Iceland, Norway and Slovenia (Figure 1.6). This is despite the little redistributive role played by taxes and transfers (see Chapter 2 for a discussion). Indeed, while income inequality after taxes and benefits in the OECD is around 15.8 Gini points lower than before taxes and benefits, in Kazakhstan such reduction is just of 3 Gini point.

Figure 1.5. Inequality in Kazakhstan, 1996-2014



Source: Agency of Statistics of the Republic of Kazakhstan.

Figure 1.6. Gini coefficient at market income and disposable income, 2013



Note: Market income for Kazakhstan includes all pension income. Gini coefficients are calculated on the basis of household per adult equivalent income using the square root equivalence scale. Data are for 2014 for Australia, Hungary and Mexico, 2012 for Japan and New Zealand, 2013 for other countries.

Source: OECD Income Distribution and Poverty Database; for Kazakhstan, OECD (2016), *Multi-Dimensional Review of Kazakhstan: Vol. 1, Initial Assessment*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264246768-en.

Despite these notable improvements, some challenges remain. As discussed in the OECD *Multi-dimensional Country Review of Kazakhstan*, while visible gains have been achieved in dimensions of well-being, Kazakhstan scores well in measures that assess quantity. By contrast, it underperforms in measures of quality and impact (OECD, 2016). For instance, basic education is quasi-universal but average quality and learning outcomes remain below par. Health outcomes also remain poor whether measured by life expectancy, mortality rates or the prevalence of major infectious diseases.

With the weight of oil and other extraction activities on overall export exceeding 75% and accounting for 16% of GDP (OECD, 2016), many observers have cast doubts on a growth model so strongly driven by the performance of the Kazakhstan's natural resource sector (for a recent discussion, see Howie and Atakhanova, 2014; OECD/The World Economic Forum, 2011; IMF, 2014; World Bank, 2013). Meanwhile, the Kazakhstani

Government has set the pursuance of economic diversification as the top long-term priority of the country. This will require the development of supportive labour markets (discussed in the next sections of this chapter), capable of accommodating the expansion of a dynamic business sector and generating jobs in areas of the economy that remain largely underutilised.

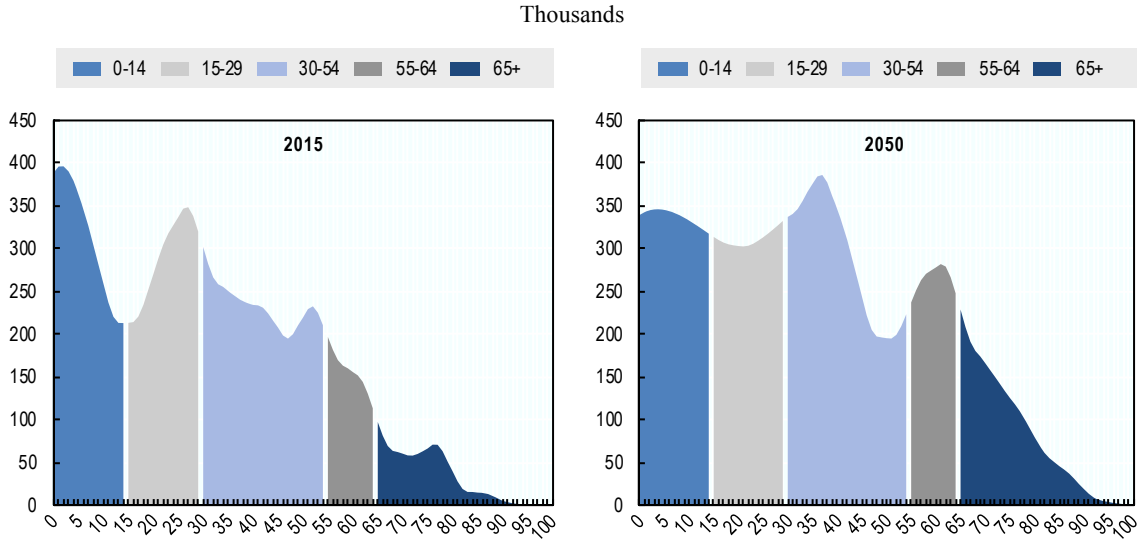
The labour market situation in Kazakhstan

A glance at labour market outcomes suggests that Kazakhstan performs well in the international comparison. However, the figures mask important challenges with regards to job quality. This section looks at key indicators on demographics, job quantity and job quality, placing Kazakhstan in an international comparative perspective.

Demographics

The Kazakhstani population is expected to increase in the upcoming decades, from over 17.5 million in 2015 to around 22.5 million in 2050. At the same time, the population structure will change quite substantially in the same period. In 2050, age cohorts 0-14 and 15-29 will be flatter and there will be a larger group of older people (ages 55-64 and over 65) in the population compared to 2015 (Figure 1.7). As a result of these population changes, the dependency-ratio (as defined by the share of the young and oldest people in the total population) is expected to increase in the years to come – although it will still remain below the OECD levels (see also OECD, 2016).

Figure 1.7. The Kazakhstani population structure, 2015 and 2050



Note: Medium-fertility assumption: total fertility is assumed to converge eventually toward a level of 1.85 children per woman.

Source: OECD calculations based on United Nations, Department of Economic and Social Affairs, Population Division (2011), *World Population Prospects: The 2015 Revision*.

Job quantity

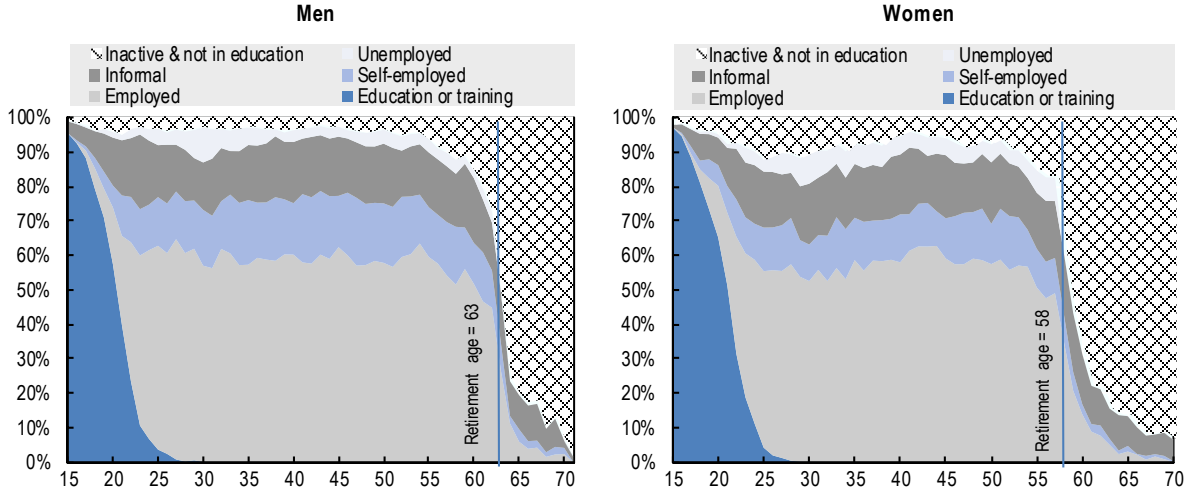
Kazakhstani people fare very well in the labour market by international standards when it comes to job quantity. Unemployment and inactivity rates are generally lower and employment rates higher than most OECD countries. Long-term unemployment

affects comparatively few jobseekers. Unlike what is observed in most OECD countries, youth do very well and their labour market outcomes are generally better than those of adults. However, some population groups are still lagging behind. As in other countries, women and the low-skilled face greater barriers in accessing the labour market. Older workers also face significant barriers in remaining engaged in the labour market, especially after reaching retirement age. Similarly, people with disabilities are also struggling to find their place in the labour market.

Activity status throughout the lifespan in Kazakhstan

Figure 1.8 illustrates the activity status by single year of age for men and women in Kazakhstan in 2014. Young men and women aged 15-19 are most often enroled into the education and training system, which explains their low labour market participation. Youth in this age group who are already in employment often hold informal jobs. Importantly, very few young people at these ages are inactive and not in education or unemployed. By age 24, almost everyone has left education and training and many youth entered the world of work. While the shares in informal employment and self-employment increase somewhat relative to younger peers, the majority of youth enter formal (contributory) employment. A similar activity path is observed across prime-age workers (ages 30-49), who have left the education and training system and are most often employed in the formal sector. Women are generally more often inactive than men, probably reflecting family obligations and childcare responsibilities (see Chapter 2).[2]

Figure 1.8. Activity status by age and gender, Kazakhstan, 2014[1]



1. *Inactive and not in school* are people that are non-employed and not in school and have not searched for a job in the weeks preceding the interview. *Informal workers* are workers in dependent employment without obligatory social insurance contributions; domestic workers; workers engaged in subsistence agriculture; self-employed operating without registration; own account workers working for other individuals without obligatory social security contributions; own account workers working for unregistered firms or without obligatory social security contributions. *Employed* are workers in dependent contributory employment. *Unemployed* are people who report searching for job and ready to take employment in the weeks preceding the interview. *Self-employed* are people operating formally registered firms and own account workers with social security contributions. *Education or training* people that did not search for a job or were not ready to take employment due to participation in education or professional training.

Source: OECD calculations based on the labour force survey.

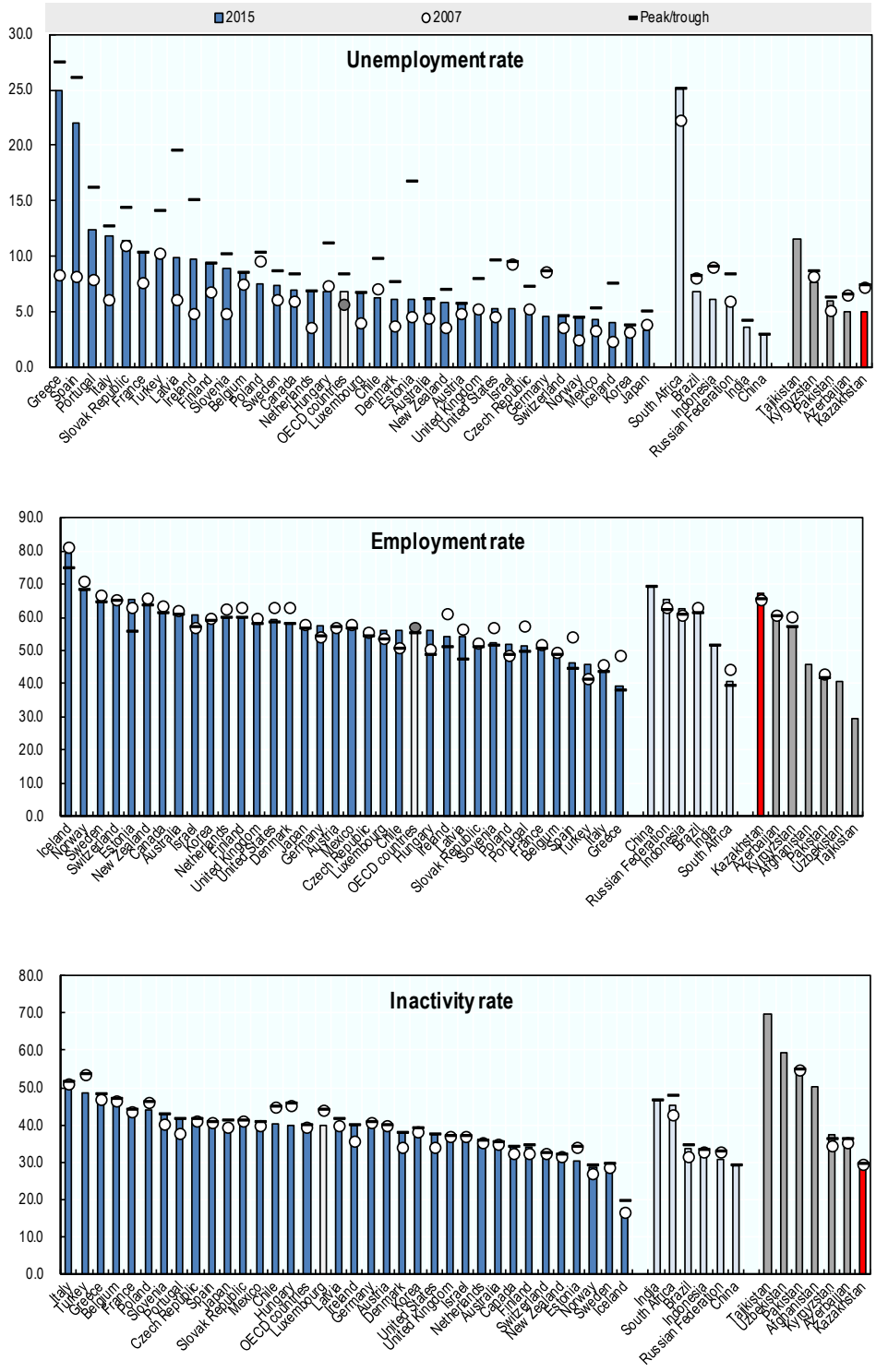
Inactivity starts to increase for men and women already before reaching retirement age and very few pensioners work. Indeed, the legal retirement age for men and women in Kazakhstan is 63 and 58 years respectively, but the withdrawal from the labour market already starts 2-3 years before. After reaching retirement age, very few people remain in employment and of those remaining engaged in the labour market many work informally. Rapid withdrawal from the labour force may be explained by a number of institutional factors – such as the low retirement age of men and women, as well as the lack of incentives to continue work after retirement age (discussed in Chapter 3) – but also by the poor health of older workers in Kazakhstan. Indeed, Kazakhstani men and women are expected to stay healthy only for 59.8 and 66.8 years respectively on average, which may negative impact their ability to work at old ages.

Kazakhstan fares well in the labour market by international standards

From an international comparative perspective, Kazakhstan fares considerably better than OECD, BRIICS, and neighbouring countries on average in terms of key labour market outcomes. The employment rate of the population (15 and over) in Kazakhstan is much higher than the OECD average (67.1% versus 55.9%), while unemployment (5% versus 6.8%) and inactivity rates (29.3% versus 40%) are significantly lower (Figure 1.9).[3] This is so despite the fact that retirement age in Kazakhstan is lower than most OECD countries and Kazakhstani older workers' participation in the labour market is generally lower. Kazakhstan also compares favourably when compared to most of the BRIICS and other neighbouring countries. Interestingly, the financial crisis and the economic recession did not have a big negative impact on the Kazakhstani labour market: unemployment rates went down considerably since 2007, while also employment and inactivity indicators somewhat improved in the same period. This is in stark contrast with recent trends observed in most OECD countries, but overall in line with what was observed in some of the BRIICS and neighbouring countries in the same period.

Even when unemployed, most Kazakhstani people manage to return to employment relatively quickly. Indeed, long-term unemployment (one year or more) affects only around one in six (16.5%) unemployed people in Kazakhstan[4] (Figure 1.10). This is significantly lower than what is observed in OECD countries on average (33.8%) and lower than the BRIICS for which data is available. While this is a good sign, it may also reflect that – considered the weak social protection and income support system in place in case of job loss (see Chapter 2 for a discussion) – many Kazakhstani people simply cannot afford to be unemployed for too long and therefore move rapidly back into jobs.

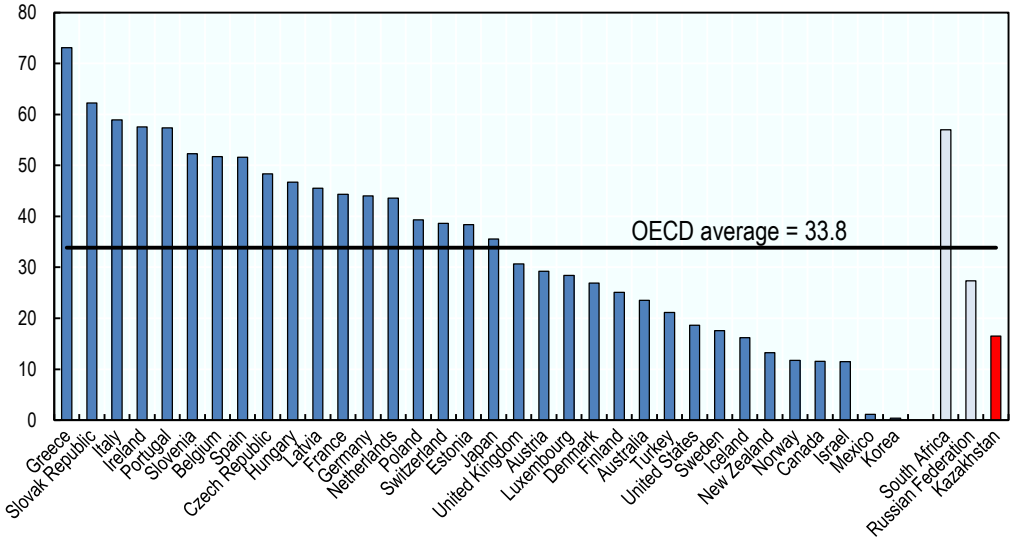
Figure 1.9. Key labour market indicators of total population (over 15) in Kazakhstan, neighbouring countries, OECD, BRIICS, 2007-15 (or latest year available)



Source: *OECD Labour Force Statistics Database*; ILOSTAT; author's calculations based on the Agency of Statistics of the Republic of Kazakhstan.

Figure 1.10. Incidence of long-term unemployment (one year or more), Kazakhstan, OECD and BRIICS, 2015

Percentage of unemployed people (aged 15 and over)



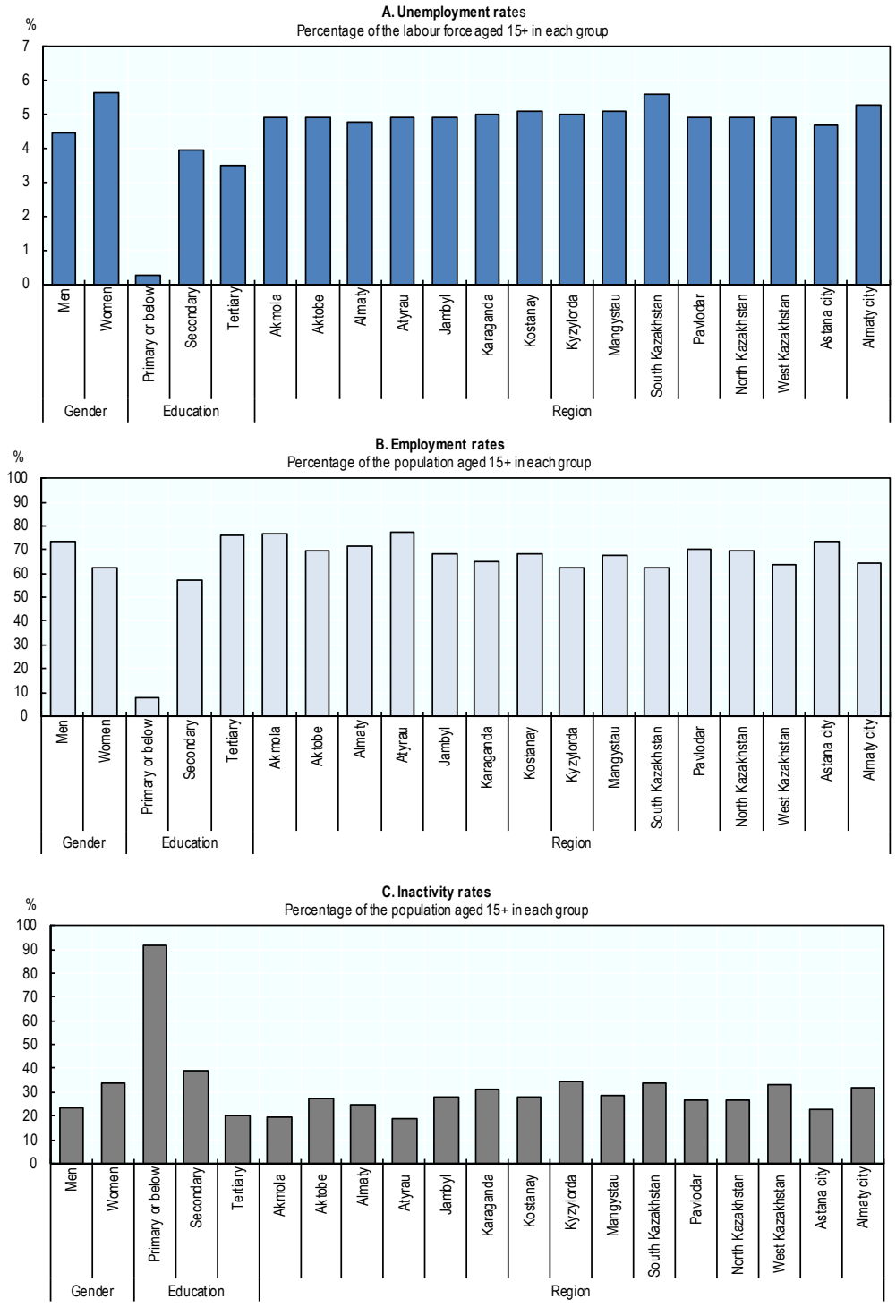
Note: Data for Kazakhstan refers to 2012; data for Brazil, China, India and Indonesia are not available.

Source: OECD Labour Force Statistics Database; ILOSTAT for Kazakhstan.

Labour market outcomes vary among gender, educational and regional characteristics

Despite the comparatively favourable labour market performance of Kazakhstani people, some population groups are still struggling to find their place in the labour market (Figure 1.11). Women have somewhat lower employment rates than men (62.3% versus 73.5%) resulting primarily from much higher inactivity rates (34% versus 23.1%) – although their unemployment rates are also higher (5.6% versus 4.4%). Similarly to OECD countries, low-skilled people face severe challenges in entering the labour market. In particular, in Kazakhstan people with primary education or below have generally much higher inactivity (92% versus 20%) and lower employment (8% versus 76%) rates than people with higher education for example, but lower unemployment rates (reflecting very low participation rates). Labour market outcomes also vary slightly by regions. Employment rates span from a low 62.2% in Kyzylorda to a high 77.4% in Atirau; unemployment rates are lowest at 4.7% in Astana city and highest at 5.6% in South Kazakhstan; and inactivity rates span from a low 19.5% in Akmola and a high 34.5% in Kyzylorda.

Figure 1.11. Labour market outcomes by socio-demographic characteristics, Kazakhstan, 2015



Note: Data refers to Q4 2015; education data refers to 2014.

Source: For region and gender data, Agency of Statistics of the Republic of Kazakhstan; for education data, OECD calculations based on the labour force survey.

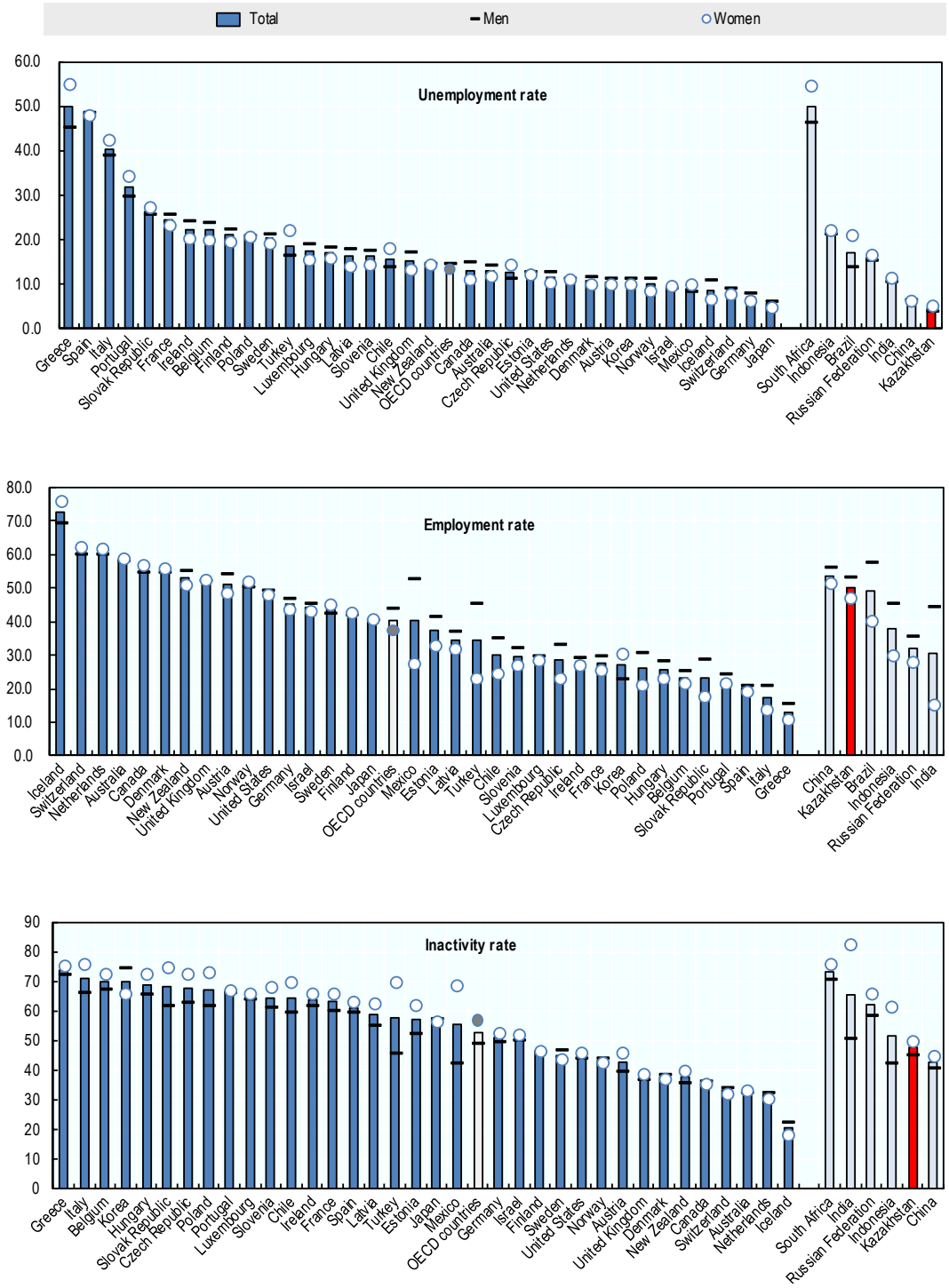
Youth fare well by international standards

Overall young people in Kazakhstan fare well in the labour market when compared to young people across the OECD (Figure 1.12): their unemployment rate is around four folds less than the OECD average (4.6% versus 14%) and the lowest across all OECD countries, employment rates are high (50% versus 40.5%), and relatively fewer Kazakhstani youth are inactive (47.5% versus 52.9%). Even when compared to the BRIICs, Kazakhstani youth tend to perform relatively well (Figure 1.12). Although in Kazakhstan young women perform slightly worse than young men on the above labour market indicators, their labour market outcomes score systematically better than young women across OECD countries on average, and generally better than the BRIICS (with the only exception of China for the employment and inactivity indicators).

An alternative indicator that provides insights into how well youth fare at the labour market is the proportion of youth that is not in employment, education or training (NEET). The low unemployment and inactivity rates of Kazakhstani youth translate into a very low NEET rate: less than 9% of youth are NEET in Kazakhstan, compared to an OECD average of 14.6%, only higher than Iceland, Luxembourg, Netherlands, Norway, Switzerland, and below any of the BRIICS (see Figure 1.13).

Despite good labour market outcomes for youth, large differences exist across socio-demographic and geographic groups in Kazakhstan (Figure 1.14). NEET rates are higher among young women (11%) than young men (6%). NEET rates are also higher among youth with no or primary education compared to their more educated peers. Particularly large differences exist across different regions, with NEET rates being highest in regions such as Jambyl (12.4%) and South Kazakhstan (11.4%), and lowest in Kostanay (3.5%) and West Kazakhstan (3.8%).

Figure 1.12. Key labour market indicators for youth (15-24), Kazakhstan, OECD, and BRIICS, 2015

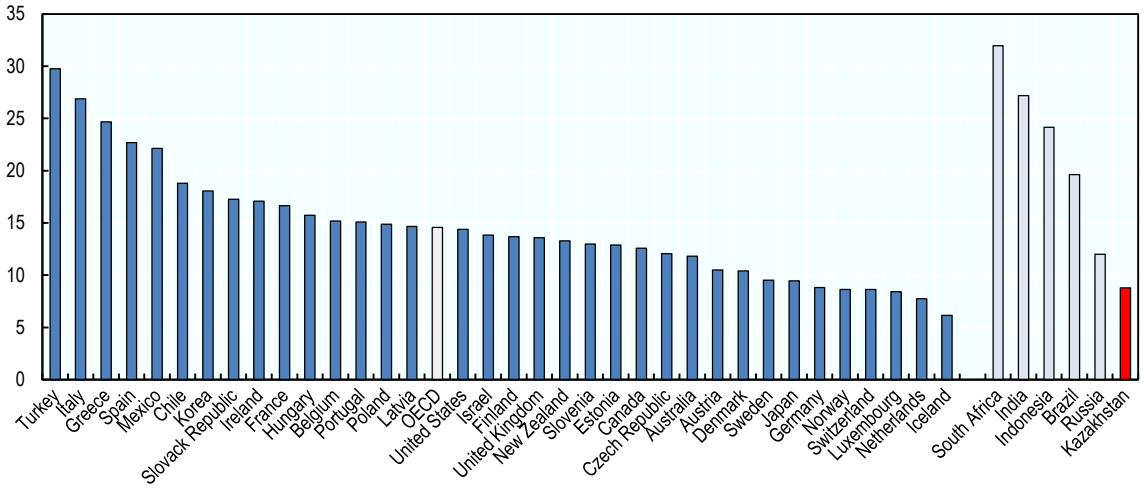


Note: Data for Kazakhstan refers to Q4 2015; data for Brazil refer to 2014; data for China refer to 2010; data for India refer to 2012; data for Indonesia refer to 2013; data for OECD countries refer to 2015.

Source: OECD Labour Force Statistics Database; for Kazakhstan, OECD calculations based on the Agency of Statistics of the Republic of Kazakhstan.

Figure 1.13. Youth not in employment, education or training (NEET) rates, Kazakhstan, OECD and BRIICS, 2015

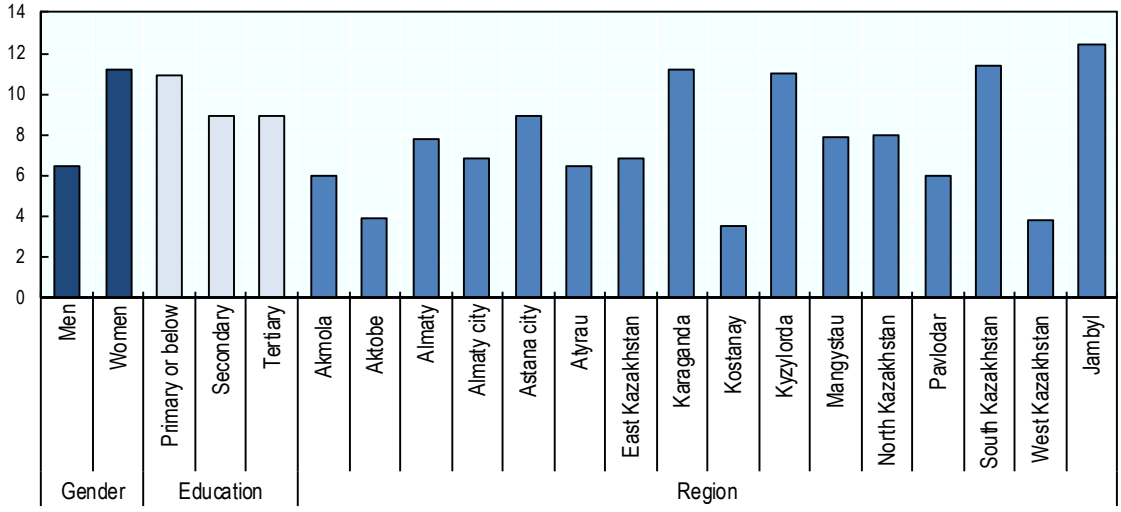
Percentage of the population aged 15-29



Note: Data for the BRIICS refer to the age group 15-24; data for Brazil, Indonesia and South Africa refer to 2013; data for Russia refer to 2012; data for India refer to 2010.

Source: For OECD countries, OECD calculations based on national labour force surveys excepted *OECD Education Database* for Australia, Israel, Korea and New Zealand; for the BRIICS, OECD World Indicators of Skills for Employment; for Kazakhstan, Agency of Statistics of the Republic of Kazakhstan.

Figure 1.14. Youth (15-29) NEET rates by socio-demographic characteristics, Kazakhstan, 2014



Note: Regional data refers to Q4 2014. All other data refers to 2014.

Source: OECD calculations based on the labour force survey; for regional data OECD (2016), *Multi-Dimensional Review of Kazakhstan: Vol. 1, Initial Assessment*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264246768-en.

Another useful measure of the relative position of youth in labour market is the length of school-to-work transitions (i.e. the time it takes young people to find work after leaving education). Table 1.1 presents a proxy for the length of school-to-work transitions – the difference between the average school leaving age and the average age at which 50% of youth are in employment. The school leaving age in Kazakhstan is estimated at 20.7 similar to such countries as Australia, Canada, Italy, United Kingdom and United States. The average length of school-to-work transition in Kazakhstan is estimated at half a year – which is the lowest figure among the considered countries. For example, in countries such as Argentina, Chile, Italy, India, South Africa, and Turkey, it takes over five years for youth to complete the school-to-work transition.

Table 1.1. Average duration of school to work transitions, Kazakhstan, OECD and other selected countries, 2011[1]

Number of years

	School leaving age[2]	Age of entry into work[3]	Length of school-to-work transition
	A	B	B-A
Argentina*	19.7	24.9	5.2
Australia	20.4	22.1	1.7
Brazil*	18.3	21.7	3.4
Canada[4]	21	22.6	1.7
Chile	18.7	24.6	5.9
France	21.6	23.5	1.8
Germany	22	24.2	2.3
India	17.6	23.8	6.2
Indonesia	17.4	22	4.6
Italy	20.5	26.3	5.9
Kazakhstan	**20.7**	**21.2**	**0.5**
Mexico	18	22.7	4.7
South Africa	19.3	27.7	8.3
Spain	22	26.7	4.7
Turkey	18.4	26	7.6
United Kingdom	20.3	22.8	2.5
United States	20.8	22.9	2.1

*: Selected urban areas only.

1. 2004 for Indonesia, 2009 for Australia and Chile, 2009/10 for India, 2010 for South Africa, 2014 for Kazakhstan.

2. Age at which 50% of youth are enroled in education or training.

3. Age at which 50% of youth are employed and no longer enroled in education or training.

4. Age is defined in two or three-year groups for Canada and the calculation is based on the average age in each class.

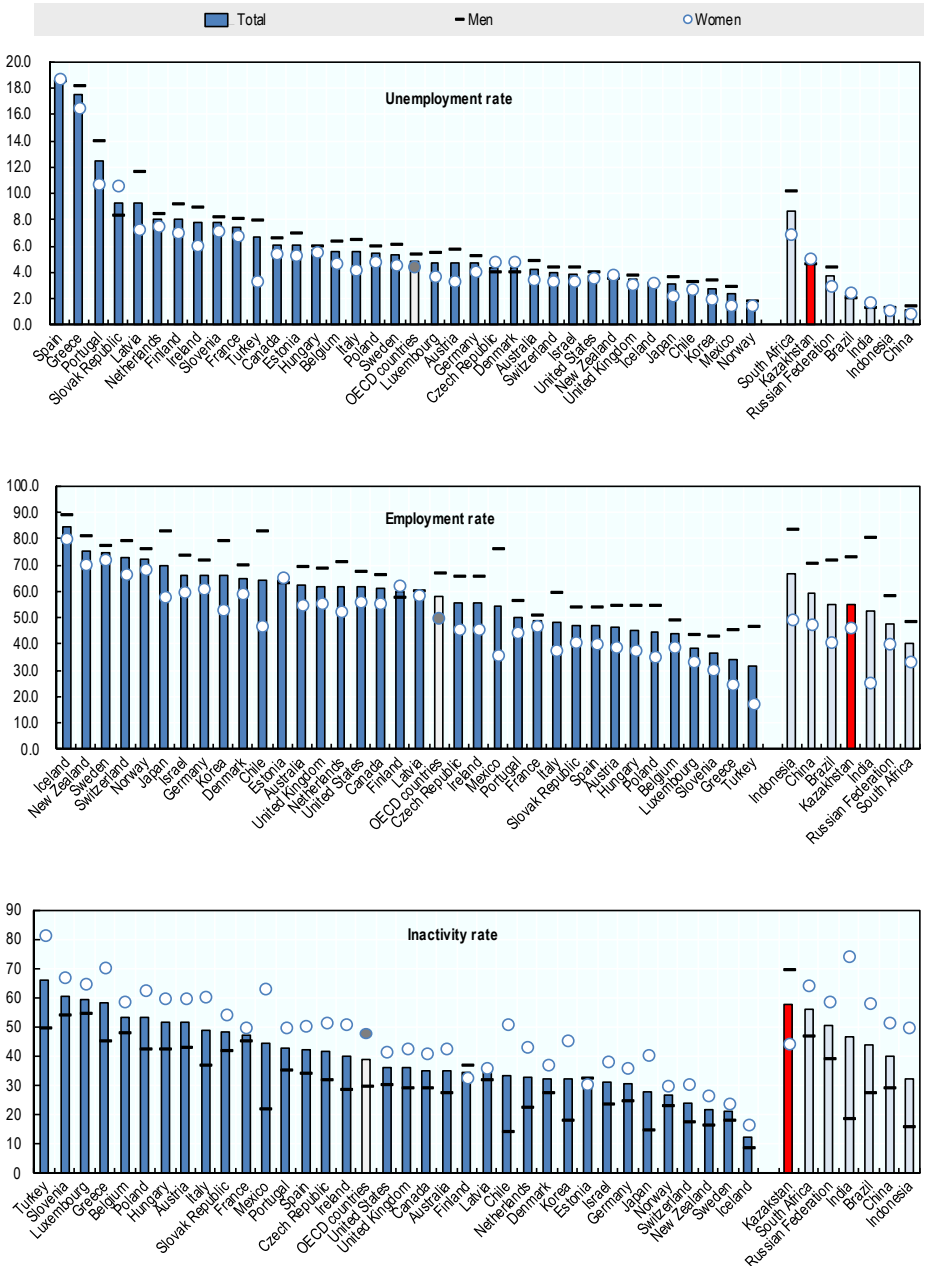
Source: Quintini, G. and S. Martin (2013), "Same Same But Different: School-to-work Transitions in Emerging and Advanced Economies", *OECD Social, Employment and Migration Working Papers*, No. 154, OECD Publishing, Paris, http://dx.doi.org/10.1787/5jzbb2t1rcwc-en. For Kazakhstan, OECD calculations based on the labour force survey.

Older people are lagging behind in the labour market

Reflecting institutional differences in retirement age across countries, as well as other factors such as the work incentives structure and health conditions (see Chapter 3), older people in Kazakhstan are generally lagging behind in the international context. Despite slightly lower unemployment rates (4.8% versus 4.9% for the OECD area), the inactivity rate for Kazakhstani older workers (ages 55-64) is somewhat higher (42.4% versus 38.9%), and the employment rate is lower (54.8% versus 58.1%) (Figure 1.15) than the OECD average. The labour market situation of older workers deteriorates even further with age,

after they reach retirement age. As shown in Figure 1.16, people aged 65-69 in Kazakhstan are twice less likely to be employed (employment rate is 12%) and much more likely to be inactive (inactivity rate is 87%) than the OECD average (where employment rates for this age group are 24.9% and inactivity rates are 74.4%). On the other hand, unemployment rates are very low, reflecting low participation in the labour market.

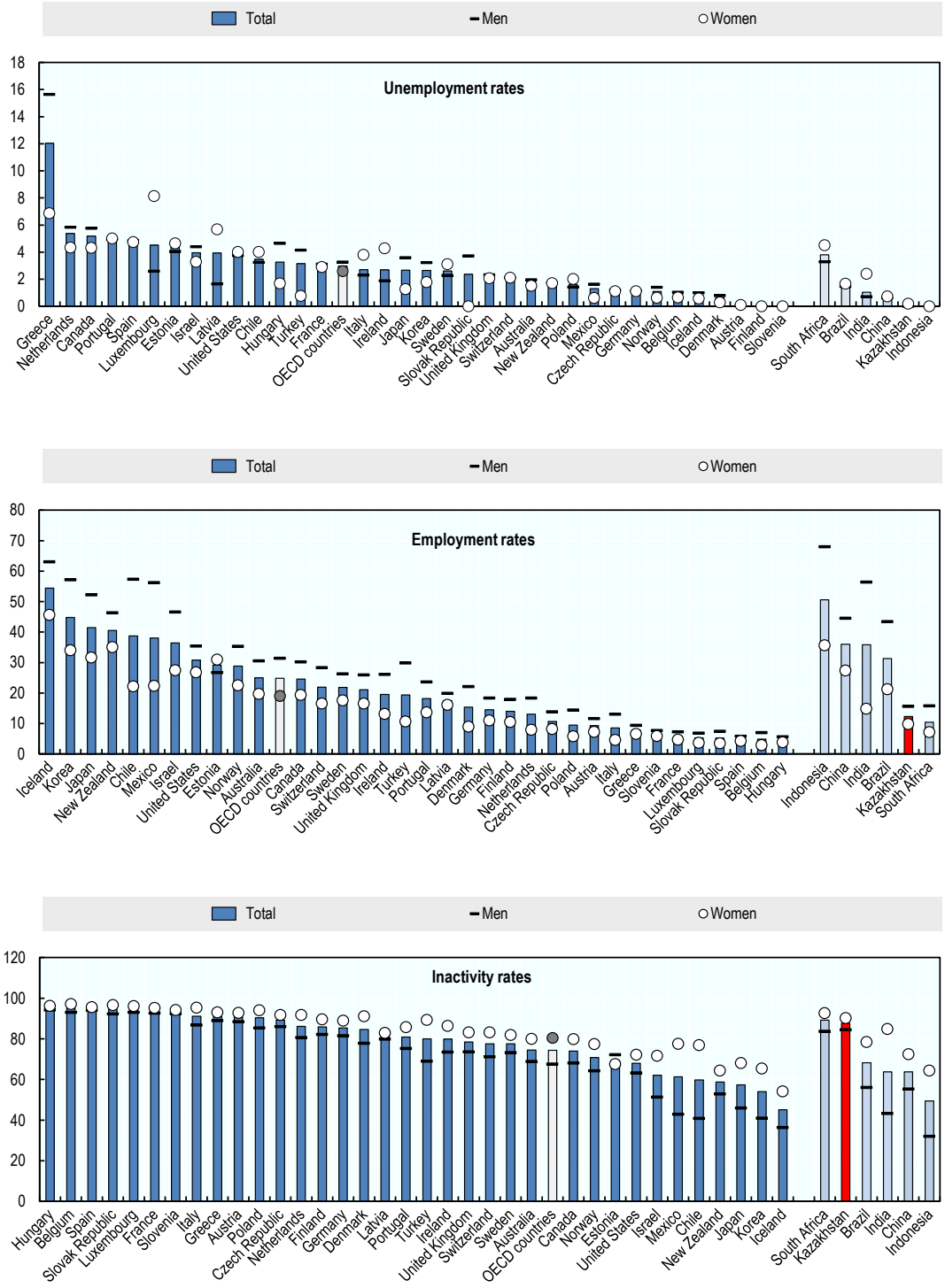
Figure 1.15. Key labour market indicators for older workers (ages 55-64), Kazakhstan, OECD and BRIICS, 2015



Note: data for Kazakhstan refer to Q4 2015; data for Brazil refer to 2014; data for China refer to 2010; data for Indonesia refer to 2013; data for India refer to 2012; data for Russian Federation and South Africa refer to 2015.

Source: *OECD Labour Force Statistics Database*; OECD calculations based on the Agency of Statistics of the Republic of Kazakhstan.

Figure 1.16. Key labour market indicators for people aged 65-69, Kazakhstan, OECD and BRIICS, 2015



Note: data for Kazakhstan refer to 2014; data for Brazil refer to 2014; data for China refer to 2010; data for Indonesia refer to 2013; data for India refer to 2012; data for South Africa refer to 2015; data for the Russian Federation is not available.

Source: *OECD Labour Force Statistics Database*; for Kazakhstan, OECD calculations based on the labour force survey.

People with disabilities are often excluded from the labour market

People with disabilities are often struggling to integrate the labour market. Despite the fact that most people with disabilities have remaining work capacities,[5] very few are actually employed. This represents a large unexploited potential, and reflects high barriers to the hiring and retention of people with disabilities. Their poor labour market participation is also reflected in the international context. At 22%, in Kazakhstan the employment rate of people with disabilities compares poorly to the OECD-European average of 46.9% and places itself at the bottom of the ranking. Even those with a job are often underemployed (only 62.8% of employed people with disabilities work full-time[6]), and are likely to have unstable jobs (two-thirds of those with a job have a temporary contract).

Job quality

Despite good labour market outcomes, this *prima facie* evidence needs some clarification. In particular, there is scope for increasing the quality of employment, away from informality and self-employment and towards more productive employment opportunities. The remaining section of this chapter discusses job quality in Kazakhstan, and touches upon issues such as informality, self-employment, low-pay, contract type (temporary versus permanent; part-time versus full-time), working hours and job satisfaction.

Informality remains a key challenge, especially among disadvantaged groups

Many Kazakhstani workers – especially youth, older workers, and the low-skilled – find themselves holding informal jobs and may find it hard to transit to the formal sector (Rutkowski, 2011). Where informality is not a choice, it often means access to precarious and poorly paid jobs, with little or no social security coverage, or protection provided by labour contracts (i.e. minimum wages, employment protection or occupational health and safety standards). This happens on top of less access to training and career advancement that are typically benefitted by formal workers.

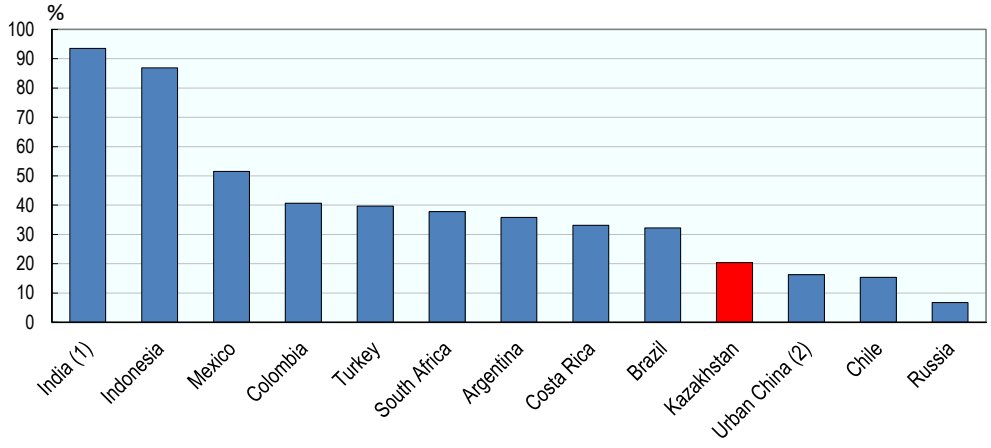
OECD elaborations based on the labour force survey show that in 2014 informal workers – defined as employees who do not pay social contributions and self-employed whose business is not registered[7] –accounted for 20% of total employment in Kazakhstan. By international standards, this level of informality is not particularly high given the level of development of the country and the sector composition of the economy (OECD, 2016; Rutkowski, 2011). It is slightly higher than countries like Chile, (urban) China and Russia, but much lower than many emerging economies, where informality rates can reach levels of around 90% (in countries such as India and Indonesia, for example) (Figure 1.17).

As in other emerging economies, in Kazakhstan some categories of workers – such as youth, older workers and the low-skilled, for example – are more affected by informality than others. *First*, the likelihood of working informally is relatively high at young ages, it decreases among prime-age workers and adults, it increases gradually for older workers and spikes after retirement age: 22% of employed youth (15-29) are informal workers, compared to an incidence of 18% in the prime-age group (30-49), 21% in the older workers group (50-64), and over 70% in the age group 65 and above (Figure 1.18). The overrepresentation of the young among informal workers suggests that informal employment can provide a stepping stone for entering the labour market for many youth (OECD, 2016), although more research is needed in this area (Rutkowski, 2011). The relatively high incidence of informality among older workers may reflect a choice to work informally, but may also point to a lack of opportunities for formal employment at older ages. *Second*, another finding is that the likelihood of working informally decreases sharply with educational attainment: around 75% of all employed people with primary

education work informally, compared to 37% of people with secondary education and 13% with higher education. This suggests that informal jobs may often be the only opportunity available to unskilled workers. *Third*, informality is significantly more common among the self-employed than it is among dependent workers across all worker characteristics. *Finally*, informality is only slightly more common among women than it is among men. These paths are consistent with what is observed among a number of selected emerging countries (Figure 1.18).

Figure 1.17. Incidence of informality, Kazakhstan and selected emerging economies

As a share of total employment



Note: Informality is defined to include: i) employees who do not pay social contribution, except for Colombia where contract status is used; and ii) self-employed who do not pay social contributions (Brazil, Chile, China, India, Indonesia, Turkey) or whose business is not registered (Argentina, Colombia, Costa Rica, Kazakhstan, Mexico, South Africa).

1. The figure for India is based on the assumption that all self-employed workers with missing information on paying social contributions work in the informal sector.

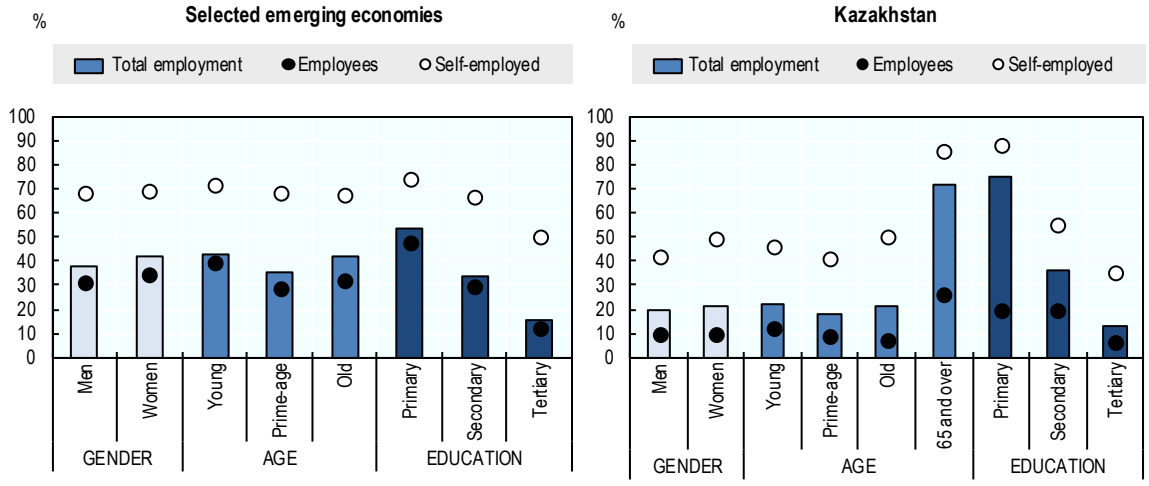
2. Data for China refers to 2008-2009; data for all countries but Kazakhstan refers to 2011-12; data for Kazakhstan refers to 2014.

Source: OECD (2015), *OECD Employment Outlook 2015*, OECD Publishing; for Kazakhstan, OECD calculations based on the labour force survey.

Several factors can help explain the size of the informal sector in Kazakhstan. In urban areas employers resort to informal employment to avoid taxes and to circumvent administrative burdens, while, at the same time, workers' incentives to search an occupation in the formal sector are precluded by the low generosity of social security benefits (e.g. pensions, unemployment and social assistance benefits) (see Chapter 2). In addition, working informally is often the only way to access the labour market, either due to insufficient job creation in certain sectors or group-specific obstacles to participation in the formal labour market. In rural areas, informality seems to stem from a mix of inherited customs and practices in agriculture, which might be more difficult to eradicate (Rutkowski, 2011).

Figure 1.18. Incidence of informality by key worker characteristics

Kazakhstan and average of selected emerging countries[1]



Note: Informality is defined as: i) employees who do not pay social contribution, except for Colombia where contract status is used; ii) self-employed who do not pay social contributions (Brazil, Chile, India, Turkey) or whose business is not registered (Argentina, Colombia, Costa Rica, Mexico, South Africa).

1. The figures include India, Mexico, Colombia, Turkey, South Africa, Argentina, Costa Rica, Brazil, China, Chile and Russia. China and Indonesia (due to data availability) as well as Russia (where it has not been possible to separately identify informal self-employment); figures for Brazil, Chile and India are from 2011.

Source: OECD (2015), *OECD Employment Outlook 2015*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2015-en; for Kazakhstan, OECD calculations based on the labour force survey.

Self-employment is widespread but remains largely unproductive

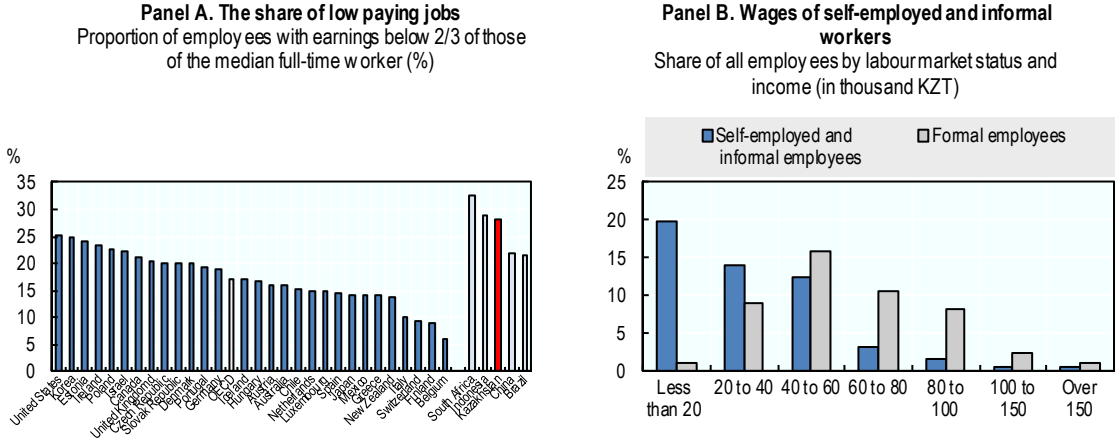
Another key challenge in Kazakhstan is the high rate of self-employment. The Agency of Statistics of the Republic of Kazakhstan estimates that in 2014 around 2.6 million people were self-employed, representing around 30.2% of the employed population. Of these, 1.2 million were registered individual entrepreneurs, and only 166 000 were employers. The majority of self-employed people in Kazakhstan work in agriculture (51%), the retail sector (25%) and other sectors (24%), such as education, health care, construction and transportation. Importantly, although they make up just less than a third of the employed population, the self-employed produce only about 10% of the gross value added and their productivity is about six times lower than that of those who are formally employed. This is partly explained by the fact that a large proportion of self-employment is informal, the income from which is not declared. In addition, much of the informal self-employment activity is at the subsistence level, and many are "unproductively self-employed", i.e. unregistered individual entrepreneurs working in cottage industries and producing goods for their own consumption, or those whose average monthly income is less than the living wage of the region where they live (OECD, forthcoming). The majority of the informal self-employed lack the education and skills required to obtain a job in the formal sector and to make their work more productive (Mussurov and Arabsheibani, 2015).

Many workers hold low paying jobs

Another key challenge for job quality in Kazakhstan is low pay. Low pay is defined by the OECD and the ILO as pay below two-thirds of median earnings. According to this definition, around 28% of salaried workers receive low pay in Kazakhstan, which is well above all OECD countries – where the highest rate is recorded at below 25% in Estonia, Korea and the United States – and some of the BRIICS (notably Brazil and China) for which data is available (Figure 1.19, Panel A).

Unsurprisingly, self-employment and informal workers are more likely than other population groups to hold low-paid jobs. As shown in Figure 1.19 (Panel B), self-employed people and informal workers tend to earn much lower wages compared to formal employees: around 20% of self-employed and informal workers earn less than KZT 20 000, compared to less than 1% among formal employees. The incidence of low pay is particularly high in certain sectors, where the great majority of workers hold low-paid jobs. For example, the incidence of low pay is 90% in agriculture and 83% in the education sector (OECD, 2016).

Figure 1.19. The incidence of low paying jobs, Kazakhstan and selected countries, 2013 (or latest year)



Note: Data for Brazil, China, Indonesia and South Africa are from the ILO Global Wage Database; data for OECD countries are from the *OECD Earnings Database*; data from Kazakhstan are from OECD (2016), *Multi-Dimensional Review of Kazakhstan: Vol. 1, Initial Assessment*, OECD Publishing. The incidence of low pay measures the share of employees with hourly earnings below 2/3 of the median hourly earnings. Data for Brazil refer to 2009; 2008 for China and Indonesia; 2007 for South Africa; 2013 for all other countries.

Source: OECD Earnings Database; ILO Global Wage Database; OECD (2016), *Multi-Dimensional Review of Kazakhstan: Vol. 1, Initial Assessment*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264246768-en.

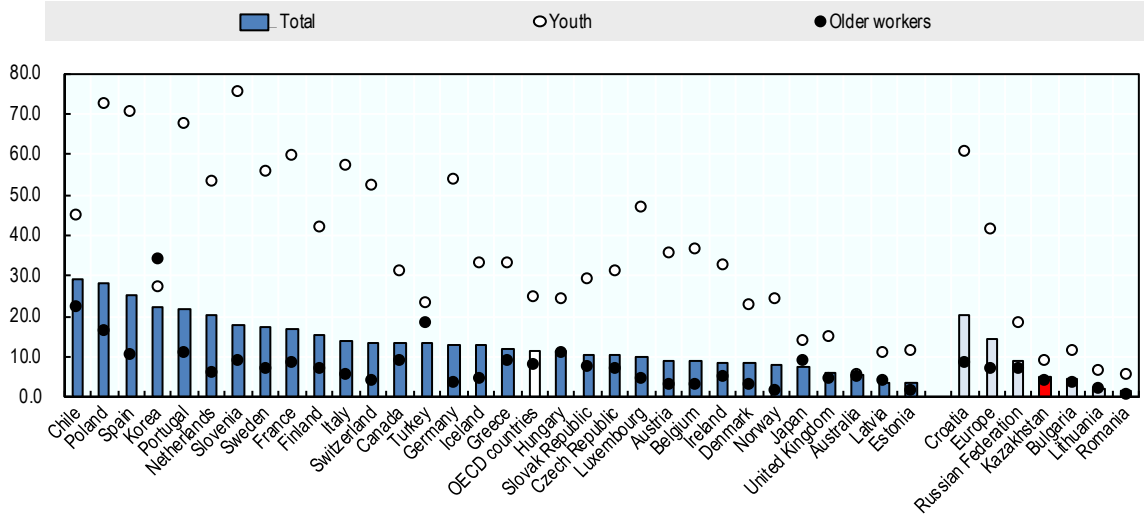
Few employees work under temporary contracts

Temporary contracts are very uncommon across Kazakhstani workers. Less than 5% of Kazakhstani workers who work in dependent employment have a temporary job, compared to an OECD average of 11.4% (Figure 1.20). Across OECD countries, only Estonia (3.5%) and Latvia (3.8%) have a lower share of temporary employment than Kazakhstan, and across a selection of non-member countries, only Bulgaria, Lithuania and Romania have such low levels of temporary employment. Similarly, the incidence of temporary employment in Kazakhstan among youth and older workers is extremely low by international standards. Unlike most OECD and European countries, where the

incidence of temporary employment is typically much higher for youth and often lower for older workers, in Kazakhstan the difference among these age groups exists but is much less pronounced.

Figure 1.20. Incidence of temporary employment by age, Kazakhstan, OECD countries and selected non-OECD countries, 2015

Percentage of people in dependent employment



Note: Data for Australia refer to 2013; data for Kazakhstan refer to 2014. Youth refers to population aged 15-24; older workers to population aged 55-64.

Source: OECD Labour Force Statistics Database; for Kazakhstan, OECD calculations based on the labour force survey.

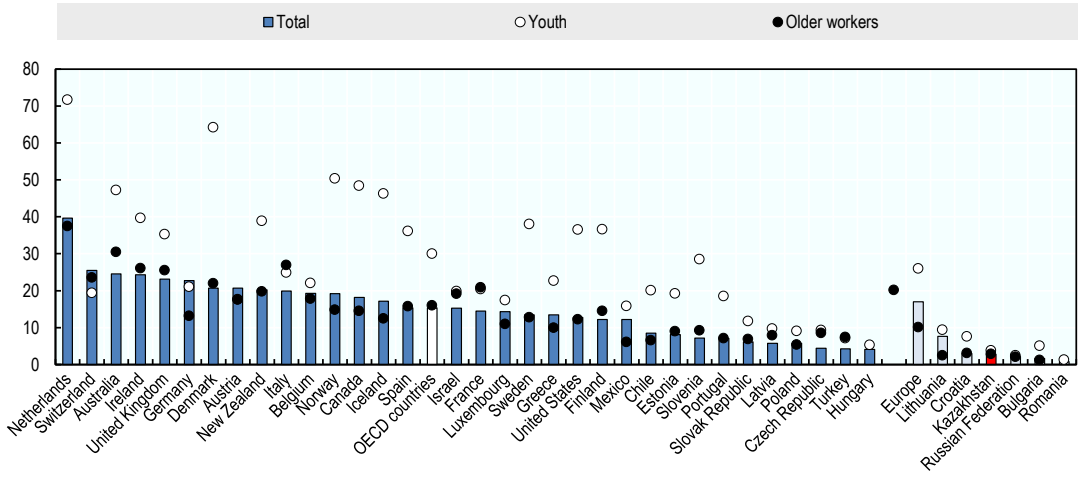
Part-time employment is uncommon, and very few workers work very long hours

Not only Kazakhstani employees are unlikely to be hired under temporary contracts, they are also unlikely to work part-time. Far less people are hired under part-time employment in Kazakhstan than in OECD countries: Kazakhstan is right at the bottom of the distribution, with 2.7% of workers in dependent employment working part-time compared to an OECD average of 15.3% (Figure 1.21). A similar low incidence of part-time work is found in some Eastern European countries, the Russian Federation and the Baltic countries. Unlike most OECD and European countries, where the incidence of part-time employment is typically much higher for youth and often lower for older workers, in Kazakhstan no significant difference among these age groups can be observed.

Another measure of job quality is the incidence of very long working hours. Figure 1.22 shows the incidence of working more than 60 hours a week in Kazakhstan, the OECD average and a selection developing countries. The data shows that in Kazakhstan very few employed people work very long hours – less than 1% of all employed people – which is well below the OECD average of 6% and below all developing countries considered. Unlike most countries, where self-employed workers have a significantly higher incidence of very long hours than employees, in Kazakhstan the opposite is true (although the gap between self-employed and employees is very small).

Figure 1.21. Incidence of part-time employment, Kazakhstan, OECD and selected non-OECD countries, 2015

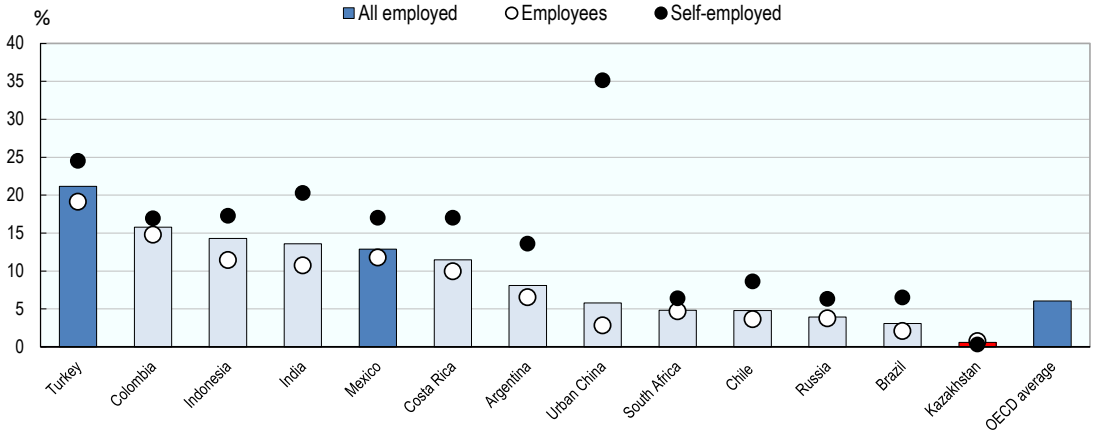
Percentage of people in dependent employment



Note: Data for Kazakhstan refer to 2014. Part-time employment is based on a common 30-usual-hour cut-off in the main job. Youth refers to population aged 15-24; older workers to population aged 55-64.

Source: *OECD Labour Force Statistics Database*; for Kazakhstan OECD calculations based on the labour force survey.

Figure 1.22. Incidence of very long hours, Kazakhstan, OECD and selected non-OECD countries, 2014 (or latest year)



Note: Working long hours is defined as working more than 60 hours in an average week. Figures represent 2010 values except for Brazil (2011), Chile (2011), China (2009), India (2011) and Kazakhstan (2014).

Source: OECD (2015), *OECD Employment Outlook 2015*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2015-en. For Kazakhstan, OECD caculations based on the labour force survey.

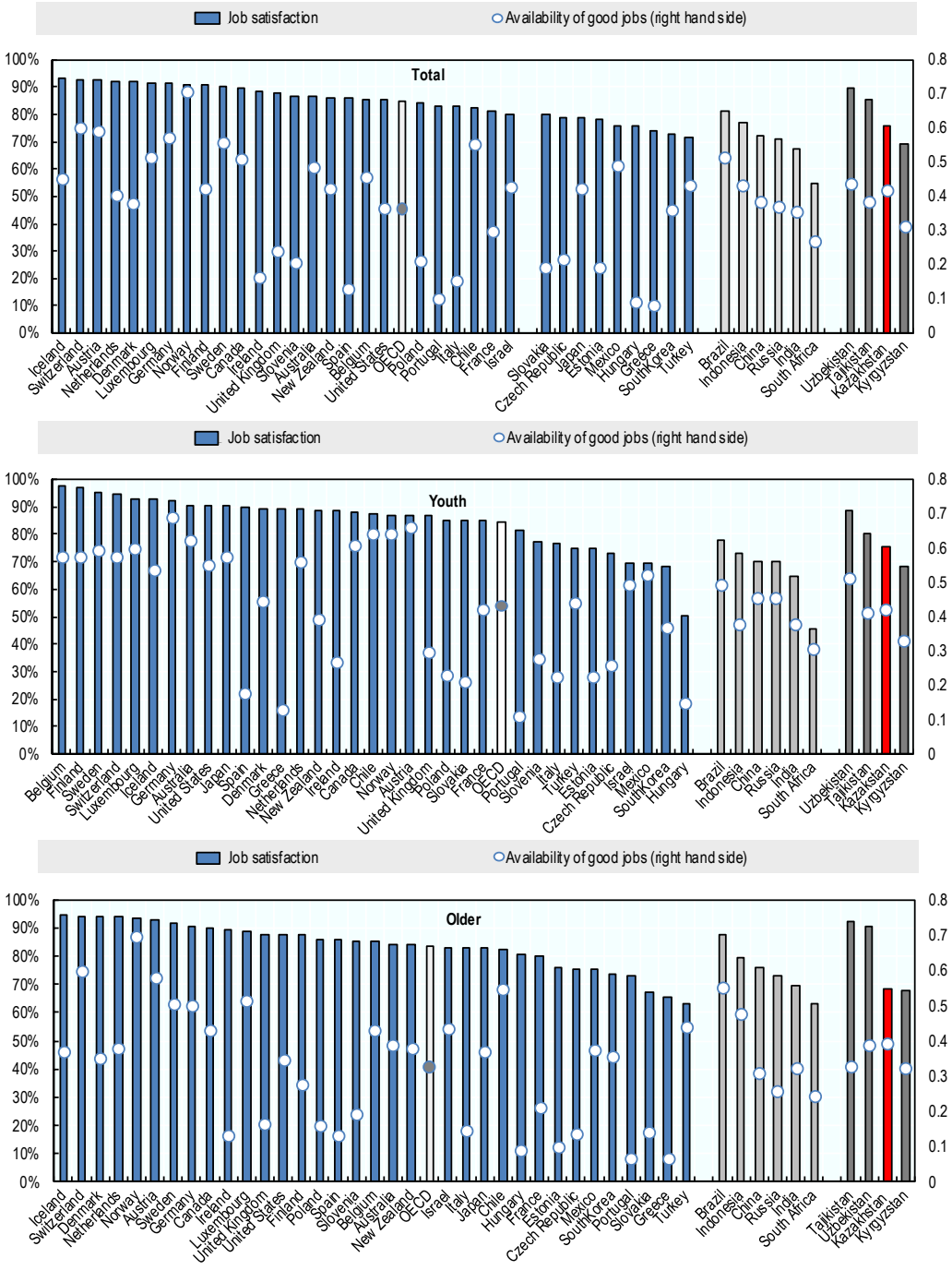
Workers are rather unsatisfied with their jobs

In line with indications of poor job quality, workers in Kazakhstan seem to be overall quite unsatisfied with their jobs. Latest available evidences for 2012 suggest that the level of satisfaction with a current job among workers in Kazakhstan is below the OECD average, and lower than some of the neighbouring countries (e.g. Tajikistan and Uzbekistan), although similar to job satisfaction levels of workers in some of the BRIICS (e.g. China and the Russian Federation) (Figure 1.23).

Around 74% of employed people in Kazakhstan report to be satisfied with their job, compared to an OECD average of 85%. Further analysis shows that in Kazakhstan levels of satisfaction are somewhat higher for youth (15-24) (75%) than for older workers (50-65) (68%) – probably reflecting the lack of valuable economic opportunities for older people – but in both cases much lower than the OECD on average (85% for youth and 84% for older workers). Surprisingly, people in Kazakhstan are in general satisfied with availability of good jobs compared to people in OECD countries (42% versus 36%), and this is in line with other emerging economies. The relatively high level of satisfaction with good jobs available may be the result of a rapid economic growth, increasing incomes in the past decade, and positive outlook into the future.

Figure 1.23. Job satisfaction and availability of good jobs, Kazakhstan, OECD, BRIICS and neighbouring countries, 2012

Percentage satisfied



Note: Job satisfaction is measured by the answer: "Are you satisfied or dissatisfied with your job or the work you do?" (asked only of those who are employed). Availability of good jobs is measured by the answer: "In the city or area where you live, are you satisfied or dissatisfied with the availability of good job opportunities?" (asked to everyone). Response option include: satisfied, dissatisfied, do not know; and refused. Youth (15-24), older people (50-64).

Source: OECD calculations based on Gallup World Poll 2012.

Notes

1. Poverty rates are measured as the share of the population who lives with less than USD PPP 3.10, or 1.90, per day.
2. People in Kazakhstan marry and have children relatively late. Although the minimum legal age for marriage in Kazakhstan is 17 (18) for women (men), the shares of married youth (age 15-19) in 2009 were relatively low among women (men) 4.5% (0.9%) and the average age at marriage was 25.1 and 28.1 for women and men respectively. The average age of women at the first birth is 25.
3. Labour market data for Kazakhstan on the working-age population (15-64) for the year 2007 is not available.
4. Long-term unemployment is less widespread across unemployed youth (6%) and much more frequent among older workers (35%).
5. Almost 70% of people with disabilities are in the mild or moderate disability group with remaining work capacities (see Chapter 4 for further discussion).
6. Full-time work consists of 40 hours per week for people with mild disabilities (group III), or 36 hours per week for people with moderate or severe disability (group I or II).
7. The Agency of Statistics of the Republic of Kazakhstan has its own definition of informality. It estimates that in 2015 informality accounted for 24% of total employment in the country, affecting over 2 million workers.

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Chapter 2

Investing in Kazakhstani youth

With youth unemployment rates among the lowest in the world, Kazakhstani youth do not face high barriers in entering employment. One issue of major concern, however, is job quality, with many young people employed in low-quality, low-paid jobs, often in the informal sector. Within this context, this chapter looks at the demand- and supply-side barriers to good quality job opportunities for youth in Kazakhstan. First, it analyses demand-side barriers to youth employment, with a particular focus on: the cost of hiring; and the employment protection legislation. Second, it discusses the extent to which labour market and social policies support the employability of youth in Kazakhstan, particularly looking at: the role of skills in helping youth gaining access to high-quality jobs; the Public Employment Service and Active Labour Market Programmes to help youth (back) into (formal) work; social protection mechanisms to mitigate the negative consequences of being out of employment; as well as family policies to help youth (and especially young women) better balance family and work responsibilities.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction and key recommendations

As highlighted in Chapter 1, young people in Kazakhstan have one of the lowest unemployment rates in the world. Unlike most OECD countries and many developing economies, youth are also less likely to be inactive and are much more often employed than adults. At the same time, job quality is an issue of major concern, which reflects the fact that many young people in Kazakhstan hold low-paid, high-risks jobs, work in the informal sector or as self-employed.

Within this context, this chapter looks at the demand- and supply-side barriers to good quality employment in Kazakhstan. First, the chapter discusses the policies that aim to reduce structural labour market barriers that affect the willingness and ability of employers to hire youth. These include policies and measures that have an impact on the cost of hiring, such as non-wage costs and minimum wages. If too high, non-wage costs (such as employers' social security contributions and payroll taxes) may represent a barrier for firms to hire (formally) and/or encourage tax avoidance through informal employment practices. Minimum wages can help to ensure that fair wages are paid to workers, but if set too high they may also represent a barrier to hiring. Finally, this section of the chapter also includes an analysis of the strictness of the employment protection legislation and its impact on firms' ability to hire youth.

Second, the chapter goes on analysing the supply-side of the equation asking how labour market and social policies can best promote the employability of youth. Skills and human capital development are key to help Kazakhstani youth to have access to good quality jobs. The Public Employment Service and Active Labour Market Programmes can have a pivotal role in helping youth to find productive employment. Similarly, social protection systems can play an important role in providing an adequate safety net for youth who are out of work, not only by preventing them from falling into poverty but also by providing them with the adequate means to look for and find a well-matched job. The final section of this chapter pays particular attention to the employability of young women, and on how family policies can be designed in a way to help young families better balance work and family responsibilities.

The chapter's main findings and recommendations are summarised below:

Cost of labour

In Kazakhstan, non-wage costs and minimum wages are very low and therefore should not represent a barrier to youth hiring. However, one key concern is that the minimum wage setting does not reflect differences across regions and workers' productivity. Moreover, non-wage costs are planned to rise in the future, following reforms in the old-age pension system and the introduction of the mandatory health insurance. The OECD suggests to:

- *Maintain low non-wage costs and evaluate carefully the consequences of increasing employers' social security contributions.* A higher tax burden on employers could push employers to adjust wages downwards, reduce formal hiring, and/or pay envelope payments on top of regular earnings to compensate for increased non-wage costs. Complementary policies – e.g. monitoring and enforcement of labour regulations to prevent the spread of informal practices – need to be implemented to counteract possible negative effects.
- *Maintain the momentum provided by recent efforts to ensure that minimum wages are revised based on accurate, up-to-date and impartial information that reflect current labour market conditions and the views of social partners.* An independent

expert commission, which includes trade unions and employers' organisations, is best placed to account for a wide range of economic and social factors.

- *Introduce a more differentiated minimum-wage structure.* For example, allow minimum wages to vary by regions, to reflect differences in economic conditions and living standards. In the future, increases in minimum wages could also be accompanied with the introduction of a more differentiated minimum wage to reflect differences in productivity across workers.

Employment protection legislation (EPL)

The EPL on regular contracts is rather strict in Kazakhstan by international standards, while EPL on temporary contracts is lax. The recently adopted new Labour Code introduces flexibility in labour relations, for example by removing special protection of some vulnerable groups (including youth), and by easing the use of temporary contracts even further. While these are the steps that might reduce barriers to youth hiring, an extremely light legislation on temporary work could result in a dual labour market which can trap young workers in precarious jobs. It will also be crucial that reforms to ease the employment protection legislation in Kazakhstan go hand in hand with measures that ensure that workers who are displaced receive the necessary social protection and assistance to find new jobs. The OECD suggests to:

- *Liberalise temporary contracts cautiously.* This is important to avoid the creation of a dual labour market characterised by too different regulations between permanent and fixed-term contracts.
- *Strengthen monitoring and compliance with labour legislation.* One immediate policy option would be to increase the number of public state inspectors and strengthen their role and responsibilities.
- *Ensure that labour reforms to relax regulations around permanent and fixed-term contracts are complemented by measures to ensure that workers who are displaced receive the necessary social protection and assistance to find new jobs.* This will involve the provision of effective (re-)employment services and adequate income support in the event of job loss (see below).

Investing in human capital and expanding the skills of Kazakhstani youth

One key long-term priority for Kazakhstan will be strengthening its human capital base. Considered that in Kazakhstan, as in many other countries, returns to education tend to be high, investing in human capital is particularly important to help Kazakhstani youth to gain access to high-quality jobs. While the government has undertaken many reforms of the education system, large skills mismatches and shortages mean that more could be done in Kazakhstan to expand access to good quality education (including VET) and to improve career guidance for youth. Within this context, the OECD recommends to:

- *Expand access to high-quality education.* In particular, it will be important to eliminate persisting geographic and socio-economic inequalities in access to good quality schooling; and enhance the overall quality of education system to improve schooling outcomes.
- *Strengthen career guidance to help youth make informed decisions about their studies.* Students should receive comprehensive information on employment and pay prospects on all the potential careers they may wish to pursue. Improve data collection and use of existing data sources (for example on labour demand forecasting) will be crucial to this end.

The Public Employment Service (PES) and Active Labour Market Programmes (ALMPs)

Very few unemployed youth register with the PES in Kazakhstan. Due to the poor quality of vacancies offered, the very low and scarcely provided targeted social assistance and unemployment benefits, as well as strict job-search requirements, the interest of jobless persons to register with the PES is limited. Participation and spending on ALMPs in Kazakhstan is very low by international standards, and has decreased further in recent years. The mix of available programmes suggests that too many resources are allocated to direct job creation (public works), while too little attention is given to human capital enhancement (such as training programmes for example). Thus far, no impact evaluation of ALMPs has been carried out in Kazakhstan, pointing to weaknesses in monitoring and evaluation abilities of the government. The OECD recommends to:

- *Strengthen the role of the Public Employment Service and its capacity to reach out to youth.* This may be achieved through a mix of policy measures, for example by expanding the PES staff and/or improving the quality of the vacancy bank. Providing more generous benefits would also likely result in increased incentives to register with PES.
- *Conduct rigorous impact evaluation studies on the impact of ALMPs on the employment outcomes of participants*. The results of impact evaluation studies would help policy makers to assess whether programmes should be continued or expanded, and would allow the continuous improvement of programmes or the termination of unsuccessful ones.
- *Scale-up (or maintain) spending on ALMPs that are most effective,* especially during economic downturns. In other words, expenditures on those programmes that have proved effective should be continued or expanded during economic recessions.
- *Ensure that ALMPs target participants who are most in need.* It is crucial to allocate existing resources to the most effective interventions, particularly in a situation of constrained government budgets. Age, *per se*, is not a valid target. Jobseekers should be profiled upon registration to offer them targeted solutions, and each programme should be separately managed and have its well defined target group.
- *Given the presence of large skills mismatches and shortages in Kazakhstan, invest proportionally more resources in skills-enhancing programmes.* This includes a particular focus on training programmes (third direction of the Employment Roadmap 2020).

Income support

The income support system in Kazakhstan is weak and does not provide adequate assistance to help (young) people to escape poverty and/or look for and find a well-matched job. Unemployment benefits and social assistance benefits are ungenerous by international standards. Few youth qualify for receiving benefits. Indeed, the many youth who work in the informal sector are ineligible for unemployment benefits and entitlement criteria for receiving targeted social assistance benefits are strict. Severance pay, which in many countries exerts the function of income support in case of job loss, is also ungenerous and, unlike many OECD countries, there is no unemployment assistance available to young jobseekers. Weak income support means that youth are more prone to accept low-quality jobs, rather than find a productive employment, as they simply cannot afford to be unemployed. Some of these challenges should be addressed by a reform of

the social security system that the government intends to put in place in 2018. As part of this strategy, the OECD recommends to:

- *Strengthen the income protection system, for example by providing more generous unemployment and social assistance benefits for a limited duration.* This is particularly important in view of the recent reform of the Labour Code which has introduced further elements of flexibility in labour regulations.
- *Eliminate regional differences of access to targeted social assistance benefits and increase transparency.* Establish more transparent practices for rewarding targeted social assistance benefits across local authorities.
- *Continue to activate benefit recipients both by means of unemployment and targeted social assistance.* This is important in order to ensure that a more generous income protection system does not translate into a subsidy to informal employment and/or reduced job-search efforts.

Family policies

Caring for children remains primarily the responsibility of the mother in Kazakhstan. This partly reflects the fact that the current design of child-related leave (which provides no paternity leave or parental/childcare leave for the exclusive use of fathers) fosters a culture whereby mothers are seen as the principal carers of young children. Family cash benefits generally do not provide adequate income support to poorer families with children, and especially to families with specific needs (e.g. sole-parents families). Quality and affordable childcare is rarely available, especially for children aged 0-2. Furthermore, there is a large variation in access to childcare across regions and income groups, which can undermine parents' (but also grandparents') employment opportunities. The OECD suggests to:

- *Introduce policies to encourage fathers to better share family responsibilities with mothers.* These may include increasing individual paternal entitlements to leave; increasing payment rates for fathers taking leave; and encouraging take-up of flexible leave options (e.g. part-time).
- *Strengthen the income support available to parents* by expanding family cash benefits and/or introducing some form of (non-wastable) tax breaks for earners with dependent children. It would be particularly important to introduce additional benefits targeting families with specific needs (e.g. sole-parents).
- *Facilitate access to good-quality childcare, by strengthening both the supply and the demand of childcare facilities.* This is particularly important in certain regions, and for poorer households. It will also be crucial to develop more childcare facilities that can enrol children aged 0-2.

Containing the cost of labour to encourage youth hiring

High labour costs can represent a barrier to formal employment, especially for those who are the least skilled and lack work experience (including youth). In Kazakhstan, non-wage costs and minimum wages are very low and therefore should not represent a barrier to youth hiring. However, one key concern is that non-wage costs are planned to rise in the future, following reforms in the old-age pension system and introduction of the mandatory health insurance, while minimum wages do not reflect differences across regions and workers' productivity.

Non-wage costs do not represent a barrier to youth hiring

If set too high, non-wage costs – such as employers' social security contributions and payroll taxes – may represent a barrier for firms to hire (formally) and/or encourage tax avoidance through informal employment practices. The purpose of this section is to discuss the components of the Kazakhstani tax wedge – i.e. the sum of personal income taxes, employee and employer social security contributions plus any payroll tax less cash transfers, expressed as a percentage of labour costs – and put it into an international comparative perspective. A detailed description of the different components of the tax wedge in Kazakhstan is provided in Box 2.1.

Box 2.1. Personal income tax and social security contributions in Kazakhstan

The tax wedge is composed of – on the side of workers – personal income taxes and employees' social security contributions, and – on the side of employers – employers' social security contributions and payroll taxes. A detailed description of the different components of the tax wedge is provided below and summarised in Table 2.1. While the Kazakhstani legislation does not stipulate tax-exemptions for youth, several exemptions exist for pensioners and people with disabilities (discussed in Chapter 3 and Chapter 4 respectively).

Personal income tax

Personal income tax (*Индивидуальный подоходный налог*) in Kazakhstan is flat at 10%. The taxable income is equal to the gross wage minus employees' social security contributions. Some progressivity is allowed by the basic tax-exempt amount (BTEA) – i.e. non-taxable income – which is equal to one minimum wage.

Employees' social security contributions

All formally employed workers, with the exception of old-age pensioners, pay pension contributions into the Unified Accumulated Pension Fund (UPAF) (*Единый накопительный пенсионный фонд*) of Kazakhstan. The contribution is equal to 10% of the gross wage. Earnings above 75 minimum monthly wages are exempted from pension contributions.

Employers' social security contributions

Employers contribute 5% of gross wage into the State Social Insurance Fund (SSIF) [*Государственный фонд социального страхования*]. The maximum earnings used to calculate contributions are ten times the monthly minimum wage. The SSIF manages unemployment, survivor, disability and maternity leave benefits. In addition, employers pay a social tax (*Социальный налог*) to the national budget of Kazakhstan. The amount of the social tax is equal to 11% of gross wage, minus social security contributions paid by the employer.

Employers in hazardous industries (mainly chemical, mining and construction industries) pay an additional "professional" pension contribution (*Обязательные профессиональные пенсионные взносы*) equal to 5% of gross wages. This pension scheme applies to various professions in over 95 industries and covers approximately 355 000 of workers.

Table 2.1. Personal income tax and social security contributions in Kazakhstan, 2017

As a percentage of the gross wage

Personal income tax [1]	Employees' social security contributions	Employers' social security contributions		
		SSFI tax	Social tax [2]	Professional pension contribution [3]
10%	10%	5%	11%	5%

1. Personal income tax is calculated on the gross wage minus employees' social security contributions minus one minimum wage.

2. Social tax is calculated on the gross wage minus other employers' social security contributions.

3. This applies to various professions in over 95 industries and applies to over 355 000 workers.

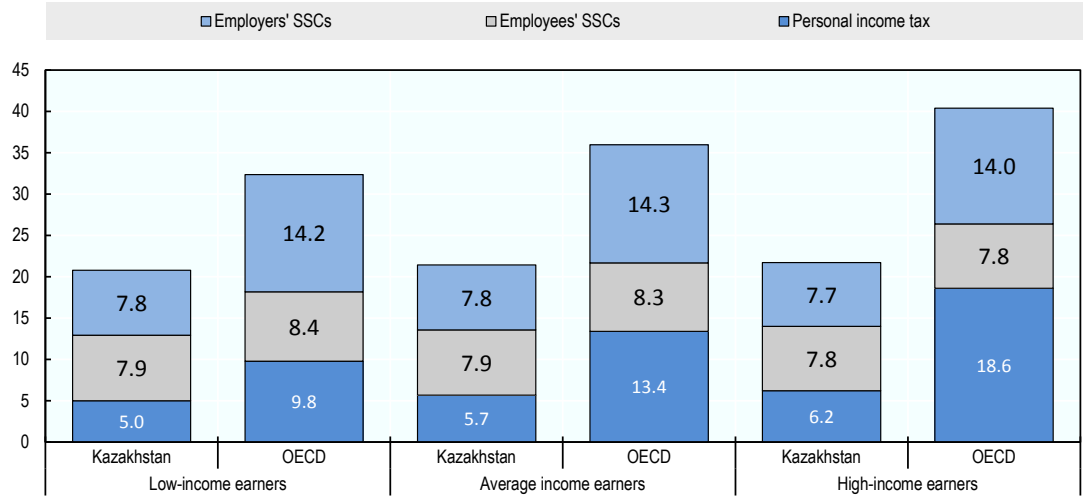
Source: Law of the Republic of Kazakhstan, "On Compulsory Social Insurance", No. 405-II; Law of the Republic of Kazakhstan, "On pension provision in the Republic of Kazakhstan", No. 105-V; Law of the Republic of Kazakhstan, "About taxes and other obligatory payments in the budget (Tax code)", No. 99-IV ZPK.

Non-wage costs in Kazakhstan are comparatively very low and therefore do not exert a strong impediment to (formal) employment. Figure 2.1 compares the decomposition of the tax wedge in Kazakhstan to the OECD average at different levels of income, notably low-income earners (67% of average earnings), average-income earners (100% of average earnings), and high-income earners (167% of average earnings).

The tax wedge is lower in Kazakhstan than the OECD average for all income groups. For average income earners, it is 21.4% of labour costs, which compares to the OECD average of 36%. The Kazakhstani tax wedge is lower than the OECD average due to lower employers' social security contributions (7.8% versus 14.3%), as well as lower personal income tax (5.7% versus 13.4%) and employees' social security contributions (7.9% versus 8.3%).[1] Another characteristic of the tax wedge is that is largely income-invariant in Kazakhstan.

Figure 2.1. The decomposition of the tax wedge, Kazakhstan and OECD average, 2015

Percentage of labour costs



Note: The tax wedge refers to single individual without children. Labour costs are defined as the sum of gross earnings, employer social security contributions (SSC) and payroll taxes, where applicable. Low-income refers to 67% of the average wages; average-income refers to 100% of average wages; high-income refers to 167% of average wages. In Kazakhstan, income taxes, employer and employee SSCs are estimated based on a monthly gross average wage of KZT 118 638 for Q1 2015.

Source: For Kazakhstan: OECD calculations based on the information provided by the Ministry of Labour and Social Protection of the Republic of Kazakhstan; for OECD countries: *OECD Public Sector, Taxation, and Market Regulation Database*.

Partly reflecting a relatively low tax wedge, the government is planning to increase employers' social security contributions through two main channels. First, the government will introduce a notional defined contribution (NDC) pension system, which will impose on employers an additional social security contribution of 5% of the gross wage. This measure is already approved by the government and should be implemented as of January 2020 (see Chapter 3). Second, there is an ongoing discussion to gradually introduce a contribution-based health system, for which employers will need to contribute 5% of the gross wages.[2]

If both proposals are to be implemented, employers' social security contributions will increase considerably in the next years, and become significantly higher than the OECD average.[3] On the one hand, such policies will contribute to improving the adequacy of the

old-age pension system and support governments' move towards a contribution-based health care system. Moreover, they will also likely increase the incentives of workers to formalise, by providing access to more generous pension entitlements and health care insurance. On the other hand, however, these measures will also increase the cost of labour to employers. This increase in employers' social security contributions may push employers to adjust wages downwards to compensate for the increased non-wage costs; it may discourage employers to hire and could potentially deter formal job creation; and/or it may encourage employers to pay "envelope" payments on top of regular wages to avoid such costs. In this context, it is important that the Kazakhstani Government takes a balanced approach, by paying particular attention to what will be the impact of such measures on wages, job creation, and informality. Complementary policies – such as strengthening monitoring and enforcement of labour regulations to prevent the spread of informal practices – need to be implemented to counteract the possible above-mentioned negative effects.

Minimum wages are low but remain too rigid

Minimum wages can help to ensure that fair wages are paid to workers, while at the same time increase incentives to work especially for certain population groups, such as the low skilled and young people. It is important that the level of minimum wages is set at an appropriate level. Too low a minimum wage may fail to address in-work poverty, thus leading to undesirable low wages (when not undermine work incentives altogether) for large numbers of workers. Too high a level, especially if combined with high non-wage labour costs, may leave little room for rewarding employees in line with productivity and represent a barrier to youth hiring.

As of January 2017, the minimum wage is equal to KZT 24 459 (or approximately EUR 70).[4] There is one minimum wage in Kazakhstan which applies to all regions and all categories of workers. Higher occupational minimum wages exist only for employees working in arduous jobs, and jobs with harmful or hazardous working conditions.[5] The occupational minimum wages are calculated by multiplying the minimum wage by a coefficient (which ranges from a minimum of 1.05 in the railways industry to a maximum of 4 in the coal industry), and may vary across different professions within the same industry.

The Labour Code of the Republic of Kazakhstan stipulates that the minimum monthly wage should not be below the national subsistence minimum (and the minimum consumer basket), it is calculated on a monthly basis (40 hours of work per week), and does not include bonuses, allowances, compensation, social benefits or other incentive payments and should be paid in proportion to the hours worked.[6] The real value of the minimum wage in Kazakhstan today is over ten times higher than its historical low level in 1995 (Figure 2.2).[7]

Until recently, the minimum wage (and occupational minimum wages) was government-legislated every year. There was no special mechanism defined by law for settling the minimum wage and – differently from what is observed across most OECD countries (OECD, 2015a) – social partners (i.e. trade unions and employers' organisations) were not involved in the process of minimum wage setting. The legal setting governing the minimum wage was reformed in 2014, with a view to paving the way to more transparent and predictable adjustments, as part of a consultative approach that involves the business sector and the trade unions. To this effect, a working group was created in 2016, consisting of representatives of the Ministry of Labour and Social

Protection, the Ministry of National Economy, the Ministry of Finance, the Federation of Trade Unions and the National Chamber of Entrepreneurs. For example, the 2017 minimum wage was set in accordance with the social economic growth forecast and considering the opinion of employers and employees.

Figure 2.2. Monthly real minimum wages and subsistence minimum in Kazakhstan, 1994-2016

National currency (KZT), at constant prices

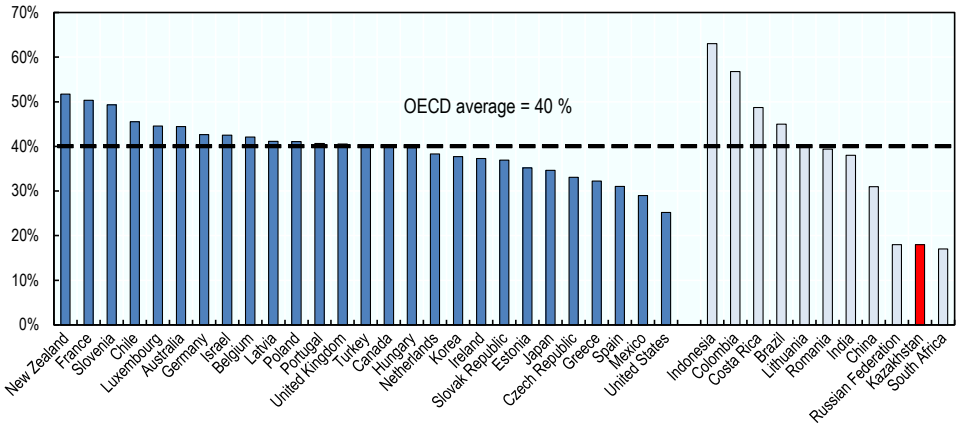


Note: The deflator used is the consumer price index (CPI) (January 2016 prices).

Source: OECD calculations based on the Agency of Statistics of the Republic of Kazakhstan and the National Bank of Kazakhstan.

The international comparison shows that in Kazakhstan the level of the gross minimum wage, expressed as a percentage of the average wage, is extremely low not only relative to the standards of the OECD countries but also many emerging economies (Figure 2.3). At 18% of average wages, it is well below the OECD average of 40%, and much lower than any OECD country and emerging economy presented in the graph – with similar levels found only in South Africa and the Russian Federation. In the OECD area, minimum wages range from 25.2% of average wages in the United States, to 50% and over in France and New Zealand. In emerging economies, the range is wider, with particularly low minimum wages in Kazakhstan, South Africa and the Russian Federation, but a minimum-to-average-wage ratio of over 55% in Colombia and Indonesia.

Figure 2.3. Minimum wages relative to average wages, Kazakhstan, OECD and emerging countries, 2015



Note: Data for Kazakhstan refer to January 2015; data for Brazil, Colombia, Indonesia, India, Russian Federation, South Africa refer to 2013; data for China refers to 2012. Data for Kazakhstan is calculated based on a minimum wage of KZT 22859 and average monthly wage of KZT 118 638.

Source: For OECD countries, Colombia, Costa Rica, Lithuania and Romania, *OECD Earnings Database*; for other non-OECD countries, OECD (2015), *OECD Employment Outlook 2015*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2015-en; for Kazakhstan, OECD calculations based on the Agency of Statistics of the Republic of Kazakhstan.

Low ratio of minimum to average wages points to the fact that the level of the minimum wage should not represent a barrier for employers to formally hire youth. On the other hand, observers have argued that the Kazakhstani minimum wage does not provide a decent standard for living for workers and families (Van Klaveren et al., 2010; ILO, 2014). Such a low level may fail to address in-work poverty, thus leading to undesirable low wages for a large number of workers. This can have negative effects on workers' (formal) work incentives, and – importantly – workers' productivity. Indeed, evidence analysis shows that higher minimum wages are associated with higher average productivity levels, although it is unclear to what extent this reflects improved incentives to invest in training or substitution of unskilled for skilled workers (OECD, 2007).

A more nuanced and pragmatic approach should be used when deciding on the level of minimum wage in Kazakhstan. First, the Kazakhstani Government should continue ensuring that minimum wages are revised based on accurate, up-to-date and impartial information and advice that carefully considers current labour market conditions and the views of social partners. Independent expert commissions – which are composed by the government, trade unions and employers organisations and which exist in different forms in several OECD countries (e.g. Australia, France, the United Kingdom and several US states) – are well placed to consider a wide range of economic and social factors (OECD, 2015a).[8] As discussed above, steps in the right direction have already been undertaken and consultations with social partners should be continued.

Second, it may be beneficial in Kazakhstan to introduce regional minimum wages so as to reflect regional differences in wages and economic conditions. Large regional differences in economic conditions and living standards imply that the minimum wage may represent more of a burden to employers in some regions, while it may fail to ensure adequate wages to workers in others. For example, in 2014 the minimum wage was lower than the regional subsistence minimum in some regions (notably in Mangystau region, Astana and Almaty) – reflecting the fact that the level of the regional subsistence minimum varies markedly across regions while the minimum wage does not. Regional

differentiation of the minimum wage can be found in many emerging economies (e.g. Brazil, China, India, Indonesia and Russian Federation) (Broecke et al., 2017), and also exist in few OECD countries (e.g. Canada, Japan, Mexico and the United States) (OECD, 2015a).

Third, there is a possibility in Kazakhstan to introduce a differentiated minimum-wage structure to reflect differences in productivity across workers. For example, around half of OECD countries with a statutory minimum set lower rates for youth, which can be justified on the grounds that labour market entrants typically have lower productivity than workers with some work experience. Similarly, few OECD countries have lower minimum wages for workers on training/apprenticeship contracts, as well as for workers with disabilities (OECD, 2015a). Considered that the minimum wage is already comparatively very low in Kazakhstan, the introduction of lower minimum wages for sub-groups of workers (notably youth) is not advised or should first be co-ordinated with revisions of the general level of the minimum wage.

Revising the employment protection legislation to boost the demand of young workers

Employment protection legislation (hereafter EPL) is the set of rules established either by law or collective bargaining that are applicable to the hiring and firing of permanent workers and to the use of temporary work contracts. However, if too rigid it can undermine firms' ability to adjust to changing economic circumstances and therefore create a barrier to hiring.

Employment relations in Kazakhstan are almost entirely regulated by the Labour Code and the Law on Employment. Collective agreement also plays an important role in regulating labour relations and covers around 74.7% of all workers. Kazakhstan has made significant efforts to introduce more flexible labour arrangements since Soviet Union times (Muravyev, 2010), yet today labour regulations on regular contracts remain very strict, while on temporary contracts are rather lax. However, enforcement of labour regulations is weak, as suggested by high informality rates, the widespread practice to conclude contracts through "agreement within the parties" and the weak role of state labour inspectors. This is further confirmed by the results of the World Economic Forum's assessment of impediments of business developments, which, despite strict rules on regular contracts, reveals that the employment protection legislation is the least important constraint for business development in Kazakhstan.

Employment protection legislation in Kazakhstan

Permanent contracts in Kazakhstan are characterised by a mix of very flexible arrangements (e.g. low compensation following unfair dismissal; low severance pay and short notice period) and very strict provisions (e.g. strict notification procedures in case of dismissal; strict definition of unfair dismissal; lengthy trial periods; and strict reinstatement options in case of unfair dismissal).

Furthermore, another key feature of the Kazakhstani employment protection legislation is that there is no definition of (or procedure for) collective dismissals, except those required for any type of redundancy. By contrast, virtually all OECD countries impose additional delays, costs or notification procedures when an employer dismisses a large number of workers at one time, which go beyond those applicable for individual dismissal (OECD, 2013). Exceptions are New Zealand as well as a number of emerging

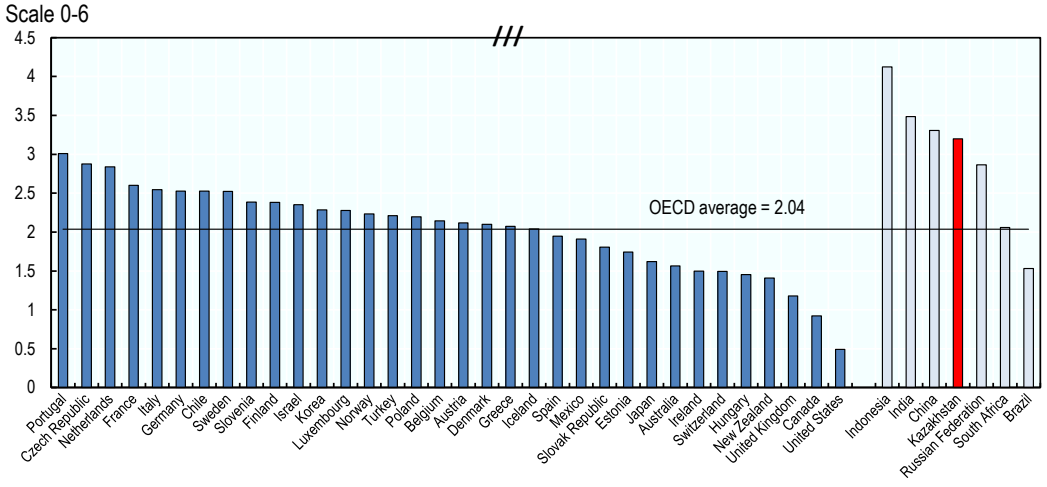
economies (Chile, Indonesia, Saudi Arabia and, except in the case of plant closure, India) (OECD, 2013).

Overall, in Kazakhstan the employment protection legislation on permanent contracts (for individual dismissal[9]) is very strict by OECD standards (Figure 2.4). On a scale that goes from 0 (least strict) to 6 (most strict), Kazakhstan scores 3.2, which is well above the OECD average of 2.04, and stricter than any OECD country. Compared to the BRIICS, Kazakhstan's EPL on permanent contracts is stricter than Brazil, the Russian Federation, and South Africa and but less strict than China, India and Indonesia.

At the same time, legislation for temporary contracts is very flexible in Kazakhstan. First, there is no limitation on the use of standard fixed-term contracts. Second – although the statutory minimum duration is set at one year[10] – there is no maximum duration of temporary contracts. However, rules around renewal and prolongation of temporary contracts are stringent. Indeed, employers are not allowed to terminate temporary contracts, which are automatically converted into permanent if labour relations are continued after the expiration of the first fixed-term contract.

Interestingly, and in net contrast with what is observed in virtually all OECD countries, in Kazakhstan there is no regulation on Temporary Work Agency (TWA). If well regulated, TWA employment could provide very valuable services to workers in terms of the opportunities offered to them and the possibility to gain experience, thereby representing a stepping stone into stable, regular employment. Box 2.2 provides a description of the design and use of TWA across OECD countries and other emerging economies.

Figure 2.4. Employment protection legislation on regular employment (individual dismissal), Kazakhstan, BRIICS and OECD countries, 2013[1]



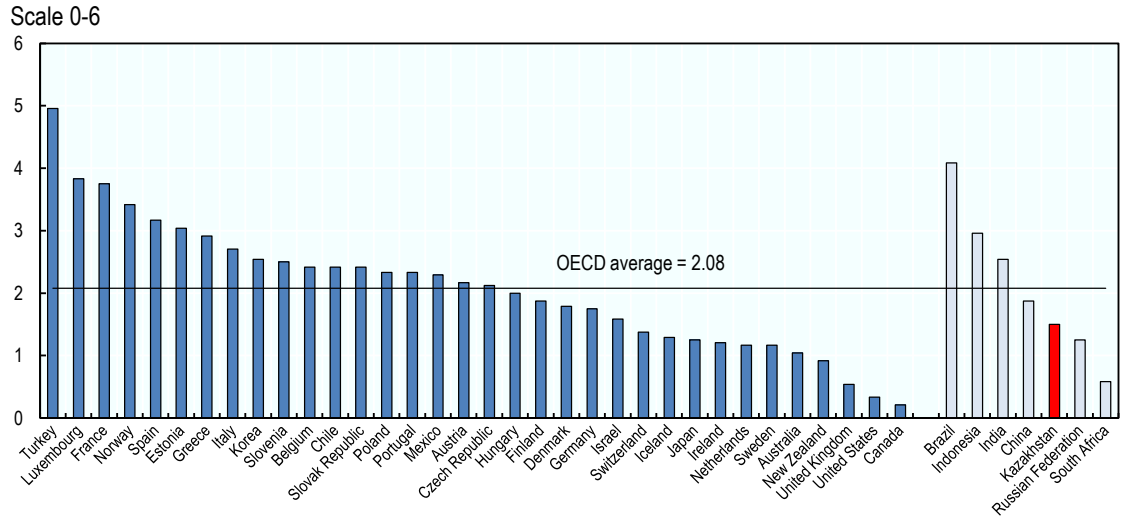
1. Data for Kazakhstan refers to 2015; data for Brazil, China, Indonesia, India, Russian Federation and South Africa refers to 2012.

Source: *OECD Employment Protection Database*.

All in all, international comparison shows that the employment protection legislation on temporary contracts in Kazakhstan is flexible by international standards (Figure 2.5). Kazakhstan scores 1.5 on the OECD employment protection legislation indicator on temporary contracts, which is well below the OECD average of 2.08. Over two-thirds of

OECD countries have stricter EPL on temporary contracts than Kazakhstan. Similarly, most of the BRIICS have stricter regulation on temporary contracts than Kazakhstan – with the exceptions of the Russian Federation and South Africa.

Figure 2.5. Employment protection legislation on temporary contracts, Kazakhstan, BRIICS and OECD countries, 2013[1]



1. Data for Kazakhstan refers to 2015; data for Brazil, China, Indonesia, India, Russian Federation and South Africa refers to 2012.

Source: OECD Employment Protection Database.

The remarkable difference between the regulation of permanent and temporary contracts may, in principle, suggests the presence of a significant labour market duality between better protected workers with permanent contracts and workers with temporary contracts who enjoy much less protection (see also ILO, 2015). As a matter of fact, however, very few youth are hired under a temporary contract in Kazakhstan (see Chapter 1), suggesting that *de facto* labour market duality should not represent a major issue.

While the EPL indicator is a useful tool to assess how the Kazakhstani EPL compares in the international perspective, it needs to be put into context. First and foremost, enforcement seems to be weak in Kazakhstan (ILO, n.d.; ILO, 2009; ILO, 2015):

- Around 20% of employed people work in the informal sector, which implies that EPL does not apply to many Kazakhstani workers. This is particularly true for young workers, who are more likely than adults to work in the informal sector or as self-employed (ILO, 2015; see Chapter 1).
- Some authors argue that it is a widespread practice among Kazakhstani firms to encourage workers to voluntary quit their jobs even when they are dissatisfied with their employees, with the aim to avoid costs associated with dismissal (Smirnova and Tatibekov, 2013).
- The role of state labour inspectors in Kazakhstan is rather limited. In 2013, there were 258 state labour inspectors in the country, or approximately 0.3 per 10 000 employed persons. This is low if compared to a number of OECD countries

for which data is available: in 2013 the number of labour inspectors spanned from 0.1 per 10 000 employed persons in the United States and 0.3 in Ireland, to 1.6 in Chile (ILOSTAT). The existing number of state labour inspectors is enough to inspect 3-4% of controlled entities only, which is low compared to the ILO recommended coverage of 15-20%. Furthermore, according to Art. 16 of the Law "On State Control and Supervision in the Republic of Kazakhstan", state labour inspectors cannot plan visits on their own initiative as they can carry out inspections only in response to serious complaints or in case of severe occupational accidents (ILO, 2015). Unsurprisingly, in the first quarter of 2014 less than 1% of enterprises were inspected, according to information from the Ministry of Labour and Social Protection.

Second, a large proportion of workers are protected by collective agreements and (as discussed in Chapter 3) covered by trade unions, which should provide an additional layer of protection in a number of sectors not captured by the EPL indicator. At the same time, young people are in general less unionised than adult workers, partly because they often work in the informal sector and they are more likely to be employed by non-unionised enterprises (ILO, 2015).

In addition, one factor not reflected in the OECD EPL indicators presented above, is that the Kazakhstani EPL provides additional protection to vulnerable groups (including youth), which may create a barrier to their formal hiring. Since 2014 (and up to December 2015), a set of amendments have been introduced to the Labour Code in order to support and protect the interests of youth who are entering the labour market for the first time. Such amendments include, among other requirements, the prohibition of the probation period for young VET and university graduates with no previous work experience (Art. 29 of The Labour Code). Moreover, regulation stipulates that the duration of temporary contracts of this group should not be less than two years (Art. 29 of the Labour Code) (Nurgaziyeva and Mukhamediyev, 2015). These amendments introduce an important barrier to hiring Kazakhstani youth and can potentially hinder workers' willingness and ability to hire youth in the first place. Similar protections exist for older workers and people with disabilities (see Chapters 3 and 4).[11]

Box 2.2. Temporary Work Agency (TWA) across OECD countries and other emerging economies

Under a Temporary Work Agency (TWA) contract, workers are hired by an agency and temporarily assigned for work into a user firm, typically to perform temporary tasks outside the "core" business of the user firm or to enable it to cope with short-term increases in workload. With respect to standard fixed-term contracts (FTCs), workers with TWA contracts often receive more training and are typically assisted in finding assignments. In addition, in some cases, TWA workers are employed by the agency under an open-ended contract and often, within this contractual relationship, are paid between fixed-term assignments, although sometimes at a low level (this is the case, for example, in Austria, Italy, Slovenia and Sweden). Open-ended contracts between the agency and the worker are in fact the dominant contractual form of TWA employment in some European countries.

For all these reasons, TWA employment is often very valuable to workers in terms of the opportunities offered to them and the possibility to gain experience, thereby representing a stepping stone into stable, regular employment. At the same time, it can be seen as a useful instrument of flexibility in the labour market. On the other hand, TWA employment might be used in some cases as a cheap way to by-pass employment protection on regular employment, as well as a means to weaken trade unions and avoid constraints imposed by collective agreements. This is the case when TWA assignees do not enjoy the same pay and working conditions as other workers regularly employed by their user firm.

Most countries put some – albeit often limited – restrictions on the type of work for which TWA employment is allowed. All countries – except English-speaking common-law countries as well as Denmark, Hungary, Iceland, Israel, Switzerland and, among non-OECD economies, Latvia and the Russian Federation – put some limitations to the use of TWA employment.

Box 2.2. Temporary Work Agency (TWA) across OECD countries and other emerging economies *(cont.)*

In a number of countries – notably Argentina, Brazil, Belgium, Chile, Estonia, France, Luxembourg, Norway, Poland, the Slovak Republic and, except in few narrowly defined occupations, Korea – the use of TWA employment must be justified on the basis of objective reasons (e.g. seasonal work; work of temporary nature).

Less than one third of the countries provide for restrictions on the number of renewals and/or successive assignments of the same worker in the same user firm. In a few other countries (Austria, Finland, the Netherlands and New Zealand), regulation in this area focuses only on the employment contract. In fact, while in these countries the number of renewals of assignments is not constrained, legislation, collective agreements or court practices limit the number of renewals of fixed-term contracts between the agency and the worker. Insofar as open-ended contracts between the agency and the worker are not forbidden – and actually encouraged – in these countries, restrictions on contracts only are likely to induce fewer constraints on user firms' practices. By contrast, there are more frequent limitations on the cumulative duration of assignments, which are found in more than half of OECD countries. The maximum duration of assignments is particularly restrictive, if compared with regulations prevailing in other OECD countries, in Chile (three months, or six months on specific projects), Israel (nine months, except if special permission is granted by the government), Belgium (between three and 18 months, depending on the reason for using TWA employment) and Korea (six months, except in the few occupations where justification of use is not required).

The operation of TWAs is also strictly controlled in many countries. In about half of OECD countries, TWAs must obtain a license from the relevant government authority, with the provision of sufficient financial guarantees being a typical prerequisite for obtaining the license. In addition, in order to keep the license over time, TWAs are also usually subject to regular reporting obligations, often to prove that they comply with existing regulations.

Similarly, pay and working conditions are strictly framed in many countries. In fact, a large majority of countries guarantee equal pay and working conditions between regular workers in the user firm and TWA workers on assignment at that user firm. The number of countries guaranteeing equal treatment has also increased recently, particularly in European Union countries, after the approval of the EU Directive on Temporary Agency Work. However, in a few countries, equal treatment rules typically apply only for assignments longer than a given duration (e.g. United Kingdom; Germany; Netherlands; Hungary). In a few other countries (notably Australia, Iceland, Japan and Switzerland), legislation and collective agreements guarantee equality only as regards minimum standards, such as branch-specific minimum wages and basic working conditions. By contrast, in Chile and a few common-law countries (Canada, New Zealand, the United States and South Africa), there is no specific provision concerning equal pay and working conditions.

Source: OECD (2013), *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en.

The reform of the Labour Code

Kazakhstan has recently reformed the Labour Code (the new code has been in vigour since January 2016), with the objective to stimulate job creation and attract investments in the country. The key feature of the reform is to introduce more flexibility in the employment protection legislation by establishing minimum labour guarantees while strengthening the role of social partners and collective agreements. The main features of the new Labour Code are summarised below:

- It introduces more flexible regulation on permanent contracts. In particular, it expands the ground for fair dismissal,[12] thereby making it easier for employers to (fairly) dismiss workers.
- It also liberalises temporary contracts even further. More specifically, it allows employers to renew temporary contracts (for a maximum of two times).
- Another important feature is the abolition of protection of some categories of vulnerable workers (such as youth) discussed in the previous section. Indeed, the new Labour Code extends trial periods to all workers (including youth); and

abolishes the recent law according to which employers can hire youth under temporary contracts only for a minimum of two years (the latter measure entered into force on 21 February, 2015).

- In addition, it gives more responsibilities to social partners to negotiate around wages (and more specifically around occupational minimum wages and the remuneration of overtime work) and labour standards. For example, before the reform of the Labour Code, overtime work was paid 1.5 (during the working week) or 2 times (on holidays and week-ends) the wage. The new Labour Code reduces pay for overtime work to 1.25 the wage, and let social partners negotiate for settling higher overtime wages.

Introducing more flexible labour regulations is a welcome step that may help firms better adjust to changing economic conditions, increase overall productivity of firms, and stimulate hiring (of youth) (OECD, 2007; OECD, 2013). Strengthening the role of social partners to negotiate around wages and labour standards is also a step in the right direction, which could result in better matching of skills to jobs and higher productivity gains for firms (McGowan and Andrews, 2015). Nevertheless, the Kazakhstani Government needs to pay particular attention to the implementation of some aspects of the new Labour Code.

By further easing regulation around temporary contracts, the reform of the Labour Code risks to amplify the duality of the labour market between permanent and temporary contracts. Indeed, the international experience suggests that large disparities of job quality across contract types risk to create a dual system for which outsiders tend to move from one temporary contract to another while insiders enjoy higher protection and greater job stability. The evidence analysis also suggests that countries that have relaxed regulations on temporary contracts while maintaining stringent restrictions on regular contracts, have experienced slower productivity growth (Boeri and Garibaldi, 2007; Bassanini et al., 2009; Dolado et al., 2012). This reflects the adverse impact of labour market duality on job quality and employment training. Within this context, it is important that the Kazakhstani Government adopts a balanced approach and better aligns permanent and fixed-term contracts with one another.

Protecting jobs or workers?

Going forward, it will be crucial that reforms to ease the employment protection legislation in Kazakhstan be complemented by measures that ensure that workers who are displaced receive the necessary social protection and assistance to find new jobs. This will involve the provision of effective (re-)employment services and adequate income support in the event of job loss (see next section). Indeed, at the time of writing the flexibility of the EPL is not sufficiently compensated by assistance in (re-)employment services provided by the Public Employment Service and adequate income support in case of job loss (see later sections of this chapter).

A critical issue is to find the right balance between supporting people that are dismissed and preserving existing jobs. Although no hard data exists, observers suggest that the government put substantial resources in preserving jobs, while little attention is paid to protecting workers. Social partners together with government officials often discourage employers from dismissing large number of workers at the same time (Ministry of Labour and Social Protection of the Republic of Kazakhstan, 2015). On the other hand, relatively little effort is made to reach dismissed workers by the PES.

Protecting jobs rather than workers is valid in the short-run, if the firm experiences temporary difficulties, but it may hamper labour reallocation and suppress economic growth if supported firms are no longer economically viable (World Bank, 2013).

Finding the right balance between protecting jobs and workers is particularly critical for Kazakhstan in light of high costs associated with job displacement in one-company towns. In Kazakhstan, there are 27 one-company towns, whose distinctive feature is the presence of a large employer in a local labour market. While employment is dominated by extractive industries (e.g. mining) in 20 one-company towns, in the remaining 7 one-company towns manufacturing and research and development sectors are the main employers. Currently low commodity prices impose pressure on firms in these towns leading to growing numbers of workers under the risk of dismissal.

More and better skills for Kazakhstani youth

Skills, unlike natural resources, are an infinite asset for individuals, businesses and societies. Better skills contribute to economic growth through increased individual productivity and generate greater capacity of workers and firms to spur innovation (OECD, 2011a). While building generic skills early in the childhood is essential, it is also important that skills taught later on are relevant for employers. In Kazakhstan, large skills mismatches and shortages mean that more could be done in Kazakhstan to expand access to good quality education (including VET) and to improve career guidance for youth.

Skills shortages and mismatches are a key challenge

There are important skills shortages and mismatches between the supply and demand of skills in Kazakhstan. Skills shortages and mismatches represent a severe obstacle for firms' growth and development. Although it is hard to quantify the magnitude of these effects due to data limitation, observers agree that there is relative scarcity of people with the skills required by employers and people often have jobs that do not match their field of education.

The following evidence corroborates this argument:

- The results of the World Bank "*TVE Modernization Project*" suggests that about 64% of enterprises surveyed in Kazakhstan reported lack of adequate skills as one of the major problem for doing business ranked after the macroeconomic stability and excessively high corporate tax rates (Islamic Development Bank, 2012; Ivaschenko, 2008).
- Data from the Business Environment and Enterprise Performance Survey (BEEPS) indicates that an inadequately educated workforce is one of the top constraints to the operation of Kazakhstani firms. Compared with some middle-income countries, the share of firms considering an inadequately educated workforce as a constraint is however low. Compared to the 13% of firms mentioning an inadequately educated workforce as a key constraint in the 2013 survey for Kazakhstan, this share is much higher in Chile (41%), the Russian Federation (25%) and Malaysia (20%). But the lower figure in Kazakhstan could also be due to the economy being still less sophisticated compared to the comparator countries mentioned and the share of firms facing that constraint could increase in the future (OECD, 2016a). The problem is most felt by medium (20-99 employees) and large firms (100+ employees), while it is less endured by small enterprises (1-19 employees)

which are more likely to be found in lower value added sectors where workers' skills are less of a competitive factor.

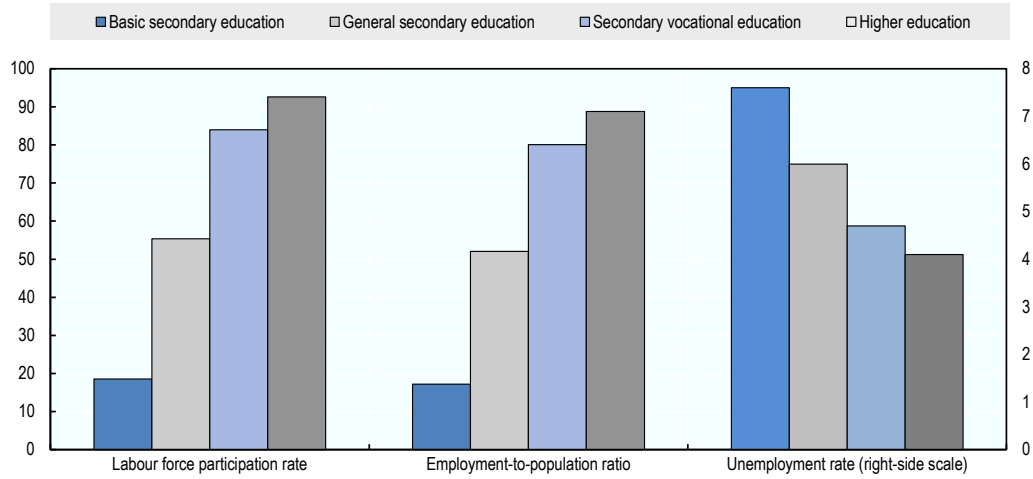
- Data from the Agency of Statistics of the Republic of Kazakhstan suggests that highly and medium qualified manual workers are with 40% the most demanded group of new workers, followed by highly qualified, mostly technical, specialists (20%), both groups of occupations not much favoured by young people when they are choosing their studies (ILO, 2015).
- Qualifications obtained in the education system in Kazakhstan often do not correspond to skills demanded in the labour market: for example, there seems to be too many students graduating in social studies, law, and economics and too few students graduating in science or other technical disciplines for the country's needs (OECD, 2014; ILO, 2015), and observers agree that the agricultural sector in Kazakhstan faces acute shortage of skilled and highly skilled labour (OECD, 2013b).

Returns to education tend to be high

Returns to education in Kazakhstan tend to be high, and educational attainment is highly linked to labour market outcomes and typically associated with better quality jobs (World Bank, 2015a; ILO, 2015; Staneva et al., 2010). Figure 2.6 shows that labour market outcomes improve with the level of education: Kazakhstani youth (aged 15-28) with higher levels of education are more likely to participate in the labour market and to be employed, and are less likely to be unemployed than their less educated peers. Youth with higher education have higher participation rates (92.6% versus 18.6% of youth with basic secondary education), higher employment rates (88.8% versus 17.2%), and lower unemployment rates (4.1% versus 7.8%). As highlighted in Chapter 1 already, higher educational attainments are also generally associated with a lower likelihood to work in the informal sector or as self-employed.[13]

On the one hand, high returns to education may reflect the relative scarcities of highly educated people in Kazakhstan with human capital that employers require and reward accordingly (Arabsheibani and Mussorov, 2006). Improving the quality of education provided to youth may address this challenge. On the other hand, high returns on education reinforce the incentives of youth to invest in education. But the qualifications provided by the education system in Kazakhstan often do not correspond to skills demanded in the labour market leading to skills mismatches. Strengthening career guidance may address this challenge.

Figure 2.6. Key labour market indicators for youth (15-28) by level of education, Kazakhstan, 2012



Source: ILO (2015), *Jobs and Skills for Youth: Review of Policies for Youth Employment of Kazakhstan*, International Labour Organization.

Improving the quality of education provided to youth

Kazakhstan had made considerable improvements in increasing access to education and the supply of highly educated youth in the past decade.[14] As already highlighted by OECD (2014) and ILO (2015), the proportion of persons with only primary and lower secondary education substantially decreased from 1999 to 2009 (from 7.4% to 4.9% and from 18% to 13.3% respectively). The share of those with upper secondary education also decreased in the same period (from 36.6% to 33.5%). In contrast, the share of people obtaining vocational education and training increased substantially (from 22.4% to 25%), as well as the share of persons with tertiary education (from 12.6% to 19.8%). As in other countries, youth in Kazakhstan are generally better educated than other age groups: youth are 10 percentage points more likely to have higher education compared to the total population (over 15) and 6 percentage points less likely to have only primary or lower secondary education (ILO, 2015).

Despite these achievements, there is scope to improve the quality of the education system in Kazakhstan. Results from the OECD Programme for International Student Assessment (PISA) show that many Kazakhstani students (ages 15) do not meet the basic competencies in key subjects like mathematics, science and reading. Specifically, around 80% of Kazakhstani 15 years-old students are low achievers (below level 2) in mathematics, reading and sciences – double the OECD average of around 40%. Importantly, Kazakhstani secondary school curriculum is predominately academic and is relatively weak at enabling students to acquire and practice higher-order thinking skills, such as applying and reasoning in mathematics, or reflecting on and evaluating texts when reading. OECD (2014a) concludes that educational spending in Kazakhstan is still below international average and much remains to be done to eliminate persisting inequalities in access to good quality schooling that are determined by factors such as school location, gender, and language of instruction.

To respond to these challenges, the Government of Kazakhstan initiated a series of reforms of the education system and reached some improvements in schooling outcomes (see OECD, 2014 for further information). For example, under the "Employment Roadmap 2020" programme, the PES organises trainings for unemployed youth. The

duration of trainings is 12 months. Trainees are granted scholarships and get cash payments as prescribed by the Law of the Republic of Kazakhstan "On Education". They are also paid travel expenses to the place of study and back. Students who did not get the threshold on the Unified National Test can enrol for vocational training for blue-collar qualifications (up to 12 months), including training in another region with subsequent employment with the compensation of travel.

Strengthening career guidance

To address skills mismatches, it is crucial that career information and guidance available to students with basic secondary education in Kazakhstan is improved. Career guidance is typically provided in schools to students in the 9th grade and before entering a university in the 11th grade (see OECD, 2014; Figure 1.4).[15] However, a high proportion of students are unprepared to make the career choice they wish to pursue after completing basic and upper secondary education and many take uninformed decisions (OECD, 2014). For example, as in many other countries, the vocational education and training (VET) system in Kazakhstan suffers from a low status and prestige and is perceived as a low-quality option for the weakest students who cannot aspire on academic education. This is in stark contrast with the fact that skills obtained in VET institutions are in high demand in the labour market, and employment prospects of VET graduates are generally quite favourable (see Figure 2.6 above). This situation is not specific to Kazakhstan and can be found in some OECD countries and other post-Soviet countries such as Latvia and Lithuania for example (see for example OECD, 2015b; OECD, 2016b).

To address this challenge and help students take informed decisions about the career choice they wish to pursue, policy makers should ensure that students receive comprehensive information on employment and pay prospects on all the potential careers they may wish to pursue and advice on the best way of acquiring the entry qualifications for their chosen career. At present, the quality of career guidance in tertiary education and VET institutions is low primary because of the lack of adequate information on the demand for skills and workers in different sectors of the economy (OECD, 2014). To strengthen career guidance policymakers should have a clear view on the future employers' demands in different occupations and qualification requirements. Several measures are being implemented in Kazakhstan to improve career guidance:

- The "Detailed Action Plan for Accounting and Employment of Graduates of Schools, Colleges and Universities" – which aims to strengthen career guidance for youth and raise awareness of population about available job opportunities – was recently launched. A part of this programme, development and use of web portals, special employment assistance portals, and social networks will be strengthened.
- A formal system describing qualifications requirements in different occupations – National Qualifications Framework – was adopted by the government in 2013. Currently, policymakers together with representatives of employers and employees are developing new occupational standards for 147 occupations (Ministry of Labour and Social Protection of the Republic of Kazakhstan, 2014). The adoption of the National Qualifications Framework is an important step in improving career guidance of youth in Kazakhstan. Occupational standards may serve as a basis for development of educational standards and for assessment of individuals' competences. When completed, the National Qualifications Framework will represent a comprehensive source of information on skills requirements in different occupations and serve as a roadmap for acquiring the entry qualifications by youth.

Forecasting labour demand for different occupations may further contribute to a better career guidance of youth. While students benefit from clear qualifications requirements, they also need information on future labour demands in different occupations. The Ministry of Labour and Social Protection has recently presented a forecast of the labour demand for different occupations until 2020. The forecast is based on a survey of 6 153 employers. In the survey employers were asked three blocks of questions on the size of the workforce in the firm and its expected changes in the short-term; employers' skills needs; and forecast of occupations that will be in demand in the future. The results of the survey are supplemented by a macroeconomic forecast of the labour demand in different occupations based on the data of the Agency of Statistics of the Republic of Kazakhstan.

The Government of Kazakhstan acknowledges that the system of forecasting the demand of labour is in its early stages of development and more can be done to improve the data collection and usage of existing data sources. As of now the survey of employers is prone to non-response and comparable macro time series is available for a short period of time for a limited number of occupations. More importantly, there is a lack of quantitative studies analysing the degree of skills mismatches among youth. Better utilising data of the labour force survey, collected by the Agency of Statistics of the Republic of Kazakhstan, can address this issue. In this respect, Kazakhstan could learn from the experience of many OECD countries that have put in place skills assessment and anticipation exercises, which aim to assess not only current but also future skills needs in the labour market (for further information, see OECD, 2016c).

Delivering employment services that work for youth

The Public Employment Service (PES) can play a central role in matching the supply of labour to demand through the provision of information, placement and active support services. Similarly to OECD countries, the Kazakhstani PES provides job-search assistance and an array of Active Labour Market Programmes (ALMPs) to young jobseekers. The objective of this section is to analyse the role of the PES and ALMPs in helping youth into productive employment.

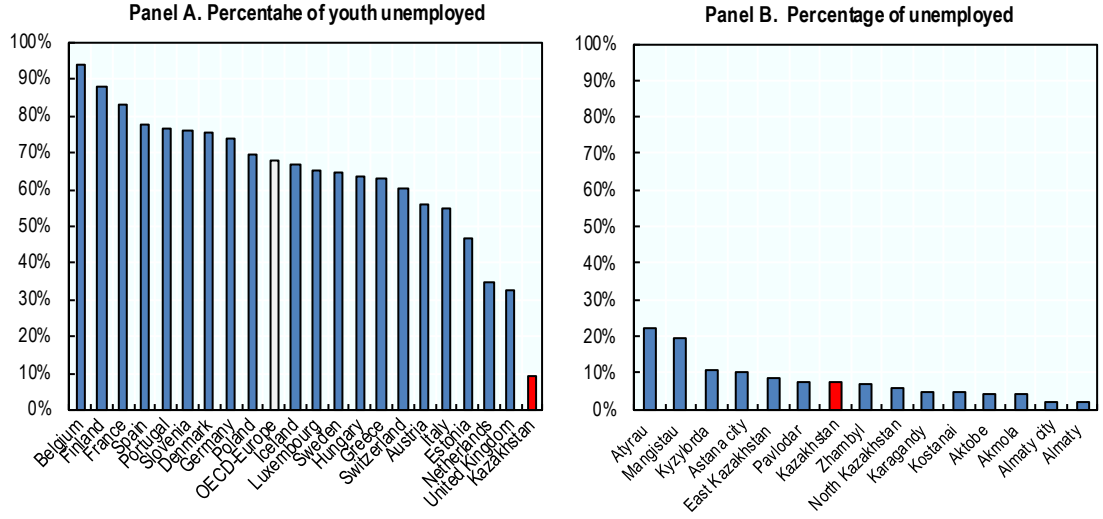
Reach out by the PES to those in need is a key challenge

The Kazakhstani PES was established in April 1991 and since then it underwent a series of reforms. Today the Kazakhstani PES has a rather complex structure with the Employment Units (*Управление координации занятости и социальных программ*) and the Employment Centres (*Центр занятости*) (established in 2011) operating in most parts of the country. The Employment Units, financed by the regional budget, implement employment strategies at the local level, determine the eligibility to unemployment, targeted social assistance and other benefits, maintain databases of jobseekers and vacancies, and oversee the activities of Employment Centres. The Employment Centres, financed by the national budget, provide employment services to young jobseekers and refer them to ALMPs.

Some observers have argued that one significant challenge facing the Kazakhstani PES in the delivery of quality employment services to young jobseekers stems from its inability to reach out to those who are in need of assistance (World Bank, 2015a). Indeed, only a minority of unemployed youth rely on the PES and most rely on personal connections to look for a job, and many claim that they do not register because they are not sure it can help (Smirnova and Tatibekov, 2013; Makhmutova, 2013). Only 7.2%

(33 395 people) of all unemployed people were registered with the PES in 2014,[16] while the share of unemployed youth (ages 15-28) registered with the PES was also very low, even though somewhat higher (9.1%, 9 439 people). The international comparison suggests that PESs in OECD-EU countries fare better than the Kazakhstani PES in reaching out to unemployed youth. In 2012, the share of unemployed youth registered with PESs ranged from a low 32% and 34% in the United Kingdom and the Netherlands respectively, to a high 88% and 94% in Finland and Belgium (Figure 2.7, Panel A). Moreover, significant variation exists across Kazakhstani regions in the ability of the PES to reach out to unemployed people. In 2014, approximately 20% of unemployed were registered with PES in Atyrau and Mangistau regions, compared to 10% in Astana and a very modest 2% in Almaty region and Almaty city (data for youth not available) (Figure 2.7, Panel B).

Figure 2.7. Registration with PES, Kazakhstan and OECD countries, 2014



Panel A: Data for Kazakhstan refers to 2014; data for EU-OECD refers to 2012. Youth is defined as people aged 15-28.

Panel B: Data refers to 2014.

Source: OECD calculation for Kazakhstan based on the information provided by the Agency of Statistics of Republic of Kazakhstan and Information of the Ministry of Labour and Social Protection of Republic of Kazakhstan. For OECD-Europe: European Union Labour Force Survey (EU-LFS).

Among youth, women and highly educated people are those who are most likely to register with PES. Young women represent 67% of all youth registered, while around 70% of registered unemployed youth have VET or university degrees in Kazakhstan (ILO, 2015). This is surprising considered that high-skilled youth have typically better employment outcomes than their less-educated peers. The overrepresentation of highly-qualified people among registered unemployed youth could reflect the fact that many highly-qualified youth register with PES to have access to ALMPs (e.g. wage subsidies), for which (as highlighted in Box 2.3) entitlement criteria for participation are very broad. It may also indicate that many unskilled workers work in the informal sector of the economy, often in remote areas and far from the reach of the PES.

There are several explanations why the Kazakhstani PES does not attract many unemployed (youth). First of all, low generosity of unemployment and social assistance

benefits (see later sections of this chapter) and strict eligibility criteria (discussed in Annex 2.A1) provide little incentives for the unemployed to register with the PES. For example, registered unemployed have to report to the PES counsellor on their job search efforts very often, i.e. every ten days. While frequent monitoring of efforts ensures that people search for a job, it may discourage unemployed people to register with PES in the first place. Finding a balance between monitoring and employment assistance involves a delicate balancing act given the need to take into account heterogeneous needs of the unemployed population. Profiling of unemployed, supplemented with results of impact evaluations, helps identify groups that may benefit the most from intensified job-search assistance or frequent monitoring (OECD, 2013; Loxha and Morgandi, 2014).

Second, the vacancy bank of Kazakhstani PES has few and predominately low-quality vacancies. The analysis of the vacancy bank at the central web-portal of the PES shows that, as of January 2017, there are 44 978 vacancies for 47 096 registered jobseekers (https://www.enbek.kz/ru). Importantly, offered vacancies are usually for low-skilled professions and rarely offer vacancies for people with higher education. Upgrading the vacancy bank of the Kazakhstani PES by increasing the numbers and quality of registered vacancies may foster job-search assistance and increase the attractiveness of registration with the PES. Many OECD countries took steps in improving the vacancy bank of the PES either by simplifying the procedures for employers to declare the vacancy and/or extending digital services targeted to unemployed (OECD, 2015a). These steps, in many cases, led to increased registration with PES among the unemployed.

Third, low registration with PES – relative to OECD countries – is not only connected with lower income support and the lack of good-quality vacancies, but also with the fact that registration is not a condition for accessing sickness insurance and for the provision of maternity benefits and other forms of social assistance to jobless persons as is the case in many OECD countries (ILO, 2015).

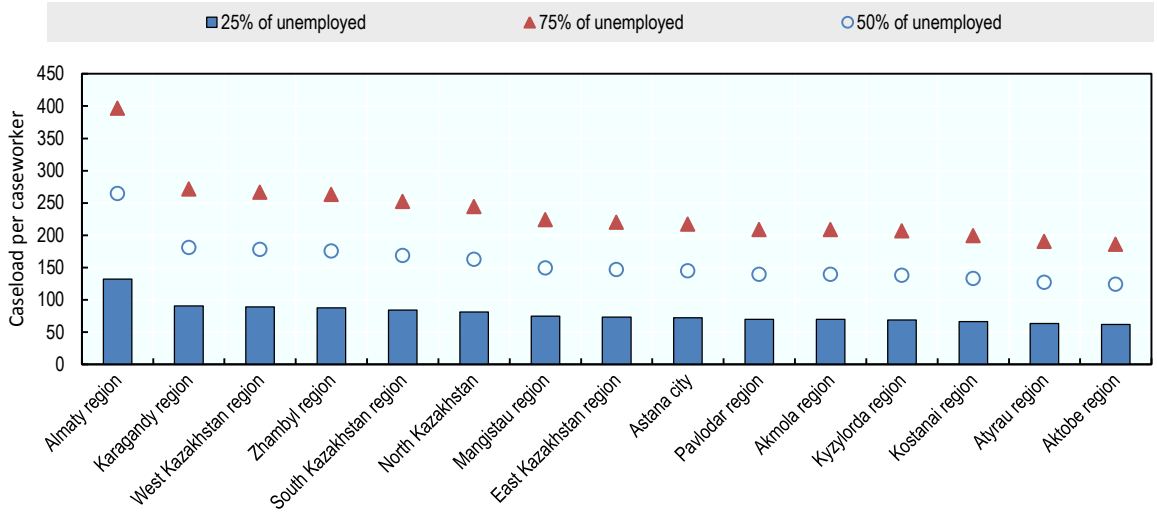
Last, low numbers of caseworkers (relative to PES clients) may represent a barrier to increase coverage of unemployed by PES. As of 2014, the staff of the Kazakhstani PES is 1 980 workers.[17] Caseloads, as defined by the number of registered unemployed per caseworker, are very low in the Kazakhstani PES, amounting to less than 25 registered unemployed per caseworker. However, this figure does not capture the fact that many participants in ALMPs are not unemployed, but in informal employment or belong to other non-unemployed disadvantaged groups (as highlighted in the Employment Roadmap 2020, see Box 2.4), and therefore are not counted as registered unemployed. Caseloads would increase to approximately 180 clients per caseworker if one accounts for ALMPs participants.

The number of caseworkers is also low relative to open unemployment. In this regards, it is instructive to analyse the capacity constraints of the PES to extend its services to the unemployed who have not yet registered with the PES. A “stress test” of regional PESs measures the caseload per caseworker under three different scenarios. The first scenario assumes that the services of the PES are extended to 25% of unemployed while keeping the number of case workers in the PES constant. The second scenario assumes that coverage is extended to 50% of unemployed, and the third 75%. Results suggest that the current number of caseworkers in the Kazakhstani PES may be a barrier to increase the coverage of unemployed with the services provided by the PES (Figure 2.8). Should 75% of all unemployed register with PES the caseload would increase to around 200 unemployed per case worker in all Kazakhstani regions. In some

regions (Almaty city and Almaty region) the caseload would exceed 400 people, a very high number that could hinder the effective delivery of employment services to the unemployed people.

This suggests that the Kazakhstani PES will need more resources in regions with high unemployment rates to extend services to the majority of unemployed. The government plan to increase the number of caseworkers in the PES is a welcome step, but hiring and training new caseworkers may take time. Therefore, closer collaboration with private employment agencies in providing counselling services and organising ALMPs (discussed in the next session) may be an appropriate move to consider addressing capacity constraints of the PES, at least on a temporary basis or for selected regions. Many PESs in OECD countries outsource some employment services to private providers (OECD, 2015a). The most notable example is Australia where the PES outsources all employment services to private providers (see Box 2.3; OECD, 2012a).

Figure 2.8. Stress test of the Kazakhstani PES, 2014



Note: The number of case workers is assumed to be equal to 1 386.

Source: OECD calculation based on the Agency of Statistics of the Republic of Kazakhstan and information provided by the Ministry of Labour and Social Protection of the Republic of Kazakhstan.

In spite of these challenges, the Kazakhstani PES is currently taking steps to improve its efficiency and attractiveness. For example, the "Digital Platform" portal has been developed recently. This platform – which operates on the enbek.kz website – comprises the Labour Market Analytical Information System, an information systems which is integrated with databases of state bodies, private employment agencies, and an internet portal of workforce search. In the "Digital Platform", information for applicants, including graduates of educational institutions and available job vacancies, is consolidated. Employers can register with the portal and get access to applicants' CVs. Applicants, in turn, can get access to the database of vacancies and get directed to job vacancies. Probably as a result of this modernisation process, the number of vacancies offered by the PES is increasing substantially. Data provided by the Ministry of Labour and Social Protection show that the number of vacancies offered by the PES tripled in a very short span of time, passing from about 15 000 at the beginning of 2016 to about 45 000 at the beginning of 2017.

Box 2.3. Australia's fully outsourced employment service

While in many OECD countries public employment services outsource at least some of their activity to private employment agencies, Australia's approach is unique in that its mainstream employment service is entirely outsourced to over a hundred for-profit and non-profit provider organisations competing in a "quasi-market", with their operations financed by service fees, placement and employment outcome payments, and a special fund for measures that tackle jobseekers' barriers to employment.

The first version of this system was set up in 1998 as the Job Network (JN). The system operating since 2009, Job Services Australia (JSA) integrated JN provision with previously separate programmes targeted at highly disadvantaged youths and adults and with the management of the Work for the Dole programme. Australia's approach has been judged to be successful. In a recent country review of Australia, the OECD concluded that, despite possible refinements of the design and management of its employment services, the interlocking elements in place in this quasi-market are highly effective and, together with the strategy of activating inactive benefits, have contributed to the strong performance of the Australian labour market. Three key elements in particular help explain the success of Australia's employment service:

- First, outcome-based contracts give providers flexibility to personalise service provision and allow case managers to tailor services to different participants. There is no requirement on providers to spend fee income on any particular client. While individual clients attract funding for intensive services based on their level of disadvantage – which is assessed mainly based on administrative records and client responses to a series of questions asked as part of the Job Seeker Classification Instrument (JSCI) – providers are then free to allocate services across individuals to maximise their effectiveness in terms of generating paid employment outcomes. This arrangement assumes that providers have the best knowledge of their clients' needs, which is more efficient than if the government decided which services were needed by individual clients, and purchased those.
- A second strength of the system is that it focuses providers and their case managers on achieving not just any job outcome, but on achieving entry into sustained employment. Outcome Payments are made when clients reach 13 weeks in employment and again when they reach 26 weeks.
- Third, from 2000, the government began to regularly publish Star Ratings of provider performance which are currently available for over 2 000 individual sites, based on how many paid placements and paid outcomes were achieved, with regression adjustments taking client characteristics and the state of the local labour market into account. In subsequent tender rounds, providers with low Star Ratings lost business, which was reallocated to higher performing providers and to some new entrants to the market.

Although the Australian experience demonstrates that a quasi-market for employment services can operate effectively, it does require an active national management framework. The benefit administration organisation, Centrelink maintains a national database of jobseekers characteristics and assesses which benefit claimants are required to search for work, or have failed to comply with requirements. The Australian Department of Employment defines complex contracts with employment service providers, maintains a national database of jobseeker characteristics and estimates comparative measures of employment service provider performance as the basis for renewing or terminating contracts. It also audits provider activity on an ongoing basis for contract compliance, assuring the validity of expense claims, service quality, general organisational health and other factors. Although this management framework has a cost, it does tend to ensure that the quasi-market rewards the right outcomes and that only high-performing providers can remain in the market.

Source: OECD (2013), *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en.

There is a need to invest in more effective Active Labour Market Programmes

Active Labour Market Programmes (ALMPs) may be crucial to improve the employability of young jobseekers, as they can address acute shortages of skilled labour and may help youth to gain a stronghold in the labour market. The Kazakhstani history of ALMPs is relatively short. The first large-scale programmes were introduced in 2011 with the implementation of the Employment Roadmap 2020 (Box 2.4).

Box 2.4. Employment Roadmap 2020

Adopted in 2011, the Employment Roadmap 2020 is a government programme aiming to help vulnerable groups to enter productive employment. Four broad groups of jobseekers are eligible to participate to the programme: unemployed, self-employed,[1] and informal workers, as well as poor households.[2] In addition, the Employment Roadmap 2020 defines target groups who are given preferential access to the programmes: i) youth under 29, within three years after leaving the education system; ii) orphans and children left without parental care, aged 18 to 29; iii) people with disabilities (groups 1 and 2); iv) women living in rural areas; v) people dismissed from the Armed Forces of the Republic of Kazakhstan; vi) people released from prison, and/or compulsory treatment; vii) older workers 50-63 (50-58 for women); viii) people in early retirement; ix) people previously working in arduous or hazardous jobs; x) people dismissed on economic grounds.

The Employment Roadmap 2020 is administered by the Public Employment Service (PES), in co-operation with municipalities. There are three directions of the Employment Roadmap 2020: i) direct job creation; ii) start-up incentives; iii) employment incentives and training.

First direction: Direct job creation (*обеспечение занятости через развитие инфраструктуры и жилищно-коммунального хозяйства*)

The objective of this direction is to provide temporary employment support to the participants of the Employment Roadmap 2020. Participants are employed in infrastructure development projects which can include the construction, or restoration, of public facilities such as hospitals and schools.

Second direction: Start-up incentives (*стимулирование предпринимательской инициативы и комплексное развитие опорных сел*)

The objective of this direction is to support entrepreneurship development in rural areas with the view to enhance the economic and social development of these territories. Under this direction, nascent entrepreneurs can access a vast array of services, including support in the development of the business plan; access to microcredit loans; as well as consultation and advice on accounting, administrative and legal issues. The annual effective interest rate of microcredit loans of up to KZT 500 000 shall not exceed 5%.

Third direction: Employment incentives and training (*обучение и содействие в трудоустройстве и переселении, с учетом реального спроса работодателя*)

The objective of the third direction is to improve employers/employees matching by providing participants with professional orientation, employment subsidies, training programmes and assistance with reallocation. The third direction is divided into several sub-components, which are described below:

Social work: Under this programme employers receive a wage subsidy for hiring participants of the Employment Roadmap 2020. The subsidy is equal to 35% of the gross wage, with an upper cap on the amount of the subsidy equalling one minimum wage per month. The maximum duration of the programme is 12 months.

Youth practice: Under this programme employers receive a wage subsidy for hiring young VET or university graduates. Participants should be younger than 29, have no previous work experience and have graduated within three years before joining the programme. The amount of the wage subsidy is 18 Monthly Calculation Index (MCI[3]) (i.e. KZT 40 842) per month and the maximum programme duration is six months.

Box 2.4. Employment Roadmap 2020 *(cont.)*

Job mobility: under the job mobility programme, participants receive compensation for accommodation and travel costs in case of taking up a job in regions with labour shortages (defined by the government). The cost of training or retraining is also covered by the government.

Training: Training programmes are organised based on employers' demand. Training programmes are organised by the PES and provided either in VET schools or at the workplace, and can last for a minimum of three months to maximum of 12 months depending on the type of training provided.

1. Self-employed in unproductive self-employment.

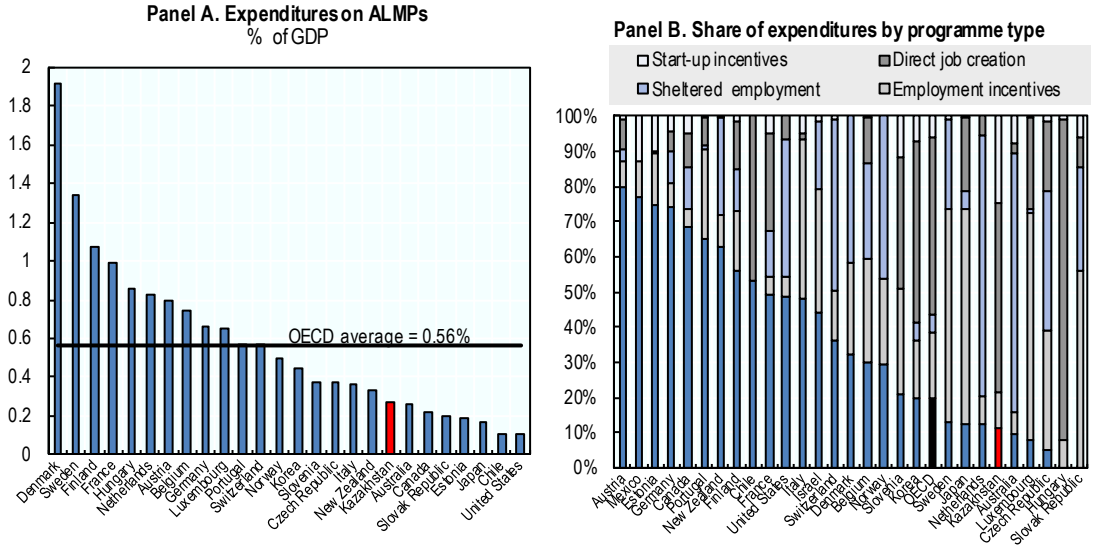
2. Households with incomes below subsistence minimum are defined as poor.

3. The minimum calculation index is a measure defined by law and used in the calculation of benefits. In 2017 the minimum calculation indices is set at KZT 2 269.

The international comparative analysis suggests that the level of expenditures on ALMPs is relatively low in Kazakhstan in comparison to OECD countries. Kazakhstan spends around 0.27% of GDP[18] on ALMPs, which compares to an average of 0.56% across OECD countries on average (Figure 2.9, Panel A). While expenditures on ALMPs in Kazakhstan are skewed towards direct job creation (public work; first direction of the Employment Roadmap 2020) and start-up incentive programmes (second direction of the Employment Roadmap 2020), training and employment incentives programmes (third direction of the Employment Roadmap 2020) account only for a small part of the ALMPs budget (Figure 2.9, Panel B). Direct job creation accounts for 53% of all ALMPs spending,[19] followed by start-up incentives (25%), training (11%) and employment incentives (11%). This evidence contrasts with the pattern observed for the OECD countries, which typically put more emphasis on training and employment incentives programmes than Kazakhstan (Figure 2.9, Panel B).

Spending on ALMPs was reduced dramatically by as much as 60% from 2014 to 2015, reflecting austerity measures implemented by the government, and are expected to decline even further in 2016 (World Bank, 2015b). While some programmes were more affected than others, the data analysis shows that the programme mix remained broadly the same with direct job creation and start-up incentives programmes accounting for over 70% of ALMP expenditures. Falling expenditures on ALMPs in Kazakhstan imply that the PES faces difficult choices in deciding how to ration increasingly scarce ALMPs across the growing population of young unemployed and informally employed persons who potentially could benefit from them. To avoid this situation, expenditure on AMLPs should be maintained at a level of 2014 or increased even further to ensure that adequate resources for cost-effective measures are available for youth. Experiences from the past economic crisis show that OECD countries that scaled up expenditures on ALMPs achieved better labour market outcomes for youth (OECD, 2012b).

Figure 2.9. Expenditures on ALMPs, Kazakhstan and OECD countries, 2014

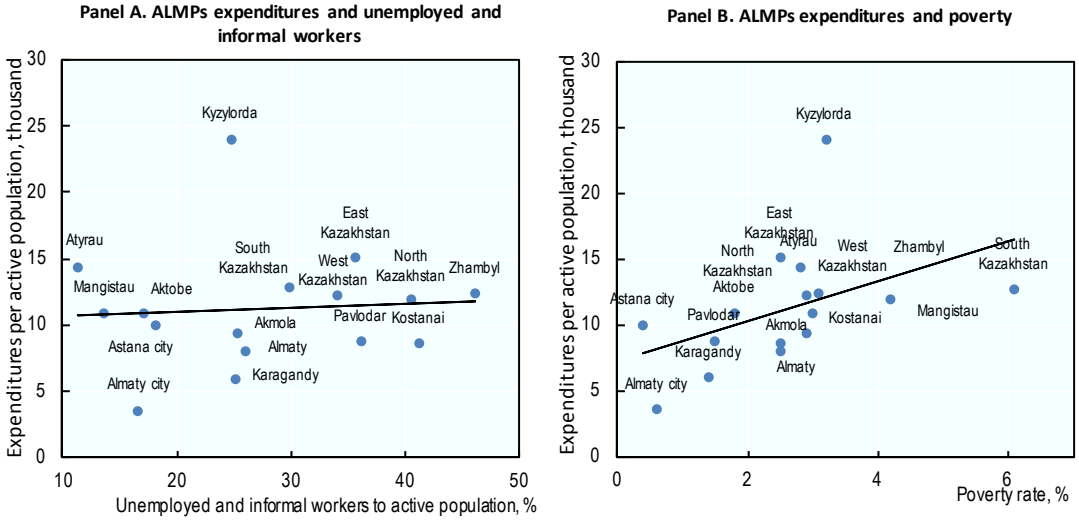


Note: Data for Kazakhstan refer to 2013. For Kazakhstan expenditures on training programmes include all training programmes except training programmes for self-employed; expenditures on direct job creation refers to infrastructure projects; employment incentives include youth practice and social works and job-mobility programmes (less expenditure on housing construction); start-up incentives include training programmes for entrepreneurs and micro-loan programmes; there are no supported employment and rehabilitation programmes.

Source: *OECD Labour Database* for labour force data and ALMPs expenditure; for Kazakhstan information was provided by the Ministry of Labour and Social Protection of Republic of Kazakhstan.

Financing of ALMPs is done through a transfer from the national budget of Kazakhstan to regions. The size of the transfer is proportionate to the local size of the active population but is often adjusted to reflect specific development priorities at the regional level. Correlation analysis suggests that expenditures, on the regional level, are only weakly related to unemployment and informality rates (Figure 2.10, Panel A) while regions where poverty rates are high receive proportionately more funds on ALMPs[20] (Figure 2.10, Panel B). This partly reflect relatively higher share of spending on direct job creation programmes, which are generally targeted to poorer regions that need infrastructure development.

Figure 2.10. Targeting of ALMPs on the Kazakhstani regions, 2014

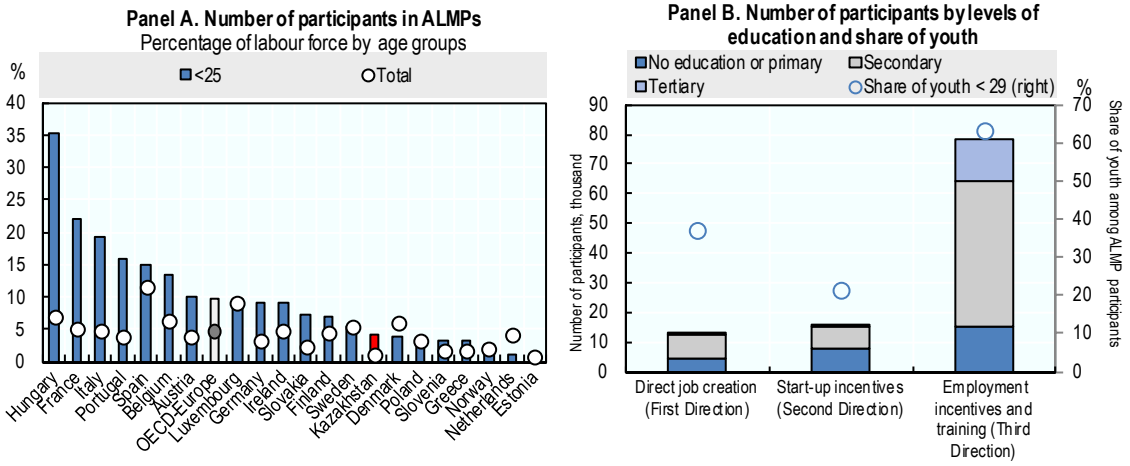


Source: OECD calculations based on the information provided by the Ministry of Labour and Social Protection of Republic of Kazakhstan.

The international comparison also suggests that participation in ALMPs remains significantly less frequent in Kazakhstan than in most OECD countries and moreover it has been declining in recent years. Taken as a percentage of the youth labour force, the share of young participants in ALMPs in Kazakhstan was 4.3% (1.2% for the total labour force) in 2013, which compares to an OECD-Europe average of 9.8% (4.6% for the total) (Figure 2.11, Panel A). Following the sharp decrease in ALMPs spending in Kazakhstan in 2015, the number of participants in ALMPs has also declined sharply by approximately 70% in 2015.

The vast majority of participants (73%) partake in employment incentives and training programmes (third direction of the Employment Roadmap 2020); followed by direct job creation[21] (first direction) (15%) and start-up incentive programmes (second direction) (12%) (Figure 2.11, Panel B). ALMPs are generally targeted to participants with low levels of education, although some programmes attract a considerable share of highly educated workers. The share of people with no or primary education levels is the greatest in start-up incentive (50.5%) and direct job creation (33%) programmes. People with secondary education are overrepresented in direct job creation, training and employment incentives programmes. The share of participants with tertiary education is very low in the direct job creation and start-up incentive programmes, but relatively high in training and employment incentive (18%) programmes. A considerable share of ALMPs participants are youth. In particular, youth are most likely to participate in training and employment incentives (representing 63% of all participants), and direct job creation (37%), while they are less likely to participate in start-up incentives programmes (21%).

Figure 2.11. Participants of ALMPs and distribution of participants by programme, Kazakhstan and OECD-European countries, 2013



Panel A: Total data for Spain and France refers to 2012; Total data for Greece refers to 2010; Total data for the United Kingdom refers to 2009; <25 data for Greece refers to 2006.

Panel B: youth is defined as people aged 29 and below.

Source: OECD Labour Force Statistics database for labour force data; Eurostat for the number of ALMPs participants; for Kazakhstan, ILO database and information provided by the Ministry of Labour and Social Protection of the Republic of Kazakhstan.

While the international experience suggests that, in general, ALMPs have a relatively strong positive impact on future employment outcomes of their participants (OECD, 2015a; Kluve, 2010), there are no impact evaluations of ALMPs in Kazakhstan, and therefore it is not possible to draw conclusions about their effectiveness (see also Makhmutova, 2013). Although low spending and participation in ALMPs suggests that there is room for more generous investments in ALMPs, before investing further resources on ALMPs whose impact remains dubious, it is important that Kazakhstan conducts rigorous independent impact evaluation studies on the effectiveness of such programmes and scale-up spending on the programmes that are the most effective. Impact evaluation is important to determine the cost-effectiveness of interventions and ensure that resources are used effectively. Furthermore, it helps policy makers to assess whether programmes should be continued or expanded, and allows for continuous improvements or the termination of unsuccessful ones (OECD, 2015a).

Eligibility for participating in ALMPs in Kazakhstan is very broadly defined, and includes the broad group of people who are either unemployed, employed in the informal sector, self-employed, and poor households (see Box 2.4). In other words, virtually all people (and youth) who are not employed in the formal sector have access to ALMPs in Kazakhstan. This suggests that better targeting of ALMPs to participants who are most in need is essential to ensure that programmes reach their objective in an efficient manner, and to guarantee that existing resources are allocated to the most effective interventions, particularly in a situation of constrained government budgets. In particular, ALMPs could be separately managed and operate their own referral processes and target group criteria. For example, direct job creation – whose main objective is to protect people from falling into poverty – should target those who face the greatest risk of exclusion, and selection criteria should reflect this priority. Employment incentives programmes should target

youth who need the most help in finding employment, such as the long-term unemployed or the low-skilled (youth).

There is also scope to adjust the programme mix in Kazakhstan, and invest proportionally more resources to skills-enhancing programmes, such as training programmes, and job mobility programmes. Considered large skills mismatches and shortages in Kazakhstan, and that productivity growth of workers is lagging behind compared to real wages growth (see Chapter 3), further investments in training programmes would be highly beneficial to help youth gain the skills demanded in the labour market and help them transit into well-matched jobs. In a country with vast territory, scattered population and a large diversity in the economic level of regions and localities like Kazakhstan, the job mobility programme is also very important and needs to be further strengthened as so far only a limited number of people have used it. The next section analyses in more details the key ALMPs for youth delivered by the PES – notably direct job creation, employment incentives, and training programmes.

Direct job creation (public works)

Direct job creation programmes are popular instruments for delivering social protection in emerging countries. Particularly, in countries with no formal or underdeveloped unemployment insurance, such as Kazakhstan, such programmes can perform an essential insurance function. A well-designed direct job creation programme should also help create useful physical infrastructures in disadvantaged regions. Furthermore, these programmes may provide individuals with work experience and promote labour force participation and more permanent pathways out of poverty than simple cash transfer programmes (Subbarao et al., 2013).

Although international experience suggests that direct job creation programmes, when targeted to the poorest areas or to people who are most in need, may help to address poverty and contribute to economic development in emerging economies (Subbarao et al., 2013), they can also have small or no permanent employment effects on participants in developed countries, especially for young workers (Kluve et al., 2010; Card et al., 2010; Caliendo and Schmidl, 2015).

There appears to be a role for direct job creation programmes as safety net/ALMP in Kazakhstan, especially considered the inadequacy of the income protection system (see next section) and the recent economic slowdown. However, in order for these programmes to be more effective, they need to be improved, or at least brought back in line with their original objectives. In particular, direct job creation programmes should be targeted at individuals (youth) who need them most – notably the poorest and/or those who are the least able to compete for employment. There is also scope to re-design direct job creation programmes in a way to help participants gain regular employment, rather than recycle themselves in the programme.

Particularly, wages of participants should be set at a level low enough to attract only those in need of temporary work, albeit high enough to provide an adequate source of income. According to general rules, the minimum remuneration of direct job creation programmes in Kazakhstan is set at the level of the minimum wage, but top-ups could be paid to skilled workers. One policy option would be to introduce an upper-cup to wages paid to participants (for example one minimum wage), to discourage high-skilled workers to participate to such programmes. Furthermore, additional criteria – such as the duration of the unemployment spell, and/or means tests – could be introduced to select participants

who are most in need. This could provide preferential access to those who are the least likely to find employment and who face the highest risk of poverty.

Collaboration with social partners at the local level may also help to achieve better targeting of direct job creation programmes to those most in need, because social partners have a better sense of who is truly in need of assistance. Moreover, involving the community in the choice of projects has been argued to promote participants' ownership of the programme, which can lead to better quality work as well as maintenance upon completion of the project (Subbarao et al., 2013). In Kazakhstan, Divisional Commissions – which include social partners – already exist to determine eligibility to TSA benefits (see section below). It may be worthwhile to consider giving these Divisional Commissions more power to select projects and participants of the programmes. For example, in the Russian Federation, a Local Initiatives Support Programme (LISP) in the poorest rural communities aims to enhance infrastructure development and trust between the population and local authorities and involve citizens in local decision-making. Up to 18% of the relevant populations have been involved through participation in community hearings and preparation and monitoring of LISP subprojects (Shulga et al., 2014).

Finally, there appears to be scope to re-design direct job creation programmes in a way to enhance employment outcomes of participants. Considered the limited capacity of direct job creation programmes to open up opportunities for regular employment, it is important that direct job creation programmes are combined with measures that support the transition of participants to more stable jobs in the formal sector. For example, access to work opportunities on a part-time basis could give participants the time, as well as the incentives, for seeking other income-generating activities and long-term employment opportunities, thereby reducing the risk of lock-in effects. At the same time, a short-term training component could help to make these programmes more effective by improving the skills of participants.

Employment incentives

Employment incentives (i.e. wage subsidies) aim to stimulate labour demand by encouraging employers to hire disadvantaged population groups (particularly youth) at a reduced cost for a fixed period of time, while at the same time helping participants to gain a foothold in the labour market. The international experience suggests that employment incentives may be especially useful to support the employability of youth, since firms may be reluctant to hire unexperienced workers if labour costs are set at a level above their expected productivity. A period of subsidised employment can provide firms with the opportunity to observe the motivations and competences of young workers and increase their productivity (both through work experience and on-the-job training) until it is commensurate with the unsubsidised wage paid. By reducing the cost of labour, employment incentives can also encourage employers to declare their newly hired youth and therefore can help reducing informal employment.

In the case of Kazakhstan, one problem is that employment incentives programmes are used to circumvent some institutional bottlenecks embedded in the labour market. First, in the past years real average wage growth outpaced productivity growth (see Chapter 3) making the hiring of low-skilled workers less attractive. Employment incentives have likely been used by employers to fill this gap. Furthermore, employment incentives are also used to mitigate the effects of existing labour regulations, which by providing excessive protection to young workers may prevent employers to hire them in the first place (e.g., until December 2015, according to the Labour Code, employers were

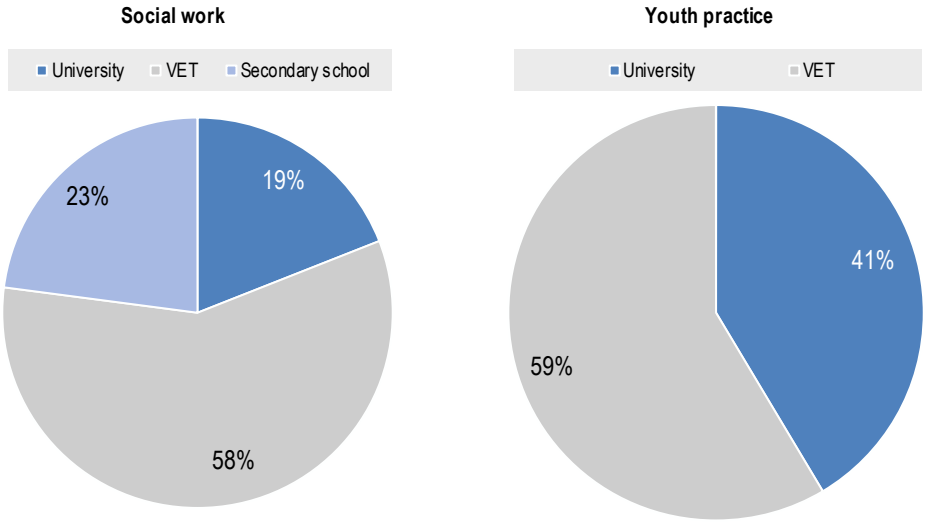
obliged to hire young people for a minimum of two years without any probation period, see section on the employment protection legislation for further information). The priority for Kazakhstan would be to remove these institutional bottlenecks, rather than allow employers to use employment incentives to circumvent them.

In the framework of the Employment Roadmap 2020, there are two main hiring incentive programmes in Kazakhstan available to young people, namely *youth practices* and *social works* (Box 2.4). On top of that, the Kazakhstani Government is planning to introduce short-time work (STW) programmes for employers that face a temporary slack in the demand (Box 2.5 provides an overview of the role of STW programmes and the way they are designed across OECD countries).

While the international experience suggests that, in general, hiring subsidies have a relatively strong positive impact on employment outcomes of their participants (OECD, 2015a; Kluve, 2010), there are no impact evaluations of hiring subsidies in Kazakhstan, and therefore it is not possible to draw conclusions about their effectiveness. Much of the effectiveness of wage subsidies, however, depends on how they are designed. In this respect, there are three main challenges: deadweight losses, (i.e. when hiring with a wage subsidy would have occurred even without the wage subsidy); substitution effects, (i.e. when hiring with a wage subsidy reduces unsubsidised hiring by the same employer); and displacement effects (i.e. when employers who do not use the subsidy reduce employment, as they lose business to firms that avail of the subsidy). While neither of these difficulties is fully avoidable, effective employment incentives should be designed and targeted in such a way to minimise these adverse effects.

In Kazakhstan, existing wage subsidies (both *social works* and *youth practices*) tend to be poorly targeted to participants who need them most and therefore are likely to generate large deadweight losses. Indeed, wage subsidies in Kazakhstan are not targeted to youth most in need – such as the low-skilled, the long-term unemployed, or youth who are detached from the education and training system – and often disproportionately focus on high-skilled youth. *Social works* are accessible to all youth who fulfil the broad eligibility criteria defined in the Employment Roadmap 2020 (being unemployed; working in the informal sector; being unproductive self-employed; or living in a poor households). This implies that virtually all youth – except those who are employed in the formal sector – can access the programme, including those who would be able to find employment even without receiving the subsidy. Similarly, *youth practices* are targeted to high-skilled youth (who graduated from either university or VET schools) who are specifically those who have the greatest chances to find a (good quality) job even in the absence of the subsidy.[22] Reflecting the poor targeting of these employment incentives programmes, Kazakhstani youth with lower levels of educational attainment (i.e. general secondary education) are underrepresented among participants (Figure 2.12).

Figure 2.12. Educational attainment of participants in employment subsidy programmes, as of 1st September 2015



Note: Data refers to the first nine months of 2015.

Source: OECD calculations based on the information provided by the Ministry of Labour and Social Protection of the Republic of Kazakhstan.

One viable policy option to minimise deadweight losses is to better target *social works* and *youth practices* to people who are facing the highest barriers to enter formal employment, for example by restricting (or at least giving preferential) access to the long-term unemployed youth, youth with repeated unemployment spells, and/or the low-skilled youth. Many OECD countries have in place mechanisms which restrict access to employment incentives (and ALMPs more generally) to particularly hard-to-place jobseekers (OECD, 2015a). In Belgium, for example, a wage subsidy programme, the "Win-Win", was introduced in 2010 for firms hiring vulnerable groups, such as the long-term unemployed, and the low-skilled youth (Plasman, 2010).

Employment incentives in Kazakhstan are also likely to generate large substitution and displacement effects due to poor targeting of firms. Existing hiring subsidies in Kazakhstan typically impose lose conditions on employers, reflecting the fact that they simply define the generosity of the subsidy. As a consequence of weak obligations imposed on employers, there is a risk that participating employers make successive placements in the same work position, resulting in no or little net employment gains and displacement of stable jobs in competing enterprises.

The international experience suggests that imposing more effective conditions on employers – for example by providing the subsidy only if hiring represents an increase in the number of employees in the firm – can help reduce substitution and displacement effects. For example, Italy has recently introduced wage subsidies for firms hiring long-term unemployed and/or low-skilled youth (ages 18-29) provided that the new hiring represents an increase in the number of employees in the firm (Italian Ministry of Employment and Social Policies, 2015). Furthermore, monitoring employers to ensure that the employment incentives are used as a tool to promote new work experiences and to retain participants beyond the subsidy period, can also help to limit potential negative effects (OECD, 2015a). At the same time, it should be acknowledged that excessive

conditions imposed on employers could negatively affect take-up, and the international practice suggests that a balance needs to be found between conditions imposed on employers and the perceived burden and attractiveness of the programme.

Another aspect that could undermine the effectiveness of wage subsidies in Kazakhstan is that these programmes rely on the existence of a relatively well-developed (formal) private sector. In rural areas, where fewer job opportunities exist and informality rates are higher, such programmes may be less effective, yet it is exactly in those areas that employment subsidies are most needed. One option worth exploring in rural areas would be to combine wage subsidies with incentives directed to get small enterprises to formalise[23] and/or allocate larger wage subsidies to firms located in rural areas.

Box 2.5. Designing short-time work programmes

Short-time work (STW) programmes are public schemes that are intended to preserve jobs at firms experiencing temporarily low demand by encouraging work-sharing, while also providing income-support to workers whose hours are reduced due to a shortened work week or temporary lay-offs. A crucial aspect of all STW schemes is that the contract of an employee with the firm is maintained during the period of STW or the suspension of work. These programmes proved to have an economically important impact on preserving jobs during the economic downturn by providing wage subsidies to employers to keep their workers employed (Hijzen et al., 2011, 2012).

The international experience suggests that appropriate design of short-time work programmes is important in order to limit possible deadweight and displacement effects. This box provides the key features of the design of short-time work programmes, while more concrete examples from OECD countries are presented in Hijzen and Martin (2012).

Work-sharing requirements specify the range of permissible reductions in weekly hours for short-time workers. Minimum permissible hours reductions are intended to limit STW participation to firms experiencing important financial difficulties, while maximum average hours reductions rule out temporary layoffs and foster work-sharing by spreading the burden of adjustment across a larger group of workers.

Eligibility requirements set conditions that employers or workers must meet in order to participate in STW programmes such as: justification of economic need by the firm; the agreement of the social partners; and workers to be eligible for unemployment benefits.

Conditionality requirements set behavioural requirements for both employers and workers participating in STW schemes such as: requiring workers on STW to participate in training; requiring the development of a recovery plan; prohibiting dismissals during, or, for a short period after participation in STW schemes; and, active job search by workers on short-time work.

The generosity of a STW programme determines the cost of participation for both firms and workers and the maximum length of participation. For firms this depends on the extent to which they are required to share in the cost of hours not worked, while for workers this depends on the extent to which they are compensated for hours not worked (i.e. the replacement rate). Limits to the maximum duration for which STW subsidies are available are likely to play a crucial role in ensuring that STW schemes do not end up becoming an obstacle to job creation in the recovery.

Source: Hijzen, A. and S. Martin (2012), "The Role of Short-Time Working Schemes During the Global Financial Crisis and Early Recovery: A Cross-Country Analysis", *OECD Social, Employment and Migration Working Papers*, No. 144, OECD Publishing, Paris, http://dx.doi.org/10.1787/5k8x7gvx7247-en.

Training

Training programmes are particularly relevant in Kazakhstan, where the challenge of skills mismatches and shortages has long been recognised by the government (see earlier sections of this chapter). On top of recent reforms in the general education and vocational education and training (VET) system implemented by the Kazakhstani Government to address these challenges (OECD, 2015a; Álvarez-Galván, 2014), training programmes provided by the PES may improve the skills of those with lower educational attainment, and reverse human capital depreciation that results from longer unemployment spells. The international experience suggests that impact evaluations of training programmes often found a negative impact or only a small positive impact on net employment outcomes in the short run (probably reflecting the lock-in effects[24]), while a quite strongly positive impact is observed in the medium- to long-term (Card et al., 2010; OECD, 2015a).

The main training programme in Kazakhstan is provided within the third direction of the Employment Roadmap 2020 (Box 2.4), while other ALMPs (such as job mobility and support of individual entrepreneurship) also include a training component. Among registered unemployed youth, only 4.4% received training in 2013 and of them slightly less than two-thirds were employed after completing training (ILO, 2015). Given the extent of skill mismatches in the labour market, and the low (and declining) percentage of youth jobseekers directed to training, there seems to be considerable scope for investing more in such programmes.

In line with these objectives, the government has recently developed the "Development of Productive Employment and Mass Entrepreneurship" programme. The programme grants the equivalent of technical and professional training (vocational training) and trainings facilitated by the National Chamber of Commerce. Youth (ages 15-24) who have not passed the Unified National Test and who are not enroled in education institutions, can have access to 2.5 years of trainings in professional occupations that are in demand in the service sectors. It is planned to cover around 100 000 of people per year. Middle-aged people (ages 25-44), on the other hand, will be provided with dual work-based training (duration of 1-6 months), with the direct involvement of employers and entrepreneurs. This programme is planned to cover around 450 000 people every year. These clearly are steps in the right direction, but careful implementation and monitoring will be crucial in order for this programme to be effective.

Providing income support to youth through unemployment and social assistance benefits

Income-support programmes play an important role as automatic macroeconomic stabilisers during economic downturns. By alleviating income shocks for youth affected by joblessness or a decline in earnings, they can bolster aggregate demand while ensuring decent incomes. Kazakhstani youth can access an array of income-support programmes, notably unemployment benefits and targeted social assistance (TSA) benefits (discussed in this section), as well as a range of family benefits in case of childbirth (discussed in the following sections of this chapter), sickness and disability benefits (discussed in Chapter 4), and cash housing assistance benefits (not discussed).

Unemployment benefits provide inadequate income support in case of job loss

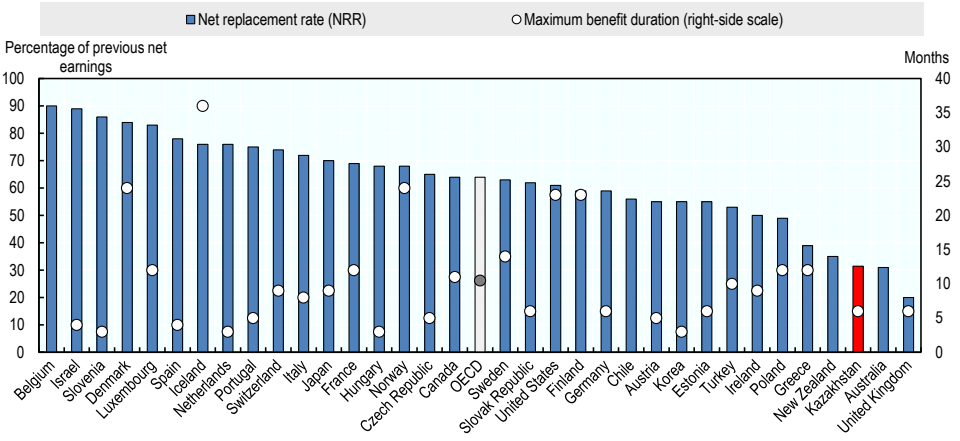
Unemployment benefits can help individuals and households to smooth consumption when faced with job loss. A system of unemployment benefits can be particularly helpful in countries such as Kazakhstan that are characterised by strong financial market imperfections and relatively low levels of wealth. Moreover, unemployment benefits also

give unemployed people the time to find a new, well-matched job and can help prevent workers from falling into informality.

An unemployment benefit was introduced in Kazakhstan in 2003 with the "Law on Compulsory Social Insurance" (*Закон Об обязательном социальном страховании*). A minimum of six months of contribution to the State Social Insurance Fund (SSIF) is required to receive unemployment benefits, as well as registration in the Public Employment Service (PES). The size of the unemployment benefit is proportional to the previous wages and contribution history: it is equal to 30% of the average wage (of the past 24 months), multiplied by a coefficient which increases with contribution history.[25] Unemployment benefits are paid for a minimum of one month (for people with 6 months of contributions) to a maximum of 6 months (for people with more than 36 months of contributions).

The generosity of unemployment benefits is very low in Kazakhstan if measured against the benchmark of OECD countries. The net replacement rate (NRR) – i.e. the net unemployment benefit levels as a percentage of previous net earnings – for a single person previously paid at a low wage (67% of the average wage) with a long contribution history (60 months) is equal to 31%. This is approximately half of the average NRR in OECD countries (64%), with only Australia and the United Kingdom having a lower NRR than Kazakhstan (Figure 2.13). Benefit generosity as measured by the maximum duration of unemployment benefits is also very low in Kazakhstan (6 months) compared to the average of OECD countries (10.5 months) (Figure 2.13).

Figure 2.13. The generosity of unemployment benefits, Kazakhstan and OECD countries, 2014



Note: NRR data refers to the average net replacement rates faced by single persons without children with pre-unemployment earnings of 67% of the average production wage, with long and uninterrupted contribution history. They refer to initial phase of unemployment but following any waiting period. No social assistance "top-ups" are assumed to be available in either the in-work or out-of-work situation. Any income taxes payable on unemployment benefits are determined in relation to annualised benefit values even if the maximum benefit duration is shorter than 12 months.

Maximum benefit duration data refers to a 20 year-old with one year of previous employment living alone without children; Data for the United States refers to the State of Michigan.

Data for Kazakhstan refers to January 2015.

Source: OECD Tax-Benefit models, http://www.oecd.org/els/social/workincentives; Carcillo, S. et al. (2015), "NEET Youth in the Aftermath of the Crisis: Challenges and Policies", *OECD Social, Employment and Migration Working Papers*, No. 164, OECD Publishing, http://dx.doi.org/10.1787/5js6363503f6-en; for Kazakhstan, OECD calculations based on the information provided by the Ministry of Labour and Social Protection of the Republic of Kazakhstan.

Despite lax entitlement criteria for receiving unemployment benefits,[26] coverage is very low by international standards. In Kazakhstan, only 3.5% of unemployed people receive unemployment benefits. This compares unfavourably even when compared to OECD countries such as Slovak Republic (11.3%), Hungary (14.2%), Japan (20.2%) and Poland (20.5%) that are at bottom of the OECD distribution, and more favourably only than Turkey (1.2%).[27] Although international comparisons by age groups are difficult to make, coverage of youth by unemployment benefits also seems to be very low in Kazakhstan. Just over 3 000 Kazakhstani youth (ages 16-29) – or just above 2% of all unemployed youth – received unemployment benefits in 2014. Low coverage by unemployment benefits is likely due to a combination of factors. First of all, many Kazakhstani youth work in the informal sector and therefore are simply not eligible for receiving unemployment benefits; and even those youth who were employed in the formal sector may have a too short contribution history to receive unemployment benefits at all. Secondly, low benefit generosity may discourage many Kazakhstani youth who would be entitled to receive unemployment benefits to apply in the first place. Lastly, short benefit duration (six months maximum) may also matter to explain low coverage.

The combination of, on the one hand, a weak unemployment insurance system and, on the other hand, low coverage, suggests that most youth receive no or very little income support in case of job loss in Kazakhstan. Furthermore, unlike many OECD countries, in Kazakhstan there is no unemployment assistance (i.e. benefits provided to unemployed people with no recent contribution history) available to (young) jobseekers which could compensate for a weak unemployment insurance system. Similarly, in Kazakhstan severance pay is very ungenerous – it is equal to one month of average wages regardless of tenure (see section on the employment protection legislation) – and weakly enforced, implying that it cannot exert the typical income support function to job losers which is exerted in many emerging economies in the absence of an adequate unemployment insurance system. The only form of income protection available to youth in Kazakhstan could be provided through participation in direct job creation programmes, which however, as discussed in earlier sections of this chapter, are not very well targeted, have the drawback to generate large lock-in effects and have small or no long-term employment effects on participants.

The international experience suggests that weak income protection may represent a significant barrier to the ability of youth to escape low-quality jobs and find productive employment (OECD, 2015a). Especially in a country with low levels of wealth, such as Kazakhstan, many people simply cannot afford to be unemployed for too long, and the inadequacy of social security may push them into low-quality jobs. Furthermore, the low level of benefits could increase skills mismatch if the unemployed, because of financial constraints, has to accept the first job offer and cannot devote enough time to a job search.

Within this context, it is crucial that Kazakhstan strengthens the income support system available to job-losers, for example by gradually increasing the generosity (NRR and/or benefit duration) of unemployment benefits.[28] In order to avoid benefit dependency and keep work incentives high, this policy should be accompanied by policies (already in place in Kazakhstan) aimed at activating benefit recipients.

Increasing the generosity of income support in case of job loss is particularly important in Kazakhstan considered the recent reform of the Labour Code, which introduces elements of flexibility in the employment protection legislation. Considered that more flexible employment protection legislation will make it easier for employers to

hire and fire workers, the workers who might be displaced as a result should be given adequate social protection and assistance to maintain their incomes and find a new job.

Strengthening the unemployment insurance system may also strengthen incentives for workers to formalise, as the benefits associated with formalisation increase. As pointed out in OECD (2004), the payment of adequate unemployment benefits, if combined with effective monitoring of fraud, can reduce the incidence of low-paid informal work. Other research points to the fact that increases in the generosity of unemployment benefits may result in increases in formality rates in developing countries (see for example Bardey and Jaramillo, 2011; Bosh and Esteban-Pretel, 2013; Robalino et al., 2011).

Targeted social assistance benefits do not prevent youth from falling into poverty

As in OECD countries, in Kazakhstan the many youth who fall between the cracks of the contributory schemes (such as unemployment benefits) can access other forms of income support, such as social assistance benefits. Social assistance benefits are means-tested, i.e. entitlement and generosity depend on household level of income rather than contribution history.

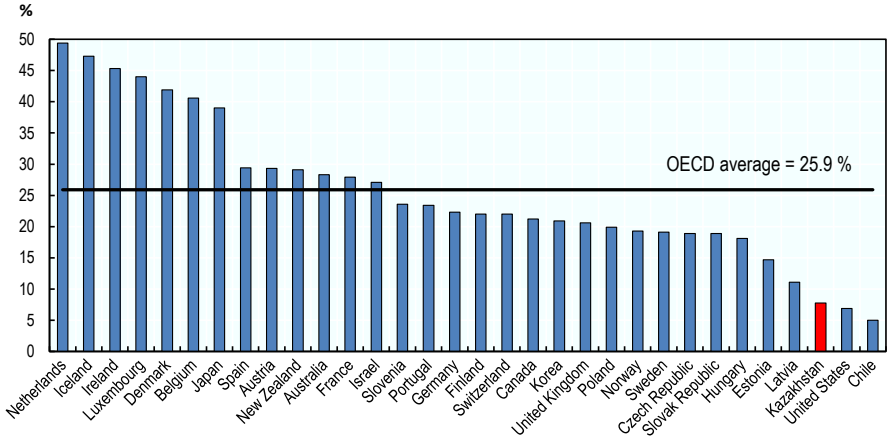
In Kazakhstan, a targeted social assistance (TSA) benefit was introduced in 2001. The level equals the difference between the average monthly household per capita income and 40% of the subsistence minimum. Entitlement criteria for receiving TSA benefits are strict. TSA benefits are awarded by local authorities following the recommendations of Divisional Commissions (cf. Law of the Republic of Kazakhstan No. 246 "On State Targeted Social Aid"). TSA benefits are granted to households with per capita incomes below 40% of the subsistence minimum, and after scrutiny of the applicant's assets. Furthermore, the TSA is awarded following a stringent means test that considers income from other social transfers (e.g. family cash benefits; disability benefits) as part of the household's income (UNICEF, 2015; OECD, 2016a).

TSA benefits are low in Kazakhstan when compared to OECD countries. The net value of benefits measured as a percentage of median household incomes in Kazakhstan is 8%, which compares to an OECD average of 25.9% (Figure 2.14). Across OECD countries, only Chile and the United States have a less generous social assistance benefits system than Kazakhstan.

In 2014, over 56 000 people received TSA benefits in Kazakhstan, or 11.9% of people living below the subsistence minimum (data for youth are not available). Importantly, disparities in the number of TSA benefits beneficiaries among regions are very large, and do not reflect demographic, economic, or labour market differences. Figure 2.15 shows that coverage by TSA benefits[29] spans from a low 2.1% in Aktobe region to a high 49.6% in Astana. Regions with low poverty rates (e.g. Astana city) are also the regions in which coverage by TSA benefits is the highest. By contrast, regions with highest levels of poverty (e.g. South-Kazakhstan region) are also the regions with very low coverage by TSA benefits. In line with these findings, most households at the lower of the income distribution do not receive TSA benefits even though they would be eligible (OECD, 2016a; UNICEF, 2015).

Figure 2.14. Income levels provided by social assistance benefits, 2014

Net income value in percentage of median incomes



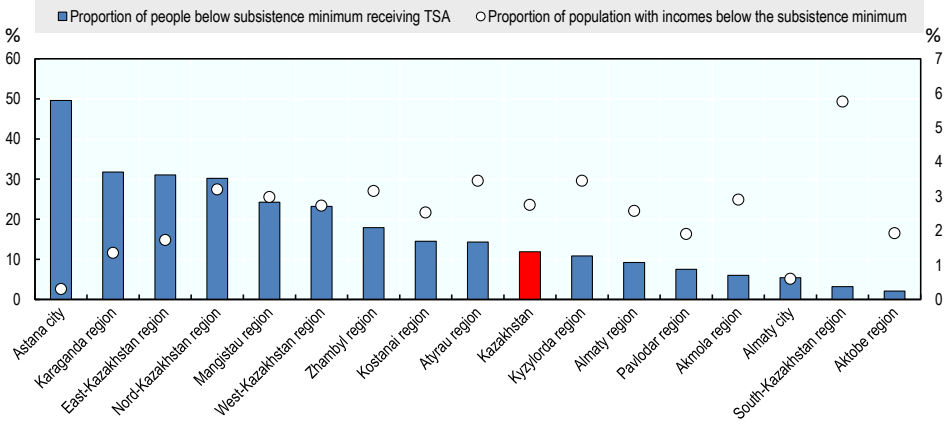
Note: Minimum income benefits account for social assistance benefits. Where benefit rules are not determined on a national level but vary by region or municipality, results refer to a "typical" case (e.g. Michigan in the United States, the capital in some other countries). They refer to single persons with no children, who do not qualify for cash housing assistance. Data for Kazakhstan is calculated based on the net average wage of January 2015.

Source: OECD, Tax-Benefit Models (http://www.oecd.org/els/social/workincentives); for Kazakhstan, OECD calculations based on the information provided by the Ministry of Labour and Social Protection of the Republic of Kazakhstan.

Large unexplained variations across regions suggest that TSA take-ups are very dependent upon the specific administrative approach applied by each local authority, or, possibly, the applicants' willingness/ability to apply in the first place. While decentralisation is a good way to strengthen the accountability of municipalities and activate more effectively the recipients along "mutual obligation" principles, care should be taken that an equal access to targeted social assistance is provided. One way to ensure that no one is left behind is to establish more transparent practices across local authorities. This would help to provide evidence on the differences in access and in the capabilities of local authorities to cope with complex cases.

Figure 2.15. TSA benefits recipients, by regions, Kazakhstan, 2014

As a percentage of people under subsistence minimum



Source: OECD calculations based on the Agency of Statistics of the Republic of Kazakhstan.

Low TSA benefit generosity and coverage, coupled with low tax burdens on employees (see previous sections on the tax wedge), suggests that work incentives are preserved and inactivity traps should not be a major concern for Kazakhstani youth. Indeed, at best TSA benefits can replace only around 35.6% of the gross minimum wage (in 2015), suggesting strong incentives even to move into low-paid jobs. At the same time, some discussants have argued that the level of TSA benefits is too low in Kazakhstan and fails to help families (and youth) out of poverty (UNICEF, 2015; OECD, 2016a). Indeed, TSA benefits are even below the food basket (which is set at 60% of the subsistence minimum).

One possible policy option to provide adequate income support to (young) people with no or very low earnings, would be to relax entitlement criteria (for example by extending the income-test threshold from 40% to 100% of subsistence minimum, as suggested by UNICEF, 2015) and/or increasing the generosity of the TSA benefit itself.

Since June 2015, in Kazakhstan TSA benefit recipients who are capable to work (except of those who are formally employed) are subject to the same "mutual obligation" principles of unemployment benefit recipients: TSA benefit recipients need to register in the PES and have an obligation to look for a job and participate to ALMPs (see Annex 2.A1). The activation of social assistance benefit recipients is a very welcome step in Kazakhstan as it gives space for increasing the generosity of TSA benefits and/or relaxing entitlement criteria. Indeed, activation of recipients will ensure that strengthening out-of-work support does not translate into a "subsidy" to informal employment and/or reduced job-search efforts.

A reform of the social security system will be put in place in the near future

A new social protection system for people with low incomes has been announced by the Government of Kazakhstan to be put in place in 2018. This new social benefit will be paid to families with per capita incomes lower than 50% of the subsistence minimum. The benefit is divided into two categories: unconditional and conditional cash benefit. Unconditional cash benefit will be provided to single or living alone low-income working-age persons or families with members of employable age who are objectively unable to participate in activation measures. Conditional cash benefit will be provided to single or single living low-income persons and families with low incomes having at least one member who is able to be employed. Reception of benefits will be accompanied by participation to active employment assistance policies, so that incentives to work and get out of poverty should be preserved. A pilot project – the so-called "Orleu" – is currently being conducted, before full implementation of the new social protection system takes place in 2018. According to the Ministry of Labour and Social Protection, this new system will increase the incentives of benefit recipients to work and provide for themselves. It will also increase the level of participation of low-income people in the economy and society.

Strengthening family policies to help young women find a balance between work and daily living

While the challenge of fostering family policies which help women stay in productive employment is important in all countries, it is particularly important in Kazakhstan. Kazakhstani women fare better than women across the OECD on average in terms of labour market participation, and much better than many women in developing countries. Yet, they remain underrepresented in the labour market and earn much lower wages than

Kazakhstani men on average (ILO, 2014; 2015). Furthermore, Kazakhstani women enjoy a much longer life expectancy than men (women' life expectancy is around nine years longer than men'), suggesting that older women will need a solid contribution history to be able to sustain their incomes at older ages (see Chapter 3). Fertility rates are relatively high and have increased in the past two decades, again highlighting the need of well-functioning family policies.

While there may be many factors that help explain (young) women's continued underrepresentation in the labour market in Kazakhstan, there is ample scope to improve family policies to help women participate more actively in the labour market and allow them to better balance work with family responsibilities. In particular, employment-protected, child-related leave which encourage fathers to share family responsibilities with mothers, well-designed family cash benefits and affordable good-quality early childhood care and education can reduce barriers to female labour force participation in Kazakhstan.

Encouraging fathers to take more child-related leave

Maternity, paternity, parental and childcare leaves[30] consist of a period of employment-protected leave of absence for employed parents around childbirth. While such leave of absence has intrinsic benefits for the well-being of both the child and the mother, it also tends to yield positive effects on labour market outcomes of women in the longer-term because they allow for a greater degree of job continuity (or encourage them to seek a job in the first place). There are trade-offs in deciding the length of absence to be awarded: while labour market prospects of women initially improve with the length of leave awarded, after a certain threshold negative effects set in as women become increasingly detached from the labour market and their skills depreciate (OECD, 2011b).

In Kazakhstan, maternity leave – i.e. leave from work for mothers in the period immediately preceding and following birth – is provided to all employed mothers regardless of contribution history. The duration of the maternity leave is 126 days (70 days before and 56 days after the birth)[31] and can be extended to up to 140 days in cases of multiple births or other health reasons. Pay during maternity leave is equal to the average monthly wage of the past 12 months.

There is no paternity leave – i.e. leave from work for fathers, similar to maternity leave – in Kazakhstan. This is in contrast with what can be observed in most OECD countries, where paternity leave has been introduced in order to encourage parents to play a more equal role in work and family life. Duration of paternity leave across the OECD spans from a minimum of 2 days (e.g. Italy, Greece, Luxembourg, the Netherlands) to two weeks or more (e.g. Australia, Belgium, Denmark, Estonia, France, Poland, Portugal, Slovenia, Spain and the United Kingdom). Payment replaces from a minimum of 20.2% (in the United Kingdom) to 100% (in a number of OECD countries) of average gross earnings.

The parental leave – i.e. leave after maternity/paternity leave which can be taken by either mothers or fathers – lasts up to one year in Kazakhstan. The amount of the payment equals 40% of the average wage of the past 24 months but cannot exceed the amount of four minimum wages. As in many OECD countries, parental leave in Kazakhstan is supplemented by a further period of leave (childcare leave) that parents can take to care for a young child (aged 2-3). The two years of childcare leave are unpaid.

Unlike what is observed in some OECD countries, in Kazakhstan there is no parental leave for the exclusive use of fathers. Across the OECD, such father-specific parental/childcare leave can take different forms. Most common are "daddy quotas," or specific portions of paid parental leave reserved as a non-transferable entitlement for the father. Some countries offer "bonus periods", where a couple may qualify for some extra weeks of paid leave if the father uses up a certain period of a sharable leave. These policies are showing promise, and Kazakhstan could learn from the experience of some OECD countries – e.g. Iceland, Korea, Germany, Sweden – that have already adopted them (see OECD, 2017).

While the generosity of existing payments (from maternity and parental leave) is overall in line with OECD standards[32] and in theory both parents are equally entitled to parental and childcare leave, more should be done in Kazakhstan to encourage fathers to take leave after childbirth.

Caring for children remains primarily the responsibility of the mother (ILO, 2014). As mentioned above, in Kazakhstan there is no paternity leave, nor any parental leave for the exclusive use of fathers, which contrasts with the practice found within an increasing number of OECD countries. In addition, although legislation allows fathers to take parental and childcare leave, fathers are less likely than mothers to actually take it. Indeed, fathers often earn more than their spouses in Kazakhstan (ILO, 2014), so that the income loss to households is smallest when the mother takes leave. Last, societal attitudes towards the role of mothers in caring for young children may contribute to mothers rather than fathers taking leave.

The international experience suggests that both parents and children benefit when fathers take child-related leave. Fathers' leave-taking is associated with higher female employment, less gender stereotyping at work which is likely to reduce the negative effect leave taking may have on earnings and career profiles, less gender stereotyping at home, and better life satisfaction for fathers (Eggebeen and Knoester, 2001; WHO, 2007). Extended time at home during early infancy is also associated with fathers' greater involvement with their children, which has positive effects for children's cognitive and emotional development (Baxter and Smart, 2010; Brandth and Gislason, 2012).

To promote a more gender equitable division of care and (paid) work, encourage fathers to spend more time with their children, and given mothers more continuity in the labour market, Kazakhstan can pursue (a mix of) different options, such as:

- *Increase individual paternal entitlements to leave*. This could be done by introducing paternity leave. Kazakhstan could also reform the part of parental and/or childcare leave entitlements available to both partners to transform it into individual non-transferable rights for the specific use of fathers (e.g. "daddy quotas"; or "bonus periods", see above).
- *Increase payment rates for fathers taking leave*. This will reduce the loss of income of fathers when using childcare leave entitlements. Indeed, simply providing fathers with an individual leave entitlement is not enough. The international experience shows that fathers' use of paternity/parental leave is highest when leave is well paid.
- *Facilitate take-up of flexible leave options*. This could be achieved by encouraging fathers to take part-time leave (e.g. one day per week), leave taken in separate *blocks* (e.g. around holidays) over different years, and/or allowing shorter leave periods at higher payment rates. Such measures are already implemented in many OECD countries (see OECD, 2011b for further information).

Making family cash benefits generous for all while keeping work incentives high

Family cash benefits are cash transfers which are generally used by families towards the cost of raising children. Kazakhstan provides a plethora of transfers that seek to promote the well-being of families and their children in different life circumstances (see Annex 2.A2 for a description).

The analysis of social transfers conducted by UNICEF (2015) among poor households in three Kazakhstani regions (notably Astana, Semey and South Kazakhstan regions), suggests that child-related cash benefits arrangements do not provide adequate income support to poorer families with children. Indeed, all the respondents interviewed in the study reported that the existing transfers were not sufficient to meet the basic needs of their children, including food, clothing, medicines, education related costs and recreational activities. UNICEF (2015) suggests that a number of factors help to explain why family cash benefits are ineffective at providing adequate income support to poorer families with children:

- According to the *Law on Public Social Transfers for Disability, Breadwinner Loss and Age*, people who are eligible for different transfers may be provided with only one transfer of their own choice. For example, claimants are not entitled to receive both the *Loss of Breadwinner Allowance* and *Monthly Allowance for Children with Disabilities* and they have to choose only one transfer when applying.
- Some transfers are not adjusted according to the number and age of children. For example, the *Benefit for Families with Many Children* does not take into account the number of children in the household and their age.
- Poorer families with children tend to use family cash benefits for sustaining their households' basic livelihoods, rather than addressing specific needs of their children. This undermines the effectiveness of these transfers for supporting families with specific needs, including families with disabled children.
- Many eligible parents do not apply to family cash benefits although eligible. Red tape, limited communication and the need to obtain required paperwork and documentation are very time and energy consuming and may discourage parents to apply in the first place.

While it is important that family cash benefits provide adequate income support to families with children, there is also the risk that too generous child-benefits undermine work incentives altogether. A viable policy option in Kazakhstan to provide income support to parents with young children while maintaining high incentives for parents to return to work after childbirth, would be to introduce some form of (non-wastable) tax breaks for earners with dependent children. Tax breaks already exist in most OECD countries and are seen as more efficient for encouraging work in comparison to cash benefits (OECD, 2011b).

Furthermore, the Kazakhstani laws do not provide additional benefits for sole-mothers(fathers), although evidence shows that this group is large and growing fast, with around one in four mothers (of children aged up to 3) being sole-parents in Kazakhstan (see ILO, 2014; OECD, 2016a). In this respect, it is important that Kazakhstan introduces additional – or expands existing – cash benefits to support sole-parents. Virtually all OECD countries have a multi-policy response to supporting sole-parents, which can span from family allowance supplements, tax breaks, additional childcare benefits, social assistance or housing supplements, and/or sole-parents income support (OECD, 2011b).

Access to childcare and early education could be further improved

Access to affordable, good-quality childcare and early education plays an important role in supporting (young) women to better balance family and work responsibilities and helping them (back) into employment. In Kazakhstan, more could be done to improve access to childcare and early education. OECD PISA data, for example, shows that the percentage of students who had not attended pre-primary education is one of the highest among PISA-participating countries and economies (65%, rank 2/64), pointing to difficulties in access to early education which may arise from a weak demand for and/or supply of childcare facilities. Similarly, OECD (2016a) reports that gross enrolment rates in pre-primary schools (for children aged 1-6) remain very low compared to a number of OECD and developing countries.

A network of pre-school organisations is providing childcare and education to children from 0 to 6 years of age in Kazakhstan (OECD, 2014). Pre-school education in Kazakhstan is provided in three main types of institutions: i) state kindergartens (*государственные детские сады*), which are supervised by the Ministry of Education and Science of the Republic of Kazakhstan; ii) private kindergartens (*частные детские сады*), which are under the supervision of local authorities; and iii) mini-centres [*мини-центры*], also under the supervision of local authorities. In 2014, there were 8 467 childcare facilities in Kazakhstan, of which 7 007 public, and 1 460 private. There were 2 563 state kindergartens; 1 260 private kindergartens; and 4 635 mini-centres (Ministry of Education and Sciences, 2015).

Affordable childcare for children aged 0-2 is lacking in Kazakhstan. In 2014, nurseries enroled roughly 8.5% of children aged 0-2 in Kazakhstan – and this compares to an OECD average of 32.9% in 2013 (*OECD Family Database*). Nurseries are almost inexistent in Kazakhstan: only 9 out of 14 regions in Kazakhstan have public nurseries which enrol children under the age of 2 (ILO, 2012). The cost of hiring a nanny is prohibitive and remains affordable only for women in the highest earnings group (ILO, 2012). The lack of affordable childcare for children aged 0-2 suggests that, in many cases, mothers have the only option to either seek assistance from relatives or take care of children themselves – with negative consequences on the labour force participation of parents and/or other family members (such as grandparents).

On the other hand, data at the national level suggest that childcare for children aged 3-6 is quite easy to access in Kazakhstan. The proportion of children aged 3-6 in pre-school education is 78.6% in 2014, which compares to an OECD average of 72% in 2012 (Ministry of Education and Sciences, 2015). However, there are important differences in access to childcare across regions and income groups.

Access to childcare varies considerably across regions and between rural and urban areas. Indeed, some regions such as Astana, Almaty and South Kazakhstan, face considerable shortages of childcare facilities and long waiting lists[33] (ILO, 2014; Habibov, 2014). In rural areas there are fewer kindergartens available and enrolment rates are lower than in urban areas (UNICEF, 2015). There may be many factors behind the large differences in access to childcare across regions. One such factor may be related to the supply of childcare: some regions are better-off financially than are others and so can provide more resources for childcare. Another factor may be related to the demand of childcare: some more industrialised regions (such as Astana and Almaty for example) experience more demand for childcare than do others (Habibov, 2014).

The wealth disparity, however, is the most significant determinant explaining variation in childcare attendance in Kazakhstan, with wealthier families having greater access to pre-school education than poorer households (Habibov, 2014). Long waiting lists for accessing state kindergartens and the high cost of private childcare helps explain why poorer households face greater barriers to access childcare. Private childcare is at least twice or three times as expensive as state kindergartens (ILO, 2014; UNICEF, 2015). Some studies have found that childcare in Kazakhstan is among the most costly of most CEE/CIS countries; its cost cancels out most of family cash benefits and seems to have a large impact on reducing parents' incomes (Marx and Nelson, 2012).

Poor access to childcare could not only undermine parents' (and especially mothers') ability to (re-)enter employment after childbirth, but it could also weaken employment opportunities of older workers. In fact, poor access to childcare in Kazakhstan has led to the development of a large informal childcare sector (ILO, 2014). This is also reflected in the Labour Code, under which employers are obligated to grant unpaid parental leave to grandparents who provide care for a grandchild. This poses particular challenge for the employment prospects of older workers, and potentially labour supply gains could be made among older workers, if many of these were not involved in providing childcare on an informal basis (see Chapter 3 for further information).

Within this context, it is crucial that Kazakhstan strengthens demand-side incentives to access childcare (through more generous child-related cash transfers and/or subsidies for example), but also expand the supply of childcare facilities available. This is also confirmed by the results of a Conditional Cash Transfer (CCT) programme introduced in 2009 by the BOTA foundation. The programme offered regular monthly cash transfers to different groups of low-income households conditional to pre-school attendance. An impact evaluation of the CCT programme (OPM, 2014) has concluded that the programme has been successful in increasing pre-school attendance. Interestingly, the increase in attendance has been noted in mini-centres, whilst the demand for kindergartens has not been significantly affected, pointing also to supply-side bottlenecks (UNICEF, 2015; OPM, 2014).

The "Balapan 2010-2020" programme addresses some of the bottlenecks discussed above. The objective of the programme is to increase the share of children (aged 0-6) in pre-school to 100% by 2020, by expanding the supply of childcare facilities and easing the financial burden of childcare on parents. On the one hand, the programme provides the construction of new state kindergartens. On the other hand, it provides subsidies for accessing private childcare facilities (such as private kindergartens and mini-centres). In the period 2010-14, just below 30 000 places were created from the construction of new state kindergartens, and over 270 000 places were subsidised in private childcare facilities.

Notes

1. Non-wage costs may be significantly higher for people employed in arduous jobs. Indeed, for this category of workers, the employer pays an additional 5% "professional" pension contribution (see Box 2.1), raising non-wage costs from 7.9% to 11%. Over 350 000 workers are employed in arduous jobs, which represent around 6.3% of dependent employment.

2. A health care system reform is under consideration. This reform would move away from a budget-financed national health system towards a contribution-based system.

3. The tax wedge will be even higher for professions that are covered by additional "professional" pension contributions.

4. Using the exchange rate of January 2017 (EUR 1 = KZT 354.055).

5. The industries are: mining industry, mechanical engineering, coal industry, chemical industry, oil and gas industry, construction industry, electricity sector and railways.

6. The subsistence minimum is equal to the minimum consumption basket which is composed of 1) a food basket and 2) non-food goods and services. The value of the minimum food basket is based on the recommendation of the Institute of Nutrition in Kazakhstan and includes 43 items. There is no precise definition of the non-food goods and services basket, but its value is fixed at 40% of the minimum consumption basket. The subsistence level is calculated by socio-demographic group and also varies across regions. In particular, in 2014, it spans from KZT 17 095 in Jambyl to KZT 23 357 in Mangystau. Considered that the subsistence minimum varies markedly by regions, in some regions – notably in Mangystau region, Astana and Almaty cities – the minimum wage in 2014 was lower than the subsistence minimum. See later sections of the chapter for further information.

7 Specifically, the real value of the minimum wage recorded sharp decreases in 1994 due to hyper-inflation, and increased unevenly during the period from 1994 till 2004; it decreased again from 2004 to 2008 – reflecting high inflation and smaller nominal adjustments – and slightly increased again thereafter.

8. For further information on minimum wage setting processes, see Table 1.2 of the chapter "Recent Labour Market Developments with a Focus on Minimum Wages" in OECD (2015), OECD Employment Outlook 2015, OECD Publishing.

9. Considered that there is no regulation on collective dismissal, the OECD EPL indicator on regular contracts for both individual and collective dismissal is in line with OECD standards (in Kazakhstan it is equal to 2.29 and the OECD average is also equal to 2.29).

10. There are three notable exceptions, for which temporary contracts can be concluded for a period of less than one year: i) for the fulfilling of definite work; ii) for the replacement of an absent employee; iii) for the fulfilling of seasonal work.

11. The Labour Code (as of December 2015) prohibits employers to fire workers aged 55 and above for reasons related to staff redundancy and/or unsuitability of the employee for the position held or work due to insufficient qualifications. Dismissal procedures on other grounds must be authorised by an ad-hoc joint employer-employee commission. People with disabilities cannot be hired under trial periods.

12. The new Labour Code increases the number of reasons for fair dismissal from 20 to 25. These five additional reasons include: i) dismissal on economic grounds, provided that a) (part of) the firm temporarily shuts down, b) the worker cannot be displaced to other parts of the firm, and c) trade unions receive written notification one month before dismissal; ii) dismissal because the worker has reached retirement age; iii) dismissal because the worker is unwarrantedly absent from work for one month or more. iv) and v) are not discussed because they refer to specific professions.

13. Information of labour earnings by education categories is not available.

14. Data on the educational attainment for the whole population are available only from censuses (1999 and 2009).

15. Both general upper secondary education and vocational upper secondary education open up the way to acquire post-secondary education.

16. The number of unemployed people registered with the Kazakhstani PES remained broadly constant in the period 2010-14.

17. The staff number refers to the total staff of Kazakhstani Employment Centres. The number of the PES caseworkers in direct contact with clients is approximated by assuming that 70% of the staff is in direct contact with clients.

18. Spending on direct job creation includes not only spending on participants (e.g. wages) but also spending on infrastructures. This is likely to result in an overestimation of spending on direct job creation, and on ALMPs more generally.

19. Ibidem.

20. Informality and unemployment rates are weakly correlated with poverty rates in Kazakhstan. Coefficient of correlation is 0.32 (not statistically significant).

21. Direct job creation attracts the highest share of spending on ALMPs, while participation to this programme is comparatively low. This may be explained by the fact that spending on job creation includes not only spending on participants but also spending on infrastructures.

22. As highlighted in Chapter 1, highly educated youth are less likely to be unemployed than their less educated peers.

23. As highlighted in OECD (2014), policy interventions to reduce informality should follow a comprehensive approach that rests on three pillars: increasing the benefits of formality, decreasing the costs of formalisation and improving enforcement methods. For example, simplified tax and administrative systems, streamlined registration processes and a reduction in red tape are crucial steps in the right direction.

24. Participants have less free time for job search, so job-entry rates tend to fall whilst on the programme.

25. The coefficient is equal to 0.1 for people with less than 6 months of contributions; 0.7 for 6-12 months of contributions; 0.75 for 12-24 months of contributions; 0.85 for

24-36 months of contributions; 0.9 for 36-48 months of contributions; 0.95 for 48-60 months of contributions; 1 for contributions of more than 60 months.

26. In Kazakhstan, six months of contributions are needed in order to be eligible for receiving unemployment benefits. In most of OECD countries, the contribution period is generally longer, and can be as high as 24 months in Ireland and the Slovak Republic (Carcillo et al., 2015).

27. Data for OECD countries refers to 2012.

28. The space for a more generous unemployment insurance system could be created by slightly increasing employees' social security contributions paid to the State Social Insurance Fund (SSIF) (as suggested in the first section of this chapter and by ILO, 2015).

29. Coverage by TSA benefits is measured by the percentage of people below subsistence minimum receiving TSA. Data on the share of people living below 40% of the subsistence minimum is not available.

30. Maternity leave consists of a period of employment-protected leave of absence for employed women around childbirth; paternity leave consists of a period of employment-protected leave of absence for employed fathers at the time of childbirth; parental leave consists of a period of employment-protected leave of absence for employed parents, which is often supplementary to specific maternity and paternity leave periods, and frequently, but not in all countries, follows the period of maternity leave; childcare leave consists of a period of employment-protected leaves of absence that allow at least one parent to remain at home to provide care until the child is two or three years of age.

31. This applies to both private and public sector employees.

32. From an international comparative perspective, the generosity of paid maternity leave in Kazakhstan is slightly larger than the average of OECD countries. In Kazakhstan mothers are entitled to 18 weeks of paid maternity leave around childbirth – against 17 weeks on average across OECD countries. Similarly, Kazakhstan offers a mother on average earnings full compensation across the maternity leave, while on average across OECD countries maternity benefits replace approximately only 78% of average gross earnings. Parental leave available to mothers in Kazakhstan is more generous than the average of OECD countries in terms of duration but less generous in terms of payment rate. Indeed, Kazakhstan offers to mothers 52 weeks (one year) of parental leave compensated at 40% of average wages. This compares to an average of 36.7 weeks, paid at 45.3% of average wages, for the OECD countries which grant paid parental leave to mothers.

33. Around 500 000 children were in the waiting list to access state kindergartens from May to October 2014 in Kazakhstan. Waiting lists spanned from a low 9 643 children in North Kazakhstan, to a high 72 000 in Astana, 63 575 in South Kazakhstan, and 59 169 in Almaty.

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Annex 2.A1

Eligibility requirements for receiving unemployment benefits in Kazakhstan

This annex provides a brief summary of the eligibility requirements for receiving unemployment benefits in Kazakhstan, using the framework presented in Venn (2009, 2012) and revised by Langenbucher (2015) for analysing unemployment benefit systems in OECD and/or European countries. While Venn (2012) and Langenbucher (2015) use information from a standard questionnaire "OECD Questionnaire on Eligibility Criteria for Unemployment Benefits and Interventions in the Unemployment Spells" to compile a composite indicator of the strictness of eligibility criteria, the information for Kazakhstan is not used to compile the indicator but is summarised here by way of information. According to the 2014 revised coding framework, the eligibility criteria indicator comprises 11 items describing various aspects of eligibility criteria, notably availability requirements and suitable work criteria; job-search requirements and monitoring; and sanctions.

Availability requirements and suitable work criteria: participants in ALMPs are not required to look for a job or be ready to work (Item 1). The unemployed must accept all job offers that he/she is capable of doing (Item 2), and the unemployed must be willing to move (Item 3). Other valid reasons for refusing job offers include family or personal reasons and/or own health reasons (Item 4).

Job-search requirements and monitoring: all unemployed should prove job search every ten days (Item 5), although there is no formal requirement to document job-search activities (Item 6).

Sanctions: There are no sanctions for voluntary unemployment (Item 7). Sanctions for repeated refusals of job offers (Item 9) and/or repeated failure/refusal to participate in counselling interviews or ALMPs (Item 11) entail the loss of remaining benefit entitlement and deregistration from PES. However, no sanctions apply for refusing a job offer (Item 8) and/or refusing/failing to participate in counselling interviews of ALMPs (Item 10) for the first time.

Annex 2.A2

Family cash benefits in Kazakhstan

Kazakhstan offers a plethora of family cash benefits to families with children. The existing social transfers in Kazakhstan have different objectives, which span from compensating costs associated with child birth, compensating for forgone incomes around birth, providing support to poorer households, as well as covering costs associated with specific vulnerabilities.

The **universal birth grant** (*пособие на рождение ребенка*) is paid to parents in one lump sum at the time of birth, regardless of their employment status or contribution history. The birth-grant is equal to 30 MCI (i.e. KZT 63 630) for the first, second and third child and 50 MCI (i.e. KZT 106 050) for higher birth order.

The **benefit for children under one** (*пособие по уходу за ребенком до достижения им одного года*) is provided to jobless mothers (or fathers) on a monthly basis from the child's birth date until the age of one. The amount of the benefit is 5.5 minimum calculation indices (MCI) (i.e. KZT 11 665) for the first child; 6.5 MCI (i.e. KZT 13 786) for the second; 7.5 MCI (i.e. KZT 15 907) for the third; and 8.5 MCI (i.e. KZT 18 028) for the fourth or higher birth order.

Benefits for pregnancy and childbirth (*пособие по беременности и родам-для работающих женщин*) is a lump-sum provided to all employed mothers in Kazakhstan and is equal to 4.2 times the average wage of the last 12 month.

The **state allowance for children under 18** (*пособие семьям, имеющим детей до 18 лет с низким доходом*) is provided to families with an average per capita income below 60% of the national subsistence minimum. The allowance is granted for each dependent child, has the value of one MCI and is paid on a monthly basis.

The **benefit for parents/guardians caring for children with disabilities** (*пособие на ребенка-инвалида*) is given to families with a child with disabilities and is equal to one minimum wage per month until the child turns 18.

Furthermore, a **monthly allowance for children with disabilities** (*специальное государственное пособие детям с инвалидностью*) is provided to families with children with disabilities under the age of 18. The amount of the allowance is equal to 0.9 MCI for children below age 16; 1.4 MCI for children with disabilities of group 1 or 2 aged 16-18; and 0.6 MCI for children with disabilities of group 3, aged 16-18.

The **loss of breadwinner allowance** (*социальные пособия по утрате кормильца*) is provided to children aged below 18 and children aged 18-23 who are in education who have lost one/ both parents. The allowance is equal to 0.66 of the subsistence minimum for children with one parent; and 0.9 of the subsistence minimum for children who have lost both parents.

The **benefit for families with many children** (*социальные выплаты многодетным семьям*) is provided to large families with four or more children (including children enroled as full-time students at secondary, technical, professional or higher education institutions, but not after the age of 23). The benefit is equal to 3.9 MCI per month until the child reaches age 23.

The **Hero Mother Benefit** (*многодетным матерям, с подвесками «Алтын алқа», «Күміс алқа», получившим звание «Мать-героиня»*) is equal to a lump-sum of 6.4 MCI to mothers with more than six children.

Chapter 3

Working longer with age: Strengthening the labour market outcomes of older workers in Kazakhstan

Older workers in Kazakhstan are often an untapped resource and their potential value is not fully utilised in the labour market. Many older people are inactive compared to OECD countries; very few continue working beyond retirement age, and when they do it is often in the informal sector of the economy. This chapter analyses the reasons for older workers' underrepresentation in the labour market, looking at four main issues: i) the demographic challenge and its impact on the employment prospects of older workers; ii) the policies that are needed to strengthen the "employability" of older workers; iii) the demand-side barriers to the hiring and retention of older workers; and iv) the policies that can make work rewarding for older workers, notably the design of the old-age pension system, as well as official and de facto early retirement schemes.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction and key recommendations

Older workers in Kazakhstan are a resource of tremendous value for the economy and society at large. However, as in many OECD countries, their potential is not fully utilised in the labour market. What is worrying about the situation of older workers in Kazakhstan, however, is that older workers (especially men) have very few healthy years of life expectancy at older ages as their health deteriorates quite early. Poor health negatively affects older people well-being and quality of life, and it also undermines their labour market outcomes. Most people stop working as soon as – and sometimes before – they reach retirement age, and those who continue working as pensioners often hold low-quality jobs in the informal sector of the economy. Older women, who are generally in better health at older ages and enjoy higher life expectancy compared to older men, are often single, divorced, or widowed, and generally live in "composite" households with other family members. It is not unusual that Kazakhstani older women rely on their family's incomes while providing childcare to their grandchildren, which could prevent them from (formally) participating in the labour market.

This chapter portrays the labour market situation of older workers and reviews the policies that could be implemented to make it more inclusive. It first contextualises the importance of the demographic challenge, and the health status of older workers. It then reviews the policies that are needed to strengthen the employability of older workers in Kazakhstan, notably the health and safety standards at the workplace that enable them to continue working; their skills; and the (re-)employment services available to them. The chapter further addresses the demand-side barriers to the hiring and retention of older workers, with a particular focus on employers' attitudes towards older workers; wage setting mechanisms; and the employment protection legislation applicable to older workers. Finally, it identifies the key policies needed to make work rewarding for older workers, particularly looking at the key challenges of the Kazakhstani old-age pension system, and the system of incentives in place to encourage working at the old age and beyond retirement.

The chapter's main findings and recommendations are summarised below:

Strengthening the employability of older workers

In order to make longer working lives a reality, older people should have the health conditions that allow them to continue working, the skills required in today's labour market, and adequate access to targeted employment services that help them (back) into employment. Poor health impedes many workers to continue working at older ages, and therefore addressing this challenge should be the priority. Working conditions are often ill-suited for the needs and capacity of older workers in Kazakhstan: many older workers are still exposed to harmful and dangerous working conditions; occupational morbidity is still high among older workers; and, despite recent improvements, the incidence of accidents in the workplace remains comparatively high in the international context. Today the skills of older workers in Kazakhstan, obtained during the Soviet Union times, may be obsolete and may not be in demand in the labour market, especially considered that a vast cohort of better-qualified youth is (and will be) entering the labour market (in the upcoming years). Re-employment support for dismissed older workers is generally weak and ALMPs are rarely used by older people, and are not well targeted to those who are most in need such as the long-term unemployed and informal workers. The OECD suggests to:

- *Improve occupational health and safety for workers at all ages.* This will assist current and future generations of older workers to work in safer environments and remain in employment longer. The first step in this direction would be to strengthen monitoring and compliance with existing occupational health and safety regulation. Effective occupational health care services can also play an important role, both in preventing work-related health problems and in promoting employment reintegration.
- *Ensure that lifelong learning policies encourage continuous upgrading of skills over the working life.* This should be done by providing targeted incentives to both firms and older workers to invest in skills.
- *Strengthen the role of (re-)employment services in helping older workers get back to (formal) employment.* To this end, it is important that participation of older workers in ALMPs is increased, and existing programmes are well targeted to those most likely to benefit from the programme (age alone is not a valid target). Early job-search assistance in case of dismissal is also crucial to maintain older workers' attachment to the labour market.

Encouraging employers to hire and retain older workers

Information on employers' attitudes towards older workers in Kazakhstan is scant. Yet anecdotal evidence suggests that the employers are not only more willing to hire young employees than older workers, they are also less willing to retain older workers. In fact, reflecting the existing wide gap between skills and competences of young and older generations, older workers are generally perceived as being less skilled, less productive, and less readily adaptable to changing firms' needs compared to youth workers. Moreover, the compensation practices of Kazakhstani employers are often seen to result in wages that increase considerably with work tenure, which suggests that the cost of employing older workers might begin to exceed their productivity well before the age at which most workers retire from the labour market. This provides strong incentives for employers to induce early retirement. Older workers then often move into an extended period of underemployment. In this context, one key to increasing the incentive to hire older workers and to reduce the incidence of early retirement is to tie wages more closely to productivity and less to seniority. The OECD suggests to:

- *Continue efforts to better align wages to productivity and qualifications, rather than seniority.* The government is currently reviewing with the trade unions the wage setting agreements in the public sector with a view to decouple compensation from seniority and to ensure that it better reflects productivity growth and merits. Successful end of these discussions is important since there can be a demonstration effect stemming from the good practices introduced by the public sector. Indeed, such good practices can be followed by the private sector with beneficial effects for the labour market at large.
- *Address discrimination in employment on the basis of age.* This can be achieved by taking measures, such as reinforcing legislation preventing age discrimination to eliminate discrimination in the recruitment, promotion and training process. But legislation alone is not sufficient and strong implementation mechanisms are necessary for the legal provisions to be implemented, along with the support of public-awareness campaigns to change mind sets.

Making work rewarding for older workers

Some welcome reforms over the past two decades aimed at reducing fiscal pressures on the government budget and at establishing a closer relationship between pension contributions and benefit payments. To this end, the public pay-as-you-go defined benefit (DB) regime was replaced by one based on mandatory fully funded defined contribution (DC). However, concerns remain on the adequacy of old-age pension benefits. Firstly, low coverage of the DC system means that many workers will receive very low old-age pension benefits as they grow older (the state basic pension). Therefore, they will likely end up working in the informal sector, whose size represents an issue for policy concern. At the same time, policies relying more heavily on other forms of savings, such as voluntary private pension systems will also be important. Secondly, older women are confronted with particularly high risks of poverty, due to a combination of shorter careers, lower wages, and higher life expectancy compared to men. One additional concern for policy makers in Kazakhstan is that older workers' labour force participation drops drastically after retirement age and older workers who continue working past retirement age often do so in the informal sector. Hence more must be done to prolong formal labour market participation of older workers and pensioners who are still able to work. The OECD suggests to:

- *Ensure that adequate old-age pensions are provided to the elderly*. This is particularly important as the DC scheme gradually replaces the DB pension system. To ensure old-age pension adequacy, a number of policies should be implemented:
  - *Combat any form of informality in the economy*, so as to expand the coverage of the DC pension system and thereby guarantee more adequate old-age pension benefits at older ages. To this end, a comprehensive government strategy is needed, which tackles both demand- and supply-side barriers to formalisation.
  - *Provide incentives to take-up voluntary private pensions.* This could be achieved by providing financial (e.g. tax reliefs; matching contributions) and non-financial (e.g. automatic enrolment; compulsion) incentives to enrol in voluntary private pension schemes. It will also be important that greater flexibility regarding contributions is provided, allowing withdrawals in limited circumstances and reflecting part-time or seasonal work. Using existing infrastructures to reach out to informal workers could also prove effective in helping them to save for old age.
  - *Maintain efforts to disseminate information about the pension system and the benefits of longer working careers*. However, these efforts could be undermined by frequent regulatory changes of the pensions system, which could generate uncertainty and erode trust in the system.
  - *Prevent older women from falling into poverty.* The gradual increase in the retirement age of women is a step in the right direction. However, the large gap in life expectancy between men and women, together with expected gains in life expectancy in the future, raise the question of whether further increases in retirement ages (especially for women) will be necessary in the future, for example by connecting the retirement ages to longevity.
- *Enhance incentives to work beyond retirement age for those still able to work.* This could be achieved by a mix of policies: i) introducing more flexible work

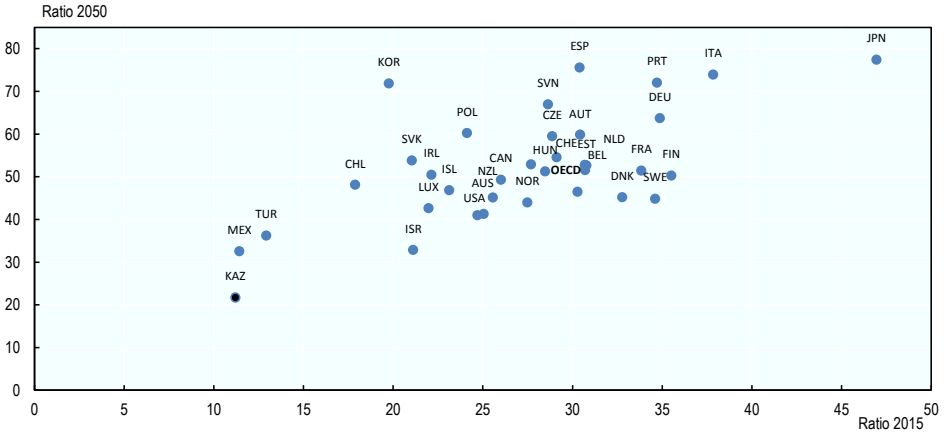
arrangements and part-time opportunities for older workers; ii) offering the option of partial or deferred withdrawal; and/or iii) providing financial incentives to work past retirement age. Wider utilisation of part-time work by older workers may help them remain attached to the labour market while taking into account changes in their health and physical capacities. Partial or deferred withdrawal would facilitate a gradual phase-out from the labour market. Establishing a legal basis to ensure further accrual of pension rights when working beyond the state pension age would strengthen incentives to work longer. Rights should continue to be accrued when withdrawal of the pension has begun.

Kazakhstan has a young population

Kazakhstan has a young population, so that it belongs to the group of countries with a relatively low proportion of elderly. The population above the age 65 as a percentage of the population aged 20-64 is 11.2% in 2015, well below the OECD average of 27.7% (Figure 3.1). As a result, even though rapid population ageing is expected, by 2050 the Kazakhstani demographic dependency ratio will still be below the level of any OECD country. The proportion of elderly will be 20.7% in 2050, compared to an OECD average of 52.9%.

Figure 3.1. Demographic dependency ratios, Kazakhstan and OECD countries, 2015 and 2050

Population aged 65 and over as a percentage of the population aged 20-64



Note: The projections refer to the medium fertility variant. Data for the OECD refers to the unweight average of OECD countries.

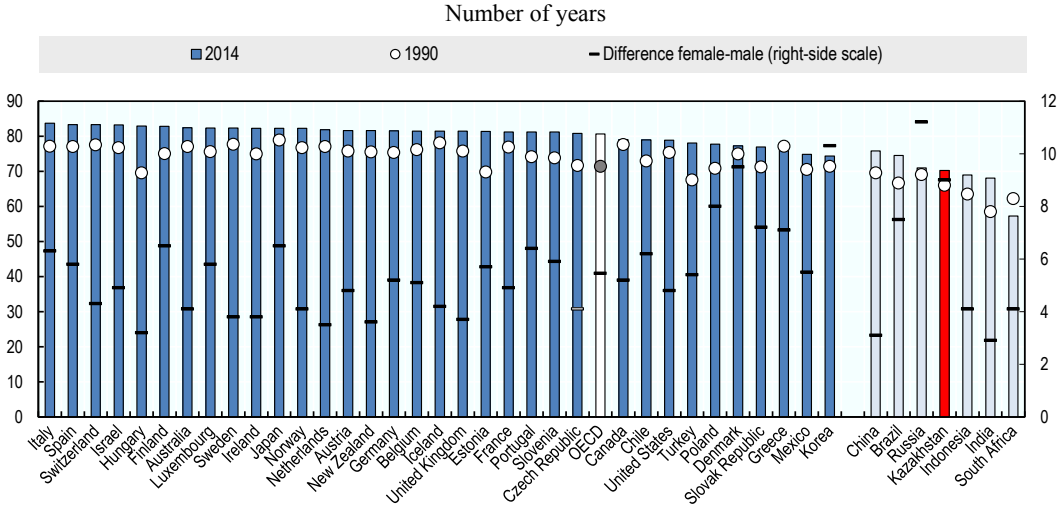
Source: United Nations, Department of Economic and Social Affairs, Population Division (2015), *World Population Prospects: The 2015 Revision*, DVD Edition.

Low life expectancy is one of the most important reasons why the old age dependency ratio in Kazakhstan is so low. The average life expectancy at birth – at 70.2 years in 2015 – is around ten years lower than the average of the OECD countries (Figure 3.2). Life expectancy is also low when compared to countries with similar levels of income per capita, such as some of the BRIICS – average life expectancy is higher in China, Brazil, and the Russian Federation for example. Whilst all OECD countries and most of the BRIICS have recorded significant increases in life expectancy in the past twenty years, the improvement was much smaller in Kazakhstan, which recorded an increase of 4.2 years in the period 1990-2015 compared to an OECD average of 9.2 years. Another peculiarity of Kazakhstan is the observed 9 years gap in life expectancy between

men and women (74.7 for women and 65.7 for men), making Kazakhstan the country with the largest gap across OECD countries (only after Korea, 10.3) and the BRIICS (only after the Russian Federation, 11.2).

Another important determinant of low old age dependency is the relatively high total fertility rate. Although the total fertility rate has declined from a historically high 4.5 children per women in 1960 to a low of 1.8 in 2000, it has recovered and reached 2.7 in 2014 (Figure 3.3). Today, total fertility rate in Kazakhstan remains much higher than the OECD and European Union average, and highest compared with all OECD countries (except for Israel, which in 2014 had a fertility rate of 3.1 births per woman).

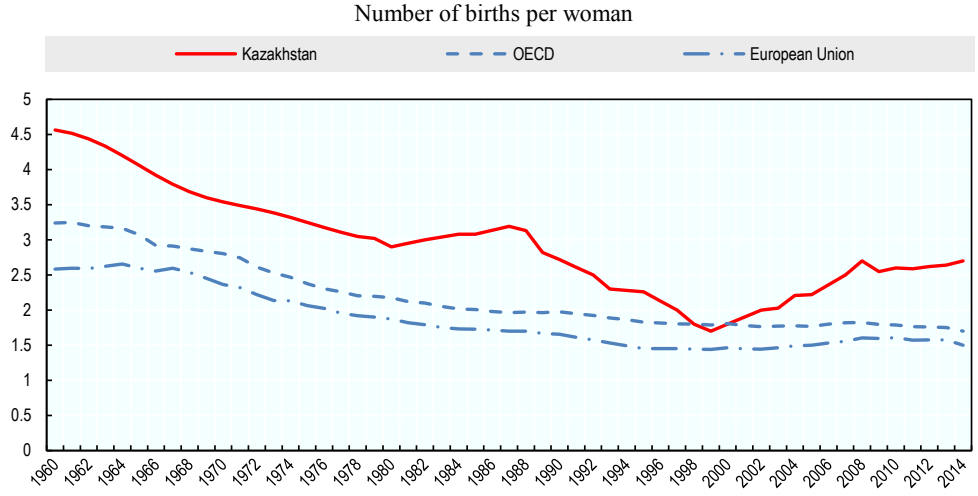
Figure 3.2. Life expectancy at birth, Kazakhstan, OECD countries and the BRIICS, 1990-2014



Note: Data for Kazakhstan refer to 2015.

Source: OECD Health Database for OECD countries; and WHO Global Health Data Repository for Kazakhstan.

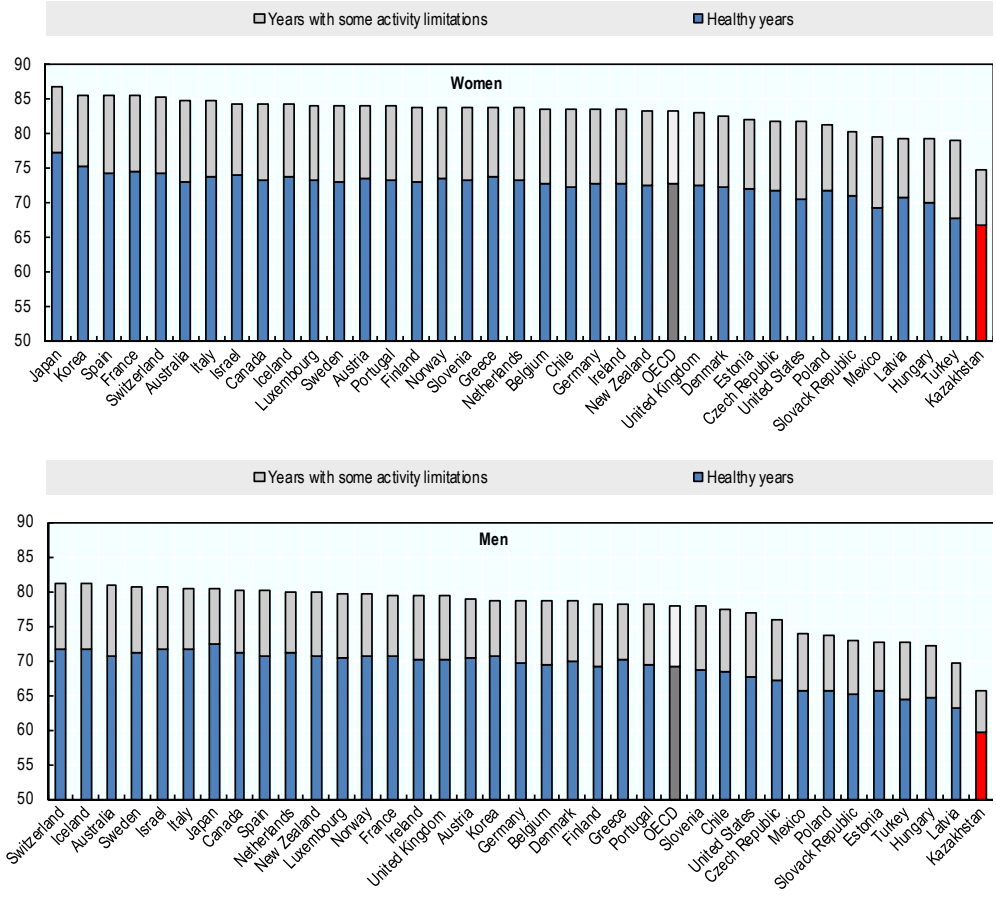
Figure 3.3. Fertility rates, Kazakhstan, OECD and European Union, 1960-2014



Source: World Bank Database; *OECD Family Database*.

The fact that older workers (especially men) are expected to have very few healthy years of life expectancy at older ages is particularly worrying. This is because their health deteriorates quite early. Indeed, Kazakhstani men and women are expected to stay healthy for 59.8 and 66.8 years respectively on average, while in OECD countries men and women are expected to stay healthy for 69.2 and 72.7 years respectively (Figure 3.4).

Figure 3.4. Active life expectancy at birth by gender, 2015



Note: Data for the OECD refers to the unweight average of OECD countries.

Source: OECD elaborations based on WHO Global Health Observatory data repository (http://apps.who.int/gho/data/node.main.688).

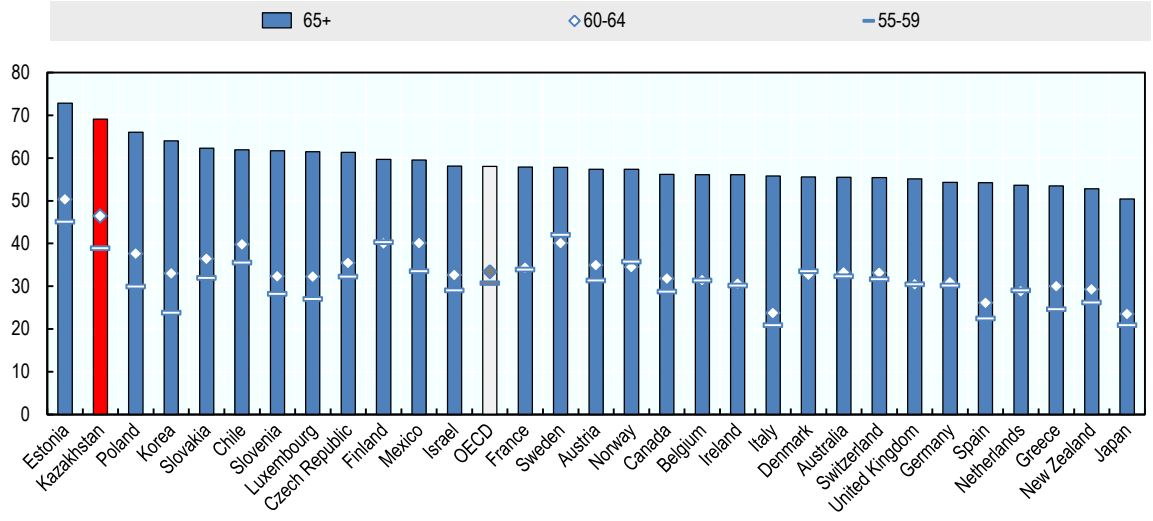
While older men are expected to have low life expectancy and enjoy very few years of healthy life expectancy, many older women in Kazakhstan are expected to live longer and healthier lives. Older women are often single, divorced, or widowed, and generally live in "composite" households with other family members. In 2009, in Kazakhstan around 70% of all women aged 65 or more (46% of women aged 60-64; and 39% of women aged 55-59) were either single, divorced or widowed, compared to an OECD average of 58% (33% of women aged 60-64; 31% of women aged 55-59) (Figure 3.5).

Health is one of the most important determinants of people's well-being and quality of life. Therefore, improving the health status of the Kazakhstani population should be a policy priority (see OECD, forthcoming). Health conditions have also an important

impact on older workers' ability to participate in the labour market. First and foremost, poor health means that many older workers (especially men) will not reach retirement age (63 years for men) in good health. Secondly, poor health is often associated with poor employment prospects of workers in Kazakhstan, especially for men and poorer people. Suhrcke, Rocco and McKee (2007) find that, in Kazakhstan, ill-health is associated with 30% lower probability of working. Some categories of people are more likely to be affected than others by poor health. For example, a recent study of nine former Soviet Union countries, including Kazakhstan, suggests that the association between health conditions and employment is stronger for men than women (Goryakin et al., 2014). Men predominately work in physically demanding occupations compared to women, implying that it will be harder for them to continue working at older ages as their health deteriorates. Ill-health also reduces the labour supply of poor people in Kazakhstan more than that of wealthy people (Goryakin et al., 2014).

Figure 3.5. Older women who are single, divorced, or widowed by age groups, Kazakhstan and selected OECD countries, 2011

Share of all women for each age group



Note: Data for Austria, Chile, the Czech Republic, Denmark, Germany, Ireland, Netherlands, Slovenia refer to 2011; for Finland, Italy, Japan, Mexico, Norway, Slovakia, Sweden to 2010; for Belgium, France, Israel, Switzerland, United Kingdom, Kazakhstan to 2009; for Turkey to 2008; for Australia, Canada, New Zealand to 2007; for Korea to 2005.

Source: United Nations, Department of Economic and Social Affairs, Population Division (2013), World Marriage Data 2012 (POP/DB/Marr/Rev2012).

Although many older women do not have a partner, family support often acts as an important mechanism of insurance at old age (UNDP, 2005). It is still a cultural norm in many Kazakhstani families that children support their parents both by taking care of them directly and assisting them financially. For example, the tradition that the youngest son/daughter would take care of older parents is still very strong. Existing evidences confirm that many older people live in "composite" households where parents live with their children or extended family members. Results of Kazakhstani population census in 2009 suggest that only 20.5% of households that have a person aged above 60 were single person households (25% of households consisted of two persons and the remaining 55% of households had three or more family members). A well-developed system of

interfamily support has advantages because older members of the household help younger ones in daily household chores such as childcare, thus enabling young parents to participate in the labour market. Yet strong family ties may prevent older people (especially women) from participating in the labour market.

Strengthening the employability of older workers in Kazakhstan

Employability and willingness to continue working are prerequisites for increasing labour market participation of older workers. To make longer working careers possible, policy makers should ensure that older people have the health conditions that allow them to continue working, the skills required to match the skills of today's labour markets, and adequate access to employment services that help them (back) into work. This section examines the health and skills factors as well as the employment services that are needed in order to make longer working careers a reality.

Better health and safety standards in the workplace are a key to make longer working lives a reality

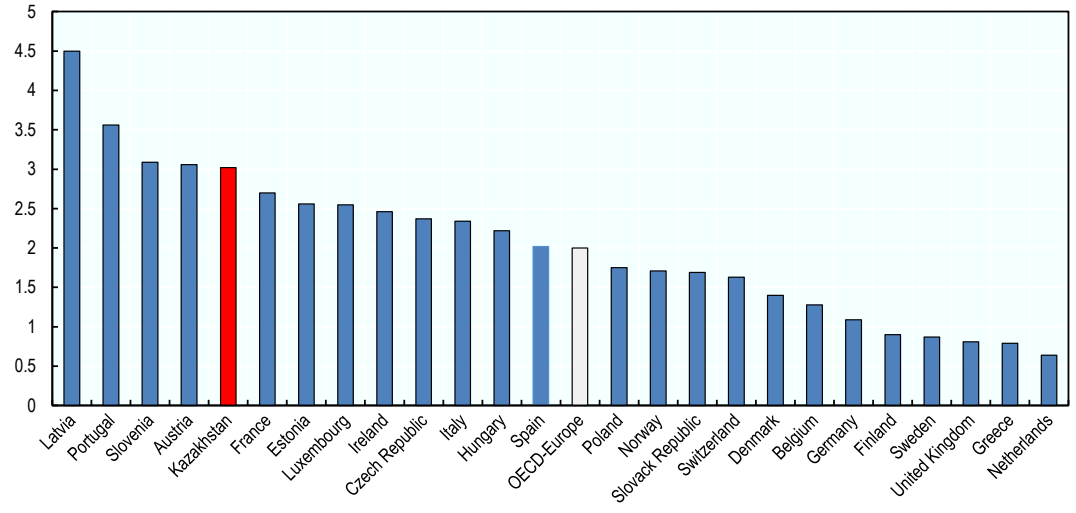
Improvements in the general health system (discussed in OECD, forthcoming), and modernisation of the sickness and disability benefits system (discussed in Chapter 4), will be crucial to raise the health of the population and make it possible for older workers in Kazakhstan to work longer. This section complements these discussions by focusing on another very important aspect of health and well-being of older workers, notably the promotion and enforcement of occupational health and safety standards at the workplace.

Despite recent improvements, more can be done to improve occupational health and safety standards in Kazakhstan, particularly for older workers and those working in the informal sector. According to the state committee of statistics, 367 800 (22.1%) out of 1.6 million workers examined in 2015 were exposed to harmful and dangerous working conditions. The statistics of the past five years show that around 2 000 occupational injuries and 300 occupational fatalities take place annually in Kazakhstan (see also ILO, 2015). Older workers are particularly concerned by occupational health and safety standards. Around 85% of new cases of occupational morbidity were identified among workers older than 40 in 2014 (90% of them were men) (ILO, 2016). Moreover, older workers (45 and older) have proportionately more accidents at work compared to younger workers (18-29) (27.3 versus 26.8 per 100 000 workers in 2014).

Although progress has been achieved in reducing incidences of fatal and non-fatal accidents at the workplace in Kazakhstan, they remain significantly higher than in most OECD-EU countries. Incidence rates of non-fatal (fatal) injuries per 100 000 workers have declined from 468.5 (13.01) in 1991 to 30.6 (3.1) in 2013, a decrease of 93% (76%). This progress reflects recent efforts to improve the regulation on working conditions. However, factors such as slowing manufacturing growth in the 1990s, and importantly underreporting of accidents at work places (ILO, 2016) may also have played a role. Nevertheless, today the incidence rate of fatal injuries (which is less likely to be affected by underreporting issues) remains substantially higher than the OECD-EU average. While there were 3.1 fatal injuries per 100 000 workers in Kazakhstan in 2013, the corresponding OECD-EU average for 2014 was 2 (see Figure 3.6).

Figure 3.6. Fatal accidents at work, OECD-EU and Kazakhstan, 2014

Standardised incidence rates per 100 000 persons employed



Note: Data for Kazakhstan and Finland refer to 2013.

Source: Eurostat Health and Safety at Work Database for OECD-EU countries; Agency of Statistics of the Republic of Kazakhstan for Kazakhstan.

Occupational Health Services (OHSs) are tightly regulated in Kazakhstan. ILO (2016) describes how OHSs cover the formal workforce and well-organised companies. OHS legislation provides minimum standards of workers safety, while also leaving scope to social partners for agreeing on local solutions to exceed binding requirements at the workplace. Important parts of OHS are the training of employers and workers on the standards of the occupational safety. In Kazakhstan, upper management of companies and OHS-responsible persons can participate in training courses offered by specialised institutes in every region. Most employers are typically obliged to provide training on occupational safety to their workers on a yearly base. Moreover, the state and trade unions provide seminars to workers representatives to educate the public on the recent changes in labour and work safety regulations. In 2014, over 43 000 workers took part in such seminars (ILO, 2016).

Government incentives to encourage employers to improve working conditions of employees have also been introduced recently. Professional pension contributions and compensations for hazardous work (see Chapter 2) can be phased out for employers that improve working conditions in hazardous work places and reach high standards of safety levels certified by an independent government attestation. Moreover, employers are obliged to insure blue-collar workers against injuries and death at the workplace. The calculation of the insurance premium for different types of workers depends on the average number of injuries at the firm and thus creates further incentives for employers to improve working conditions.

In spite of all efforts, implementation remains an issue. ILO (2016) finds that many OHS regulations are not adhered to and identifies several factors that contribute to a lack of compliance with OHS regulations in Kazakhstan. Many blue-collar workers remain uninsured against the risk of injury. Moreover, a large number of work-related accidents remain unaccounted for. While widespread informality is the main factor explaining the

observed low compliance with OHS, other factors play a role. Indeed, many employers in Kazakhstan operate in geographically remote areas where regular control and monitoring by the state inspection are particularly difficult to implement. The state labour inspection is understaffed (see Chapter 2) and lacks the capacity to comprehensively address work safety issues.

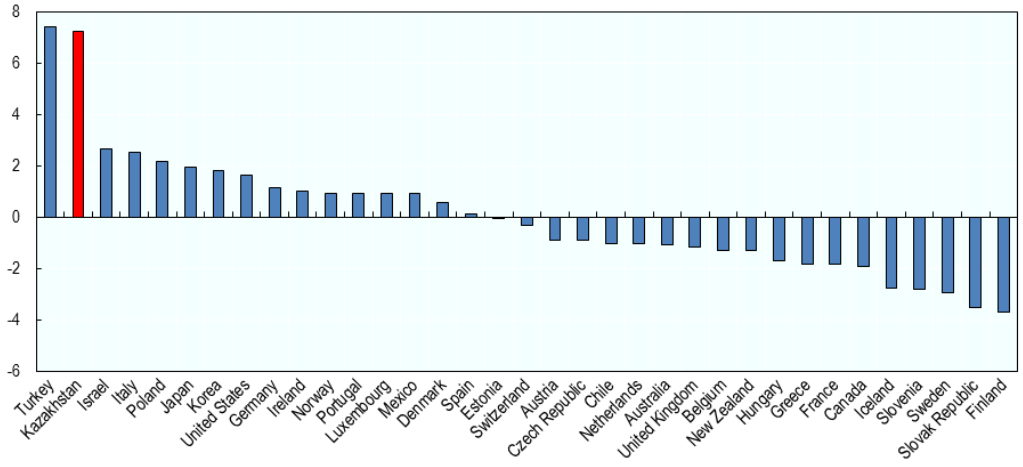
Joint dialogue commissions between social partners have been established with the aim to improve monitoring and compliance with OHS regulation. The trade unions are also increasingly active through disclosing the results of their independently run surveys. For example, in 2014, over 200 000 cases of noncompliance with work health and safety regulations were reported by trade unions. Still more can be done to extend the role of social partners in improving working conditions of informal workers. Close collaboration to improve working conditions at the local level (e.g. association of craftsmen, street vendors, and construction workers) would help achieve a safer work environment for informal workers thanks to the possibility to better identify their work characteristics and needs (e.g. worksite, community, etc.). Information and training can be provided either through tailored non-formal education programmes or the production of freely accessible information leaflets and brochures on occupational safety and health. This is already being implemented in the Kyrgyz Republic for agricultural workers by the ILO.[1]

Strengthening and expanding the skills of older workers

Based on the review presented in Chapter 2 and evidence from national and international observers, more and better skills are needed to set Kazakhstan on a pattern of sustainable economic growth. Today the skills of many older workers are still the ones obtained during the former Soviet Union and can hardly match the demand of the labour market. Analysis by Arabsheibani and Mussorov (2007) shows that prior to the economic transition, although educational attainments were comparatively high in Kazakhstan, the skills that workers received reflected the focus of the educational system on occupations that were demanded by the military and defence industries. Similarly, the initial phase of the economic transformation (from independence in 1991 to the early 2000s) was characterised by low spending and low enrolment rates in education. For example, spending for education fell from 6.5% of GDP in 1991 to 3.2% in 2001, with the number of students enroled in vocational education falling from 225 600 to 87 327 during the same period (Arabsheibani and Mussorov, 2007).

While the skills of older workers are obsolete, new cohorts of well-educated youth are accessing the labour market, a trend expected to continue in the future. The government is undertaking numerous initiatives in the field of education (OECD, 2014b), including training and retraining of teachers, modernising school curriculums and intensifying international student exchanges. The government's efforts to improve the education system has already started to provide results. Many more young people obtain higher education compared to decades ago. Rapid improvements in PISA scores (particularly in mathematics and sciences), albeit from low levels, are also noticeable. In the period 2009-12, the annualised adjusted change across PISA assessments was equal to 7.2 points per year in Kazakhstan; among the OECD countries, only Turkey had such a large improvement in the PISA assessment scores (Figure 3.7). Overall, these results point to the fact that an increasing number of high-skilled workers is (and will be) entering the labour market (in the next decades).

Figure 3.7. Annualised adjusted change across PISA assessments, Kazakhstan and OECD, 2009-12



Note: Annualised change is the average change between the earliest available measurement in PISA and PISA 2012. For countries and economies with more than one available measurement, the annualised change is calculated with a linear regression model.

Source: OECD (2014), *PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Mathematics, Reading and Science*, PISA, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264208780-en.

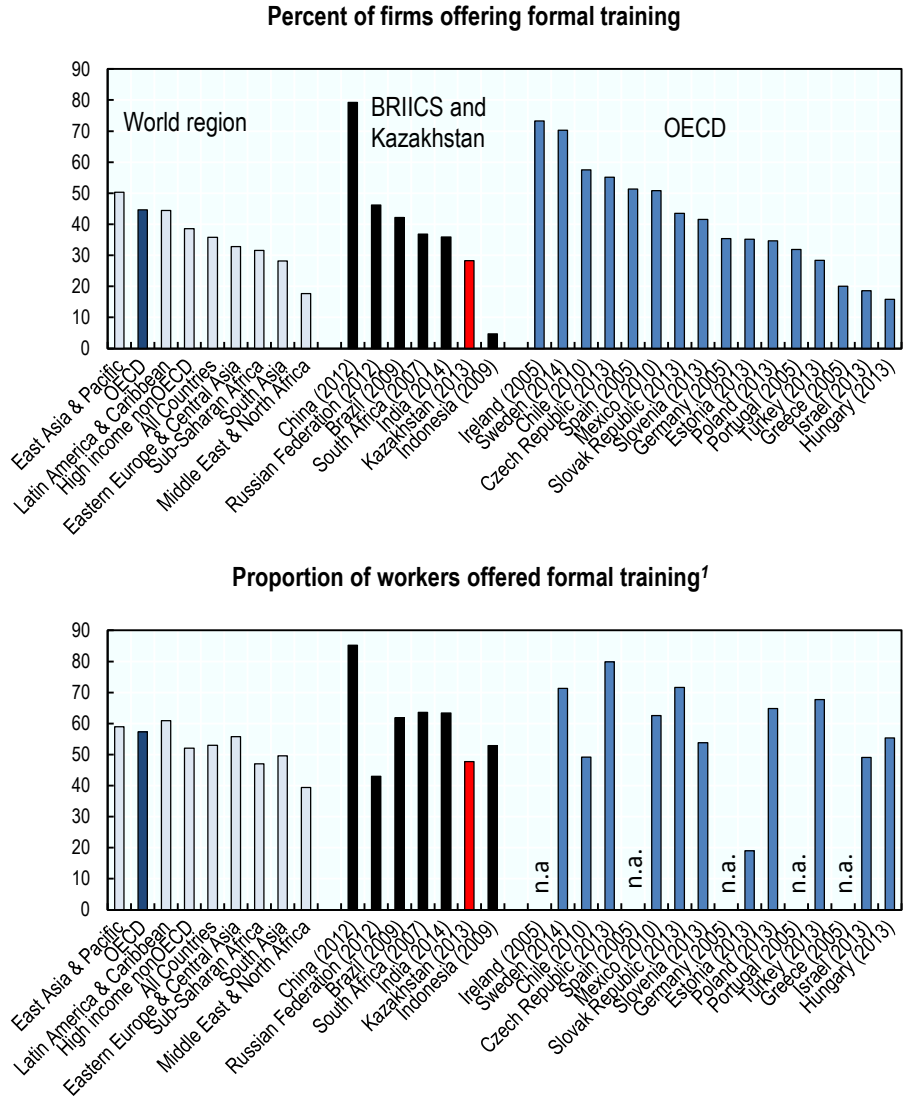
One key factor preventing older workers from closing the skill gap with younger employees in Kazakhstan lies in the fact that the employers usually do not see the benefits of investing in the training of their employees. The World Bank Enterprise Survey shows that in 2013, only 28.3% of firms offered formal training to their employees in Kazakhstan, compared with an OECD average of 44.6% and an Eastern Europe and Central Asian average of 32.8% (Figure 3.8). Kazakhstan is at the bottom of the spectrum when compared to the BRIICS (after Indonesia) and the OECD countries (after Greece, Israel and Hungary). Similarly, the proportion of workers (in manufacturing firms) who received any training in Kazakhstan was 47.7%, compared to an OECD average of 57.3% and an Eastern Europe and Central Asian average of 55.8%. Again, Kazakhstan places itself at the bottom of the distribution compared to the BRIICS (after the Russian Federation) and the OECD countries (after Estonia).

Policies to encourage firms to invest in the skills of older workers are already being implemented in Kazakhstan. Employers can deduct costs related to training of workers through available tax allowances and tax credits (Ministry of Finance of the Republic of Kazakhstan, 2009). Other steps in the right direction include recent initiatives aimed to rise the retirement age for women (see later sections of this chapter). This can be expected to strengthen the willingness of firms to train older workers, which may in turn pull the supply of more and better tailored training programmes.

Efforts on the firm side need to be complemented by adequate mechanisms to support the interest of older workers to invest in their skills. Spending on skills acquisition can be costly for someone employed in the formal sector. Not only can the cost of the training be high. Opportunity costs may also matter as measurable in terms of foregone incomes and foregone or reduced eligibility to unemployment benefits. Tax measures can be introduced to smooth these costs either by providing individual tax allowances that reduce the amount of taxable income or tax credits that reduce the amount of tax owed. The Kazakhstani Tax Code does not have special provisions that support workers'

investments in human capital. Box 3.1 provides a brief review of examples of tax treatment of training programmes (for both employees and employers) in OECD countries.

Figure 3.8. Formal training, Kazakhstan, OECD, BRIICS, and other regions, 2013



1. This indicator is computed using data from manufacturing firms only.

Source: World Bank Entreprise Survey.

Box 3.1. Tax treatment of training programmes in OECD countries

Tax incentives are used widely across OECD countries to incentivise individuals and employers to invest in human capital. Taxes are used primarily for post-compulsory education, where there is the biggest role for cost sharing and financial incentives. In particular, many OECD countries have adopted the following tax policies:

- Provide personal income tax (PIT) relief for the direct costs of higher education;
- Provide PIT allowances for the direct costs of work-related adult training;
- Allow businesses to deduct the costs of employee training immediately in the year incurred or provide a tax credit;
- Provide tax relief to employers over and above the standard deductibility of training costs and wages paid to trainees;
- Implement standard value added tax (VAT/GST) exemptions for education-related goods and services;
- Exempt income from scholarships, bursaries, academic awards or grants from PIT and social security contribution (SSC).
- Treat the value of employer-sponsored training generally as non-taxable income for PIT and (SSC) purposes;
- Provide tax relief related to student debt;
- Provide tax relief for savings used to finance the costs of education;
- Offer personal tax concessions broadly targeted at mobile highly-skilled workers;
- Levy SSCs or implement tax-like schemes that effectively impose a minimum level of employer-financed investment in training;
- Provide SSC incentives to employ skilled workers.

Source: Torres, C. (2012), "Taxes and Investment in Skills", *OECD Taxation Working Papers*, No. 13, OECD Publishing, Paris, http://dx.doi.org/10.1787/5k92sn0qv5mp-en.

One issue is that older workers often have acquired skills on the job which are not recognised since they do not have any certificates to prove them. Recent OECD work points to the importance of obtaining recognition of skills acquired through experience, i.e. the validation of acquired experience (VAE), which would be especially valuable for older workers whose initial qualifications may be outdated (Sonnet et al., 2014). For example, in the Netherlands the instrument used to validate skills acquired in the labour market is the *Ervaringscertificaat* (Experience Certificate). Its use has increased in recent years and today the Experience Certificate is part of collective labour agreements in several sectors.

Kazakhstan is taking steps to improve the skills of older people. For instance, Kazakhstan joined the Bologna process in 2010, and now shares – together with European countries – some core values and policy objectives such as life-long learning. The State Programme of Education and Science Development 2016-2019[2] aims to strengthen the system of life-long learning for people of all ages, educational background and qualification.

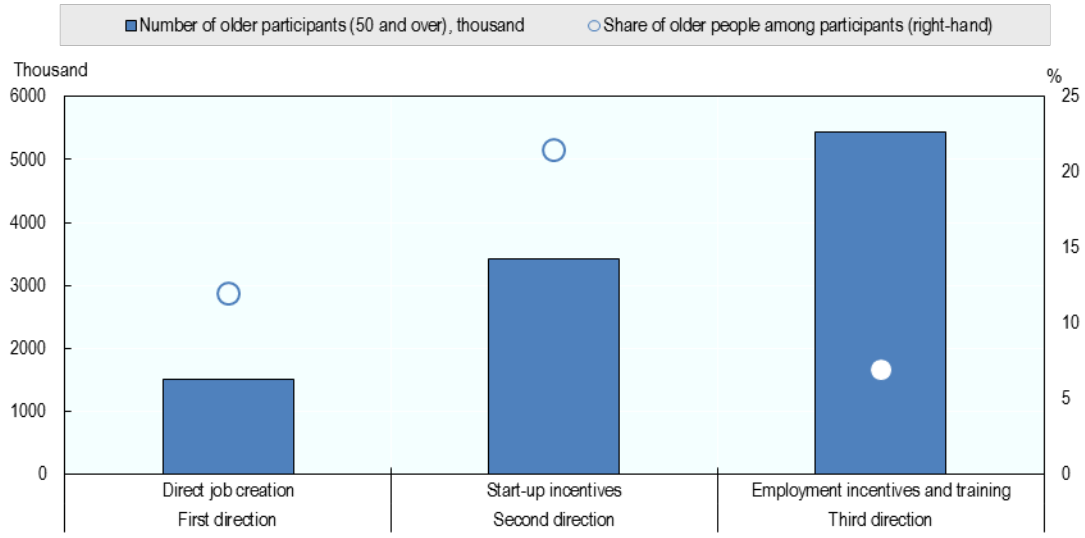
Important challenges are posed by the fact that these policies tend to be less helpful for older workers outside formal employment. Older workers who are not formally employed (i.e. unemployed, informal workers, and some self-employed) cannot benefit from tax exemption policies and are systematically precluded from accessing training opportunities. Active Labour Market Programmes targeted to older workers, can be designed in such a way to address this challenge. For instance, the Employment Roadmap 2020 establishes that unemployed people aged 55-64 have a priority access to ALMPs, including training programmes (see later sections of this chapter). If appropriately targeted, these measures can help those in need to upgrade their skills and improve their confidence and capacity to explore new job opportunities. These issues are addressed in the next section.

Employment services for older workers

Older workers tend to be particularly affected by job displacements. Analysis of the incidence of displacement in 14 OECD countries suggests that older workers (aged 55-64 years) have a higher incidence of displacement than prime-age workers in most countries (OECD, 2013b). The cost of job displacement may also be higher for older workers than for youth or prime-age workers because older workers may have accumulated a large firm-specific human capital and skills that may not be useful at the new workplace. Older workers also tend to experience the largest earnings losses following dismissal because the seniority that often raises earnings beyond market wages can go lost following a job separation. The cost of searching for a new job tends to be higher for older workers because they often lack the skills required to apply for jobs. These factors add to the above discussed stigma effects since employers may believe that these workers have less abilities compared to younger counterparts.

As discussed in Chapter 2, the Public Employment Service (PES) in Kazakhstan has limited capacities to offer quality employment assistance to vulnerable groups, including older workers. Reflecting the poor quality of the vacancies offered, very low and scarcely provided targeted social assistance and unemployment benefits, as well as strict job-search requirements, the incentive for jobless persons to register with the PES is limited. This is true not only for youth but also for older workers. In 2012, only about 6% of unemployed older workers registered with PES. Reflecting low registration rates to the PES, participation of older workers in ALMPs is also limited. Taken as a percentage of the labour force, the share of older participants (50 years and above) in ALMPs in Kazakhstan was around 1% in 2013, which is lower than participation rates of youth (4.3%) and total population (1.2%). With regards to programme composition, in 2013 the vast majority of older participants (52%) partake in employment incentives and training programmes (third direction of the Employment Roadmap 2020); followed by start-up incentive programmes (second direction) (33%) and direct job creation (first direction) (15%). Older people account for 21.5% of all participants in start-up incentives programmes, 12% in direct job creation programmes and 7% in training and employment incentives programmes (Figure 3.9).

Figure 3.9. Number of older participants and share of older workers among participants of ALMPs, 2013



Source: Information provided by the Ministry of Labour and Social Protection of the Republic of Kazakhstan.

As highlighted in Chapter 2, eligibility for participating in ALMPs in Kazakhstan is defined very generally, implying that better targeting of ALMPs to most-in-need participants would help to ensure that programmes reach their objective in an efficient manner, and to guarantee that existing resources are allocated to the most effective interventions. International research shows that older workers who have been recently dismissed benefit the most from low-cost activation measures (e.g. job-search counselling), while older long-term unemployed, as well as informal sector older workers, need more substantive and comprehensive activation – including training, for example – which is more expensive (OECD, 2013a). The following options for policy measures are available:

- ***Training programmes*** (included in the third direction of the Employment Roadmap 2020) (already discussed in Chapter 2) are helpful in helping particularly hard-to-place older unemployed people to upgrade and acquire new skills. However, international evidence shows that training programmes tend to produce positive effects on employment outcomes of participants in the long- to medium-run (e.g. two years after the start of participation), while in the short-run, i.e. during participation in the programme, one may expect reduction in job-search efforts leading to lock-in effects (Kluve, 2010). Lock-in effects may be particular problematic for older people, who may use training programmes as a pathway to early retirement. One policy option would be to integrate a substantial training component in other ALMPs, such as direct job creation. This would allow workers to receive new skills while remaining attached to the labour market.
- ***Direct job creation*** (the first direction of the Employment Roadmap 2020) (already discussed in Chapter 2) may be particularly helpful for older workers in Kazakhstan to serve as safety net, especially considered the inadequacy of the income protection system and the recent economic slowdown. As already discussed in Chapter 2, they should focus on those most in need and help participants to find longer-term employment opportunities.

- ***Employment incentives*** (included in the third direction of the Employment Roadmap 2020) (already discussed in Chapter 2) are used in Kazakhstan to encourage employers to hire older workers at a reduced cost. However, as discussed in Chapter 2, international experience suggests that the effects of this policy could be reduced by deadweight, displacement and substitution effects. In order to be effective, employment incentives need to be well-targeted to those who are most in need, such as the long-term unemployed and/or low-income older workers (Bookman, 2015; OECD, 2006).
- ***Start-up incentive programmes*** (contemplated in the second direction of the Employment Roadmap 2020), provide access to micro-financing and basic training. In return, participants to the programme are expected to register their firms formally and pay taxes. International experience suggests that start-up incentives might suit better the needs of the relatively high-skilled and those with a longer work experience.[3]

International experience points to the critical importance of starting activation quickly and in a way that engages all relevant actors in a joint process. In Sweden, for example, Job Security Councils (JSCs) established through collective agreements and financed by employers, aim to help dismissed workers find a new job through upfront job-search counselling. For workers who have a potential to be readily re-employed, counselling can be highly effective and at relatively contained costs, provided that it is swiftly implemented after the notification of dismissal. The example of Saab Automobile in Sweden provides a good example of prompt recourse to early-on PES services and its usefulness in smoothing the transition of displaced workers to new jobs (Box 3.2).

Box 3.2. Special transition services: The case of Saab Automobile companies

The bankruptcy of Saab Automobile in December 2011 implied that 3 064 workers were made redundant in the Trollhättan municipality in Sweden. Among other actors, Job Security Councils (JSC) took several measures to mitigate the consequences of the Saab closure. These measures primarily focused on helping workers cope with the psychological shock that came with sudden job loss and supporting their transition to new jobs. Major efforts took place in two stages and can be summarised below.

Pre-dismissal period

A number of steps were taken in the early stages of bankruptcy before redundancies were announced publicly to ensure the delivery of a well-resourced and a timely special transition service.

- As soon as the company declared its bankruptcy internally, the JSC started to contact workers who were in threat of redundancy to provide information on their services.
- The JSC was also well-prepared for the eventuality of the bankruptcy. During the autumn of 2011, it made numerous contacts with possible advisers and coaches, ensuring that they would be able to serve the clients at the onset of the Saab closure.
- In anticipation, the JSC both searched for large enough offices in central Trollhättan to ensure that they could accommodate the thousands of people joining their transition programmes.

Post-dismissal period

Several measures were taken once notification actually materialised into actual redundancies.

- The first step was to set-up individual meetings with all workers who were officially dismissed. Besides identifying employment barriers, these meetings focused on psychological aspects of job loss recognising that a good termination of the old employment situation together with an understanding for, or an acceptance of, the displacement's reasons are a key motivating factor in the subsequent job-search process.

Box 3.2. Special transition services: The case of Saab Automobile companies *(cont.)*

- In many cases workers had never searched for a job, or if they had, it was a long time ago. CV writing workshops and job interview simulations were organised to prepare workers in their job search activities.
- The JSC also provided recruitment services. Employers who were interested in employing former Saab workers could contact the councils asking for specific competences. The coaches that served also as "job hunters", could forward the vacancies to the clients who matched with the positions and could contact employers to inspect if they needed specific skills.
- To motivate clients, the JSC set up a wide range of group activities, workshops, seminars, lectures, job fairs and study visits in order to engage and activate the redundant workers to search for new jobs.

Source: Eurofound (2014), "Effects of restructuring at regional level and approaches to dealing with the consequences", European Foundation for the Improvement of Living and Working Conditions, http://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef1441en.pdf; OECD (2015), *Back to Work: Sweden: Improving the Re-employment Prospects of Displaced Workers*, Back to Work, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264246812-en.

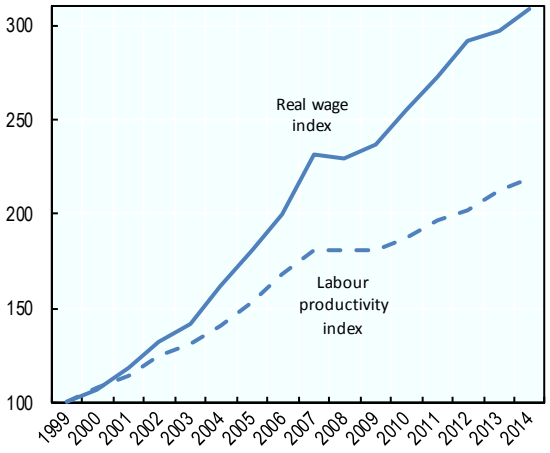
Encouraging employers to hire and retain older workers

Precise data to depict employers' attitudes towards older workers in Kazakhstan are scant. Yet anecdotal evidence suggests that the employers are not only more willing to hire young employees than older workers they are also less willing to retain older workers. In fact, reflecting the existing wide gap between skills and competences of young and older generations, older workers are generally perceived as being less productive and less readily adaptable to changing firms' needs compared to youth workers (Smirnova and Tatibekov, 2013).

Moreover, the compensation practices of Kazakhstani employers are often seen to result in wages that increase considerably with work tenure, which suggests that the cost of employing older workers might begin to exceed their productivity well before the age at which most workers retire from the labour market. This provides strong incentives for employers to induce early retirement.

In this context, one key to increasing the incentive to hire older workers and to reduce the incidence of early retirement is to tie wages more closely to productivity and less to seniority. Average real wage growth has outpaced productivity growth in Kazakhstan in the past decades. In the period 1999-2014, real wages increased sharply by as much as 208 percentage points, while productivity growth was lagging behind (it increased by 118 percentage points in the same period, Figure 3.10). Faster than productivity real wage growth is also observed in other emerging economies in Eastern Europe and Central Asia (ILO, 2014b) as well as in some Sub-Saharan African countries and South Africa (Klein, 2012). Even though wage levels in the Kazakhstani manufacturing sector remain broadly competitive, taking into account productivity levels (OECD, 2016), faster than productivity wage growth might end up reinforcing the obstacles that the employers confront to employing older workers even further, at some point.

Figure 3.10. Real wages and productivity growth in Kazakhstan, 1999-2014



Note: 1999=100; labour productivity refers to GDP (output) per worker.

Source: Agency of Statistics of the Republic of Kazakhstan.

Responding to these pressures, a number of measures have been taken in recent years by the Government of Kazakhstan to promote a stronger alignment between real wage growth and productivity growth. For example, the government is currently reviewing with the trade unions the wage setting agreements in the public sector with a view to decouple compensation from seniority and to ensure that it better reflects productivity growth and merits. Some of the measures include:

- First, four pay scales for public sector workers will be introduced at different levels of responsibilities (e.g. senior managers, workers, assistants and technical personnel) taking into account the complexity of tasks performed at the workplace.
- Second, new pay scales will be introduced for workers in different sectors of the economy (health, education and other sectors) with the aim to better reflect qualifications.
- Third, two types of compensations will be paid to employees on top of regular wages: i) compensation for performing hazardous work and/or having a high workload; and ii) incentives payments linked to productivity. Under the current system, there are over 155 types of compensations on top of regular wages available to public sector employees. As a result, compensations can account to up to 70% of an employee's wage.

Successful end of these discussions is important since there can be a demonstration effect stemming from the good practices introduced by the public sector. Indeed, such good practices can be followed by the private sector with beneficial effects for the labour market at large.

Another factor undermining employers' willingness to hire older workers and encouraging use of early retirement is the employment protection that regular workers enjoy, especially in large firms where unions have stronger presence. As discussed in Chapter 2, the employment protection legislation on regular contracts (for all age groups) is very strict in Kazakhstan, and therefore it could represent a barrier to hiring. On top of

strict labour regulations for all age groups, until very recently the Kazakhstani employment protection legislation provided special additional protection to older workers. Prior to the recent reform of the Labour Code implemented in January 2016 (see Chapter 2 for a discussion), older workers in Kazakhstan were protected from fair dismissal from the age of 55 until reaching retirement age (63 for men and 58 for women), i.e. special EPL rules protected from layoff older workers with less than eight years (for men) or three years (for women) remaining until retirement age.

The new reform of the Labour Code adopted in January 2016 introduces two major changes with regards to the protection of older workers in the labour market: i) it modifies the special protection from dismissal for older workers aged 55 and above (discussed above), and reduces it to two (rather than eight for men and three for women) years before retirement age; ii) it introduces a new provision according to which retirement age becomes a reason for fair dismissal.[4] The abolition of the special protection of older workers is a very welcome step in Kazakhstan which could help the business sector become more willing to recruit older workers. At the same time, relaxing the employment protection on older workers could also contribute to phase out early retirement practices by offering employers other ways to adjust to changes in labour demand. Similarly, the introduction of a new provision according to which employers can fairly dismiss workers based on their age (i.e. upon reaching retirement age), is a very common rule among OECD countries and is also a welcome step in the sense that it introduces some further flexibility to the employment protection legislation. However, it is important that these new measures are combined with policies that enhance older workers' rights to social benefits and stronger activation measures for those who lose their jobs, with the aim to facilitate their return to work (see Chapter 2 for a discussion).

The government efforts to counter discrimination against old-age workers could also be intensified. Article 6 of the Labour Code explicitly prevents discrimination depending on age, among other forms. In addition, Kazakhstan could consider more specific measures to enforce the law and prevent unjustified discrimination against older persons in recruitment or employment and age discrimination with regard to working conditions, along the lines of a similar law enacted by Korea in 2008 (OECD, 2013c). Public awareness campaigns to eliminate biases in recruitment, promotion and training of older workers could also be intensified, in consultation with the social partners.

Making work rewarding for older workers in Kazakhstan

More could be done in Kazakhstan to make work rewarding for older workers and encourage them to work longer. The ways in which different public policies affect incentives to retire include old-age pension schemes, as well as official and *de facto* early retirement schemes (e.g. social transfer programmes). This section identifies the challenges and further steps that may encourage people with work capacities to stay longer in the labour market. In particular, it analyses the key challenges of the Kazakhstani old-age pension and early retirement systems, and the (lack of) incentives they provide to work beyond retirement age.

Overview of the old-age pension system in Kazakhstan

Stemming from 1998 reforms, the Kazakhstani old-age pension system is currently transiting from a defined benefit (hereafter DB) system to a fully funded defined contribution (hereafter DC) system. The old-age pension system also includes a state basic pension available to all people upon reaching retirement age, and personal voluntary

pension savings. A recent reform adopted in 2014 introduced major changes to the old-age pension, including the increase in the retirement age of women, the introduction of a notional defined contributions (hereafter NDC) plan, and a revision of the calculation of the state basic pension.

The Kazakhstani old-age pension system

There have been several reforms of the pension system since Kazakhstan gained independence in 1991. The main reform was launched in January 1998 to reduce fiscal pressures on the government budget (Seitenova and Becker, 2004). Its core objectives were to establish a closer relationship between pension contributions and benefit payments by replacing the inherited public pay-as-you-go DB regime with one based entirely on mandatory fully funded DC to individual accounts. This approach was largely based on the Chilean model. As a result, the DC system would gradually become the dominant source of retirement income with the public pay-as-you go DB plan being completely phased out within a period of around 40 years.

Since inception of the 1998 reform, the Kazakhstani Government has acknowledged the importance of ensuring that adequate old-age pension benefits are provided to older people. However, the low number of people contributing into mandatory individual accounts after 1998 – mainly due to a widespread informal sector and pervasive evasion practices – raised concerns about the adequacy of pension benefits of the new DC system. With the aim to guarantee a minimum standard of living after retirement and thus alleviate poverty at old ages, in 2005 the Government of Kazakhstan introduced a state basic pension paid to all citizens upon reaching retirement age, regardless of contribution history. As a result, a *de facto* guaranteed minimum income floor was provided to older people.

At the time of writing, the Kazakhstani pension system consists of several schemes (see Box 3.3 for a description). The principal elements are:

1. *State basic pension* paid to all citizens of Kazakhstan upon reaching retirement age;
2. *Public pay-as-you-go defined benefit (DB) system*, funded by the state budget;
3. *Mandatory defined contribution (DC) fully funded system* with individual accounts, managed by the Unified Accumulated Pension Fund (UPAF);[5]
4. *Personal voluntary pension savings*, also managed by UPAF.

Affiliation to the DB and/or the DC system depends on employment history. For workers with at least six months of employment history prior to 1998 accrued entitlements to old pensions are maintained and thus they automatically become members of the DB scheme, and the DC scheme for their work years after 1998. This group of workers receives pensions for their service prior to January 1, 1998 from the old DB system and benefits for service after January 1, 1998 from their mandatory individual accounts (DC system). Younger generations who have worked only after 1998 (or less than 6 months prior to 1998), are only subject to the DC system.[6]

Box 3.3. The key features of the Kazakhstani old-age pension system

The Kazakhstani pension system consists of four pillars: 1) state basic pension; 2) public pay-as you-go defined benefit (DB) system; 3) mandatory defined contributions (DC) fully funded system; and 4) personal voluntary pension savings.

The **state basic pension** is paid to all Kazakhstani citizens upon reaching retirement age, regardless of contribution history. It is paid on top of other pension entitlements (if any). As of January 2016, the state basic pension is equal to KZT 11 965 per month, which is about 52% of the subsistence minimum and the minimum wage.[1]

The eligibility requirements for receiving a full solidarity old-age pension benefits from the **public pay-as-you-go defined benefit (DB) system** include reaching the pensionable age (63 years for men and 58 for women) and attaining a minimum of 25 years of contributions for men and 20 for women. Under this scheme, old-age pension benefits are equal to 60% of the average wage of the best three consecutive years, plus 1% of earnings for each year exceeding 25 years (men) or 20 years (women) of work is paid (up to a maximum of 75%). If a worker has reached the retirement age but has not enough years of contributions for qualifying for the full old-age solidarity pension, then a percentage of the full pension is paid according to the number of years below the required number of years of coverage.[2] The average wage used for the calculation of old-age pension benefits cannot exceed 41 Minimum Calculation Index (MCI),[3] i.e. KZT 86 961. Under the DB system, there is a minimum pension guaranteed per month, which – as of January 2016 – is KZT 25 824. DB pension benefits are paid in equal monthly instalments for life.

The **mandatory defined contribution (DC) fully funded system** is funded by mandatory employees' contributions of 10% of gross wages into the Unified Accumulated Pension Fund (UPAF). Gross earnings above 75 minimum monthly wages are exempted from pension contributions[4] (see Box 2.1, Chapter 2); furthermore, individuals who choose to continue working past retirement age are exempted from mandatory pension contributions. The eligibility requirement for receiving old-age pension benefits from the DC system is reaching the retirement age (63 for men and 58 for women) and having contributed to the DC system after 1998. A benefit based on the insured's account balance at retirement can be paid monthly, quarterly, or annually, and there is an upper cup ceiling of 30 monthly minimum pension guaranteed per year. A lump sum is paid if the value of the insured's account balance is less than 30 times the monthly minimum pension guaranteed. Pension benefits are paid until there is no money left on the individual accounts. UPAF is only required to guarantee contributors that the real value of their contributions will be at least maintained, effectively ensuring that over the working life of contributors they do not incur a net negative return on aggregate contributions. Under the DC system, in some cases workers are allowed to buy the right to go on retirement before retirement age: i) if pension accumulation is sufficient to finance a benefit at least equal to the minimum pension guaranteed, a pensionable age of 55 for men and 50 for women is permitted; ii) if workers have worked in hazardous work conditions for at least five years and have enough savings to finance a benefit at least equal to the minimum pension benefit, a pensionable age (for both men and women) of 50 years is permitted.

Workers are permitted to supplement the mandatory contributions with **personal voluntary pension savings**. Contributors are free to decide on the size of their contribution to their voluntary pension savings, which are paid to UPAF. Self-employed or informal workers can also make voluntary contributions to UPAF, even if they do not contribute into the mandatory scheme. Pensions from voluntary pension contributions to non-state pension accumulation funds are paid upon fulfilling any of the following conditions: i) reaching 50 years; ii) being disabled; iii) changing permanent residence.

All old-age benefits are subject to a taxation of 10%.

1. As of January 2017, the subsistence minimum and the minimum wage is KZT 24 459.

2. More specifically, the reduced pension benefit is equal to the average wage of the best three consecutive years multiplied by the ratio of the number of months of contribution and the number of months of contribution required to receive the full pension.

3. As of January 2017, the MCI is equal to KZT 2 269.

4. On reaching retirement age, individuals who choose to continue working are exempted from mandatory pension contributions.

Source: Information provided by the Ministry of Labour and Social Protection of the Republic of Kazakhstan.

Ongoing reforms of the old-age pension system

A new reform of the pension system (Decree of the President of the Republic of Kazakhstan "On conception of further modernisation of pension system in Kazakhstan") is being introduced with the objective to maintain pension adequacy while at the same time improve the financial sustainability of the pension system. The key features of the reform are summarised in Table 3.1.

Table 3.1. Key features of the recent old-age pension reform

Brief description of measure	Date of implementation
Introduction of pension credits	Jan-14
Introduction of "professional" pension contributions paid by employers in hazardous industries	Jan-14
Revision of the calculation of the state basic pension	Jan-18
Introduction of a notional defined contributions (NDC) plan	Jan-18
Gradual increase in the retirement age of women from 58 to 63	Jan-18

Source: Law "On retirement insurance" 21 of June 2013, № 105-V; Decree of the President of the Republic of Kazakhstan "On conception of further modernisation of pension system in Kazakhstan".

The reform aims to maintain pension adequacy by providing incentives to workers to formalise and work (contribute) longer. Within this framework, the calculation of the state basic pension is adjusted by making it dependent on contribution history. Starting from January 2018, the amount of the state basic pension will equal 50% of the subsistence minimum for older workers who have reached retirement age with up to ten years of contributions; thereafter it will increase by 2 percentage points for each additional year of contributions (up to 100% of the subsistence minimum at 35 years of contributions). For example, entitled workers with 20 years of contributions will receive 70% of the subsistence minimum; and those with 30 years of contributions will receive 90% of the subsistence minimum (see Table 3.2). Therefore this implies a progressive increase of the value of the state basic pension for those with longer contribution history (see Table 3.2), resulting in an incentive to workers to formalise and work longer while preserving benefits adequacy.

Table 3.2. Calculation of the state basic pension based on contribution history

Contribution history (years)	Before the reform (as of January 2016)	After the reform (as of January 2018)	
	State basic pension (KZT)	State basic pension (% of subsistence minimum)	State basic pension (KZT)
10	11 965	50%	11 429.5
20	11 965	70%	16 001.3
30	11 965	90%	20 573.1
35	11 965	100%	22 859

Note: the state basic pension after the reform is calculated on the subsistence minimum of January 2016 (KZT 22 859).

Source: Law "On retirement insurance, 21 of June 2013, No. 105-V.

Similarly, one important feature of the reform is that the current statutory pension age of women (58 years) will be gradually raised by six months every year starting in 2018 until it reaches the statuary retirement age of men (63 years), by 2027 (see Table 3.3).

Table 3.3. Phase-in of increased retirement age for women, Republic of Kazakhstan, 2018-27

Year	Women	Men
2018	58.5	63
2019	59	63
2020	59.5	63
2021	60	63
2022	60.5	63
2023	61	63
2024	61.5	63
2025	62	63
2026	62.5	63
2027	63	63

Source: Law "On retirement insurance", 21 of June 2013, No. 105-V.

With the aim to offset the effects of career interruptions due to childcare responsibilities and to minimise old-age poverty (especially for women), the new reform has introduced pension credits: starting from January 2014, the years used by parents on parental and childcare leave (until the child is 3) are considered as work tenure (up to the child's third year and for a maximum accumulated 12 years). Furthermore, pension contributions during periods of parental leave taken by parents (until the child reaches the age of 1), are paid by the state. From the implementation of this measure in January 2014 up to August 2015, the state subsidised pension contributions of about 100 000 women.

Starting from January 2018, the reform will also introduce a notional defined contributions (NDC) component into the pension system, for which employers will have to make an additional contribution of 5% of gross monthly wages to the UPAF. These contributions will be used to support both the solidarity (i.e. the state basic pension and the DB pension scheme) and the contributory (i.e. the DC system) pension schemes. Annuity payments related to NDC accounts will not commence before January 2023, and will be paid on top of other pension entitlements. To be eligible, claimants must have contributed to the system for at least five years, and have reached retirement age. Calculation of the annuity benefit related to NDC accounts will be based on the account balance and life expectancy, and will in no case exceed twice the level of the subsistence minimum. Indexation of the benefit will reflect inflation, demographics, the financial position of the UPAF and other factors. Importantly, accrued benefits from NDC accounts will not be transferrable to survivors in the event of death; benefits will not be payable abroad; nor will there be an option for lump sum settlement or early retirement.

Finally, the reform introduced an additional "professional" pension contribution of 5% of the gross wage paid by employers in hazardous industries (mainly chemical, mining and construction industries) (see Box 2.1, Chapter 2). As of August 2015, around 5 000 employers in 95 different industries were paying the "professional" pension contribution for over 355 000 workers. This measure was introduced to finance the early retirement (at the age of 50) of workers who have worked in hazardous industries for at least five years and have enough savings to finance an old-age pension benefit at least equal to the minimum pension benefit (see Box 3.3).

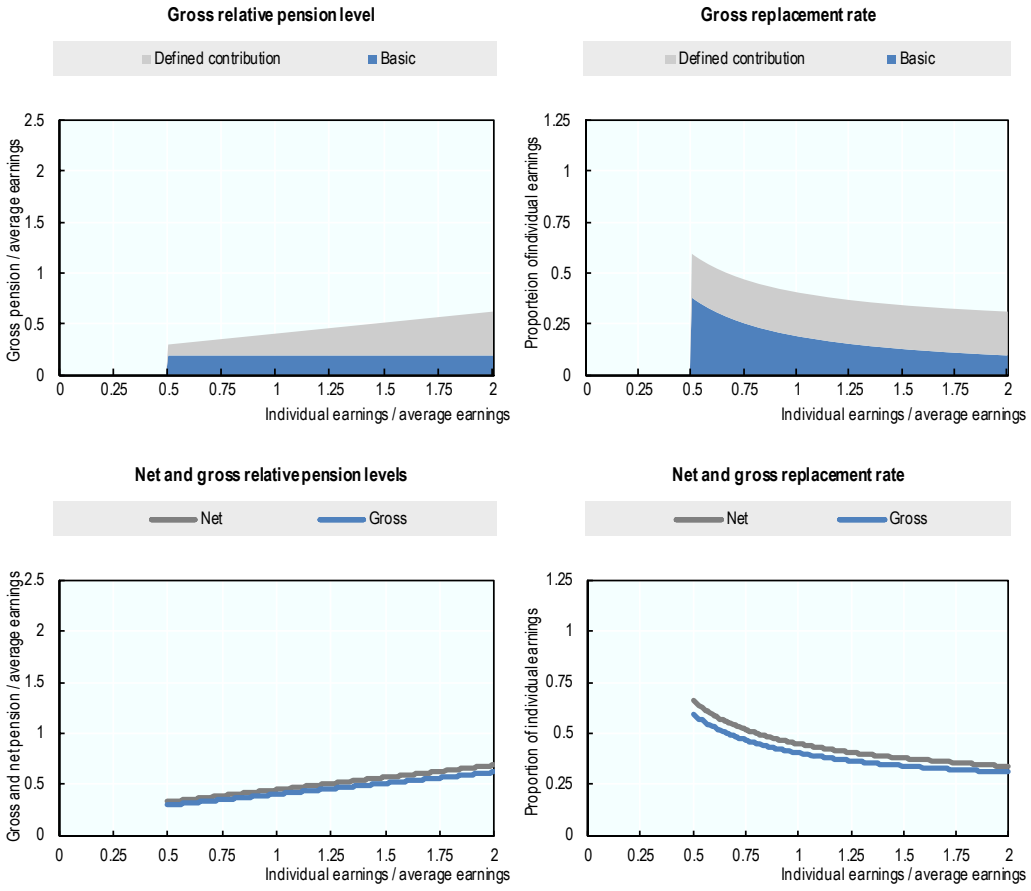
Measuring the adequacy of the old-age pension system

In a study published in 2005, the World Bank estimated that the replacement value of future total old-age pension benefits will decline over time as the rate of increase in the fully-funded component is not sufficient to fully offset the rate of decline of the DB system (Hinz et al., 2005). Accordingly, some of the subsequent reforms of the old-age pension system in Kazakhstan purposefully aimed at increasing the net replacement rate for future generations. As a result, more recent calculations by the Ministry of Labour and Social Protection suggest that the reform of the pension system will be able to at least maintain the replacement rate at the level recommended by the ILO (40% of previous earnings) (Ministry of Labour and Social Protection of the Republic of Kazakhstan, 2015).

OECD pension projections for the year 2057 (presented in Figure 3.11 and Table 3.4), broadly corroborate these findings. For people previously earning the average wage, the net replacement rate (NRR) of the old-age pension benefit is expected to be 44.9% of previous earnings. The gross replacement rate decreases evenly with increases in average earnings: it is equal to 65.9% for people previously at 50% of the average wage; and 37.9% for people at 150% of the average wage.[7] Considered that the state basic pension is provided to everyone regardless of wages, its value remains constant and therefore it represents the most important source of income for low-wages earners (e.g. people with previous earnings around 50% of the average wage).

By international standards, the Kazakhstani old-age pension system remains quite ungenerous. Net replacement rates are systematically lower than the OECD average for low (65.9% versus 74.5%), as well as for average (44.9% versus 63%), and high earners (37.9% versus 58.2%) (Figure 3.12). NRRs are lower than approximately three-quarters of OECD countries (for average earners), as well as many emerging economies (for example, Argentina, Brazil, China, India, Russian Federation, and Saudi Arabia).

Figure 3.11. Pension modelling results: Kazakhstan in 2057, retirement at age 63



Source: OECD calculations based on the OECD pension models.

Table 3.4. Baseline scenario: Legislation scenario (current policy indexation of safety-nets schemes)

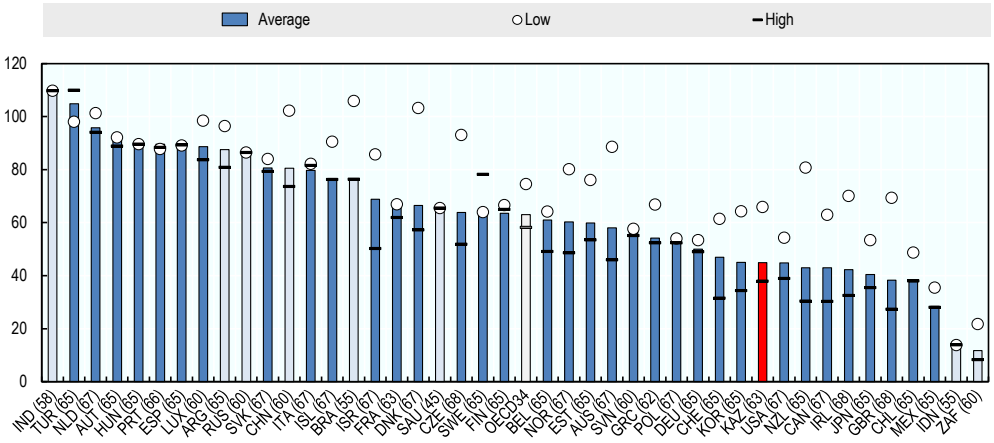
Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	29.7	35.1	40.5	51.2	62	83.5
(% average gross earnings)						
Net relative pension level	33	39	44.9	56.9	68.9	92.8
(% net average earnings)						
Gross replacement rate	59.3	46.7	40.4	34.1	31	27.8
(% individual gross earnings)						
Net replacement rate	65.9	51.9	44.9	37.9	33.8	30.4
(% individual net earnings)						
Gross pension wealth	7.3	5.8	5	4.2	3.8	*3.4*
(multiple of individual gross earnings)	*10.6*	*8.3*	*7.2*	*6.1*	*5.5*	*5*
Net pension wealth	7.3	5.8	5	4.2	3.8	3.4
(multiple of individual gross earnings)	*10.6*	*8.3*	*7.2*	*6.1*	*5.5*	*5*

Note: Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 85%. Labour market entry occurs at age 20 in 2014. Tax system latest available: 2013.

Source: OECD calculations based on the OECD pension models.

Figure 3.12. Net replacement rates at retirement age, Kazakhstan, OECD and selected non-OECD countries

Average, low, and high earners[1]



1. Low and high earners refer to people earning 50% and 150% of the average wage respectively.

Source: OECD pension models.

Key challenges of the Kazakhstani old-age pension system

Although the old-age pension system reform undoubtedly takes steps to improve the adequacy of pension benefits for future generations, some challenges remain to be addressed. First, low coverage of the DC system means that many workers will receive very low old-age pension benefits as they grow older. In turn, broadening coverage suggests a case to combat informality while relying more heavily on other forms of savings, such as voluntary private pension systems. Furthermore, older women are faced with particularly high risks of poverty, due to a combination of shorter careers, lower wages, and higher life expectancy compared to men.

Encouraging workers to save for old age

The portion of the population protected against the risk of old age enjoys relatively decent benefits (see Figure 3.13 and Table 3.4). However, as the contributory pension system only covers formal sector workers, a large part of the working-age population in Kazakhstan is not covered by the mandatory pension scheme (often because they work informally). The World Bank pension data[8] shows that in Kazakhstan in 2009 the coverage of the pension system (as measured by the number of people contributing as a share of the labour force) was quite low at 62%. This share is broadly comparable to OECD countries with a large informal sector, such as Chile, Mexico, and Turkey for example (OECD, 2015a) as well as in many Asian countries (MacKellar, 2009). Low coverage of the mandatory scheme means that many workers will be eligible only for the state basic pension and therefore may face a high risk of poverty at older ages (Hambar, 2011).

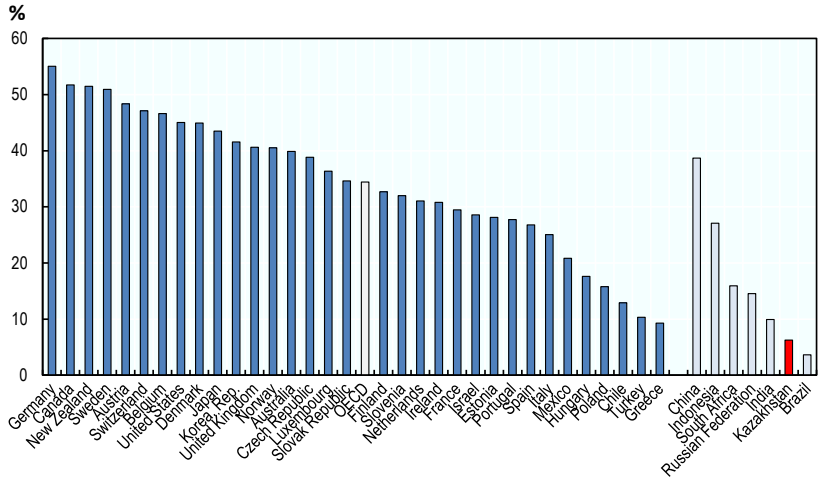
Participation in personal voluntary private pension savings is also very low. In 2015, only around 40 000 people in Kazakhstan voluntary contributed into UPAF (or less than 0.5% of the workforce). Low take-up of the voluntary pension can be at least partly explained by the fact that there are very little incentives in place to enrol. Workers have much higher incentives to save into other saving vehicles, such as commercial banks for

example. The government guarantees deposits in commercial banks for up to KZT 10 million, for which the interest rate can be as high as 10% (Kazakhstan Deposit Insurance Fund, 2015). Conversely, the returns accrued at UPAF are much lower (6.31% in 2014) and the only guarantee is that savings are not eroded by inflation. This gap between the interests paid by the commercial banks and UPAF may provide strong disincentives to workers to voluntary contribute to UPAF. Moreover, underdeveloped financial services in rural areas implies that many farmers choose to save in animal stock rather than conventional financial instruments (Gaisina, 2014).

These findings are corroborated by the fact that generally very few people in Kazakhstan save for old age. Data from the World Bank Global Findex database shows that only 6% of the population (aged 15 or more) in Kazakhstan report to save for old age, which is well below the OECD average of 34.4%, and the lowest across OECD countries and the BRIICS (except for Brazil) (see Figure 3.13).

Low life expectancy and poor health at older ages may also explain why Kazakhstani people are reluctant to save for old age. This suggests that improvements in the health status of the population will also have positive impacts on savings behaviours. However, policies providing incentives to workers to save for old age, through the mandatory DC system, and/or through other pension schemes (e.g. the personal voluntary pension savings) could also help.

Figure 3.13. Percentage of people (aged 15 or more) who save for old age, Kazakhstan, OECD countries and the BRIICS, 2014



Note: Data denotes the percentage of respondents who report saving or setting aside any money in the past 12 months for old age. Data for Iceland is not available.

Source: World Bank Global Findex database.

Improving the adequacy of the old-age pension system in Kazakhstan means, first and foremost, fighting informality and helping people to access good-quality jobs. As suggested by Rutkowski (2011), policy priorities to combat informality in Kazakhstan include i) reducing the costs of doing business in order to encourage firms to move to the formal sector; and ii) investing in human capital in order to reduce the skills gap and equip workers with skills demanded in the modern sectors of the economy (see Chapter 2 for a discussion). However – where the benefits of working formally are too low to compensate for the costs associated with formalisation – some informality is also likely to

reflect a choice on the part of the worker. Although more research is needed to better understand the specific causes of informality in Kazakhstan, there are reasons to think that the combination of a weak social protection system, free access to a non-contributory, tax-funded health care system, and relatively high social security contributions for self-employed people may provide disincentives to workers to formalise. This suggests that a comprehensive government strategy is needed to combat informality, which tackles both demand- and supply-side barriers to formalisation.

Old-age pension measures can also play an important role in addressing informality and expanding the coverage of the old-age pension system. According to the most recent old-age pension system reform, starting from 2018 the value of the state basic pension will depend on the worker's contribution history, with the full amount paid only to workers with 35 years of contributions. This measure is a step in the right direction because it provides effective incentives to workers to contribute and formalise.

Maintaining low the cost of labour is also important to combat informality. As discussed in Chapter 2, labour taxes are low in the international context and therefore should not represent an obstacle to formal hiring. However, some measures adopted in the context of the old-age pension reform may result in an increased cost of labour. For example, the recent introduction of the notional defined contributions (NDC) which entails the payment of an additional social security contributions of 5% of the gross wage paid by employers into the UPAF, will increase the cost of labour to employers and may therefore push employers to adjust wages downward, it could encourage employers to pay envelop payments on top of regular wages to avoid such high costs, or it could deter formal job creation altogether. A balanced approach is needed, that takes into account the possible negative consequences of this reform on formalisation as well as complementary measures to prevent the spread of informal practices (see Chapter 2).

Obtaining adequate coverage levels in voluntary schemes should also be a policy objective in Kazakhstan. Increasing incentives to contribute into voluntary schemes could become an important complement to mandatory pensions, as replacement rates from the latter are expected to be quite low for many informal and/or self-employed workers in Kazakhstan. Many OECD countries in which, similarly to Kazakhstan, the coverage of mandatory schemes is rather low (e.g. Mexico, Chile) tend to encourage workers to contribute voluntary to private pension schemes (Whitehouse, 2012; OECD, 2015a).

Within this context, the Kazakhstani Government should strengthen its efforts to encourage all workers (including informal workers) to save for old age. First of all, it could introduce financial incentives to increase coverage in voluntary schemes. The following policy options are available:

- **Tax reliefs**: A common policy for encouraging private voluntary retirement saving is the granting of preferential tax treatment to pension plans, i.e. reducing/eliminating taxation on old-age pension benefits coming from personal voluntary pension scheme. The idea is that a higher net rate of return on savings will encourage people to save more. These tax incentives tend to come with conditions, usually governing the duration of saving and restrictions on the way benefits can be withdrawn. However, evidence shows that the value of tax relief generally accrues to richer workers (in the formal sector), while poorer workers (whose tax base is generally lower), as well as informal workers, will benefit the least. Furthermore, tax incentives have not proved effective at expanding coverage among some categories of workers such as low earners or younger workers (Whitehouse, 2012).

- **Matching contributions**: Matching contributions are transfers made by the state into an individual's defined contribution pension plan, conditional on their own voluntary contributions. To some extent, they are preferable to tax reliefs because they can be designed in a way to target the most vulnerable groups of the population, and therefore they can be a more effective instrument to reach out to most disadvantaged workers who face the highest risk of poverty at older ages.

However, it is important to bear in mind that providing financial incentives to individuals may be costly for the government, and current budget pressures may limit the room for manoeuvre in this area. Other (probably less costly) policy options for Kazakhstan would be to introduce non-financial incentives for contributing in private pensions, such as automatic enrolment and compulsion:

- **Automatic enrolment**: The idea behind automatic enrolment is that people have to opt out of saving for retirement rather than opt in. Automatic enrolment can be particular beneficial in those countries where the process of signing up for a voluntary pension plan is particularly long and complex (for further information see OECD, 2014a).
- **Compulsion**: This policy option consists in making participation of private pension systems mandatory if workers (e.g. in the informal sector) are not properly covered by other forms of voluntary pension arrangement. One example is Chile where self-employed people (who form a vast proportion of the informal population) were recently asked to join the mandatory scheme. However, if such forced savings would crowd out the basic needs of the population, compulsion would not be an optimal policy choice. Furthermore, compulsion is often an unpopular measure because it is generally perceived as a tax, and therefore it could introduce disincentives to formalise.

Another important policy tool that can encourage workers (including informal sector workers) to save for old age, is to provide greater flexibility regarding contributions, with respect to both amounts and timing (even permitting withdrawals in limited circumstances such as long-term unemployment or health problems). Contributions should be able to reflect part-time or seasonable work with access to benefits allowed (though strictly controlled) for emergency and essential purposes; for example, in Chile and in other OECD countries where there is a large agricultural sector, flexible contributions are allowed in order to encourage participation of the temporary and/or seasonal workers (Hu and Stewart, 2009).

In order to improve the coverage of voluntary schemes, it is also important to reach out to informal workers. However, this is not an easy task: many of them work in rural areas, often with unstructured working arrangements and out of the reach of formal pension saving programmes. Utilising existing (non-pension) infrastructures (e.g. banks; post offices) and/or other alternative financial sector institutions (e.g. micro-credit institutions) may be useful to access informal sector workers and help them save for old age (Hu and Stewart, 2009).

Last, another reason why people may not join a pension scheme (even where available and advantageous for them to do so) is because of a lack of knowledge on pensions in general and the scheme in particular. Given such a challenge, financial education may play a role in raising public knowledge and awareness, and therefore potentially leading to increased pension coverage. Dissemination initiatives are organised,

with representatives of territorial labour and social programmes departments, JSCs and other key players being involved in discussion seminars, round tables and meetings with population and companies. Efforts to educate could however be undermined by frequent reforms of the pension system, as recurring change could generate uncertainty and erode trust in the system. It is therefore crucial not only to increase efforts to better educate the public about the functioning of the Kazakhstani pension system, but also to have a more stable and predictable system.

Providing older women with adequate pension benefits

Older women are particularly affected by the phasing-in of the DC system. Insofar as benefits are more tightly linked to contributions in the DC system, they will likely experience lower replacement rates than under the old DB pension system and compared to men (see UNDP, 2005; Hinz et al., 2005; Seitenova and Becker, 2004). In addition, many older women are single, divorced, or widowed[9] (see Figure 3.5), and therefore they cannot count on their spouse's incomes to smooth consumption as they grow older.

Under the DC system, a lower pension replacement rate for women (compared to men) is the result of a number of factors. Women generally have a shorter contribution history compared to men, including because they work more often in the informal sector, are more likely to work part-time, and often experience career breaks to take care of their children (see Chapters 1 and 2). They are also observed to retire earlier than men (as of January 2016). Importantly, women generally earn lower wages than men. Indeed, in 2011 Kazakhstani women on average were earning around 68% of men' wages[10] (ILO, 2014a). Furthermore, women generally have a relatively higher life expectancy and this means that their pension savings from the mandatory individual account will have to suffice for a larger number of years in retirement.

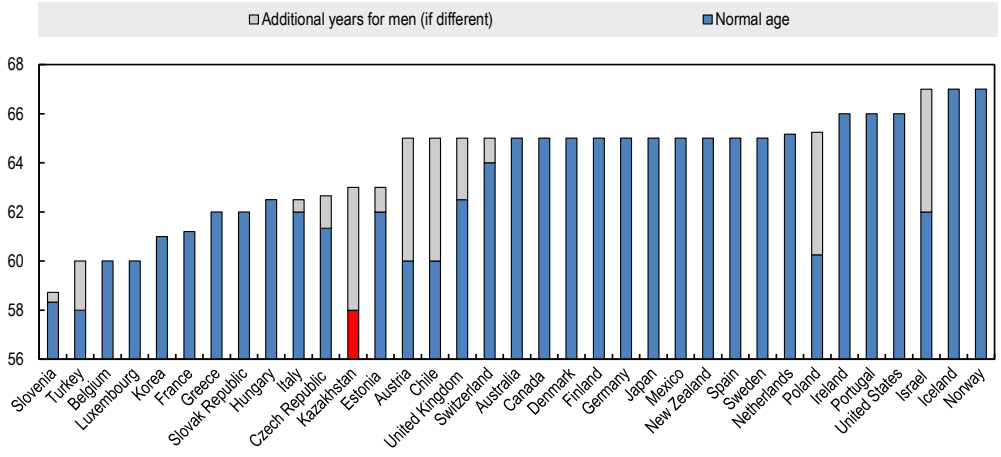
Within this context, the promotion of gender equality is crucial in Kazakhstan to reduce women economic vulnerability. This highlights the importance of improving the labour market position of women, and providing them with incentives to work longer.

While this will require broad labour market reforms that enable women to participate in the labour market – such as family policies for example (discussed in Chapter 2) – pension policies can also play an important role in preventing women pensioners from falling into poverty. In this respect, two of the measures of the recent reform of the old-age pension system go in the right direction:

- The recent increase in the retirement age of women (see Table 3.3) will likely help them to build up more solid pension entitlements. At the time of writing, Kazakhstan has the lowest statutory retirement age for women compared to OECD countries and is one of the few countries where retirement age for women is lower than for men (Figure 3.14). The planned increase in the retirement age of women is in line with recent reforms adopted in the international context: many OECD countries have recently reduced the gap in retirement age between men and women and/or increased the retirement age of women (OECD, 2015a). However, the large gap in life expectancy between men and women observed in Kazakhstan, together with expected gains in life expectancy in the future, raise the question of whether further increases in retirement ages (especially for women) will be necessary in the future, for example by connecting the retirement ages to longevity.
- The recent introduction of pension credits (see earlier sections of the chapter) is a good step in that it mitigates the impact of missing contribution years on old-age

pension entitlements. Indeed, it helps parents (and especially women) build up solid pension entitlements and minimise old-age poverty without undermining family responsibilities. Similarly to Kazakhstan, many OECD countries today grant credits for periods spent out of the labour market for childcare reasons (see OECD, 2015b).

Figure 3.14. Retirement age for a person who entered the labour force at age 20, 2014



Source: OECD (2015), *Pensions at a Glance 2015: OECD and G20 indicators*, OECD Publishing, Paris, http://dx.doi.org/10.1787/pension_glance-2015-en; for Kazakhstan, OECD calculations.

Providing incentives to work beyond retirement age

Kazakhstani older workers rarely remain employed after retirement age, and when they do so they generally hold low-quality jobs in the informal sector and/or work as self-employed. The employment rate after reaching retirement age is 13% for men and 14% of women, and the inactivity rate is 86% and 85% respectively. While it is generally difficult to make international comparisons – because international comparable data on labour market outcomes of pensioners is not available – some ad-hoc studies can be used to place Kazakhstan in the international context. In the neighbouring Russian Federation, for example, the share of people who continue participating in the labour market beyond retirement age is much higher: around 32.3% of male pensioners (aged 60-72) and 53% of female pensioners (ages 55-59)[11] in 2013 continued participating in the labour market (Sonina and Kolosnichina, 2015).

Not only do Kazakhstani older workers participate much less in the labour market once they retire, they also tend to more often hold low-quality jobs, generally in the informal sector and/or as self-employed. Indeed, of those employed after retirement age, around half work informally. While withdrawal from the labour market at retirement age may reflect deteriorations in the health status of older people, as well as individual preferences, institutional bottlenecks embedded in the old-age pension system may also play an important role.

More could be done in Kazakhstan to help older workers remain in (formal) employment after reaching retirement age. There are several options available that could be implemented to this end:

- *Encouraging older workers to combine work and pension by introducing more flexible work arrangements.* As in many OECD countries, work and pension can be

combined in Kazakhstan. However, part-time options are not readily available (see Chapter 1), even for pensioners. Indeed, the incidence of part-time[12] work among employed pensioners (in dependent employment) is very low at less than 5%. Facilitating access to part-time jobs and developing flexible work arrangements are ways to give older workers greater choice and smooth work retirement transitions.

- *Offering the possibility of partial or deferred withdrawal*. Take-up of old-age pension benefits cannot be deferred in Kazakhstan, nor is it possible to withdraw partial old-age pension entitlements. Offering the possibility of partial or deferred withdrawal could represent a valuable policy option in Kazakhstan, which could facilitate a gradual phase-out from the labour market while providing incentives to work longer.
- *Providing financial incentives to work beyond retirement age*. The Kazakhstani pension system does not provide any incentives to continue working past the pension age. Indeed, working beyond retirement age does not transfer into larger old-age pension entitlements. Under the DB system, benefits are calculated at the moment of retirement age and it is not possible to increase benefit entitlements by working beyond retirement age. Under the DC plan, older workers who work beyond retirement age are exempted from paying pensions contributions of 10% from their gross wage, and therefore they cannot save any money into the mandatory individual accounts after retirement age. Similarly, the level of the state basic pension is not increased by any additional years of contributions accumulated after retirement age, even after the amendments of the recent old-age pension reform. In this context, Kazakhstan could envisage introducing financial incentives to postpone the labour market exit of older workers by increasing old-age pension entitlements for workers who work beyond their retirement age. This approach is already implemented in many OECD countries. For example, in Switzerland, greater flexibility is provided for postponing labour market exit since insured persons may carry on paying contributions to the pension fund until 70 (OECD, 2014a).

Notes

1. For more information please see http://www.ilo.org/moscow/information-resources/video/WCMS_305441/lang--en/index.htm.

2 Enacted by the Order of the President of the Republic of Kazakhstan dated 1 March, 2016, No.205.

3. In particular, successful entrepreneurs combine their knowledge of the available technologies and managerial practices with specific psychological traits such as a need for achievement, self-confidence, and a positive attitude toward risk. Identifying these traits maybe challenging, but the research for developed and emerging economies shows that these traits often correlate with high educational attainment and long work experience (World Bank, 2013; Caliendo et al., 2014).

4. The new Labour Code establishes that a special commission composed by social partners (i.e. employers and employees' organisations) can allow employers to fairly dismiss older workers two years prior to retirement age.

5. Private pension funds and the state accumulation fund were merged into a Unified Accumulated Pension Fund (UPAF) in 2014. One main feature of this measure is to reduce administrative costs derived from a fragmented system; allow the Central Bank to invest pension contributions; and increase transparency as the government can better control how money are invested.

6. People who work in the police, judges, diplomatic and military personnel, are part of a different pension system which is not discussed in this report.

7. The net relative pension level increases with individual earnings: it is equal to 33% of the average earnings for people previously at 50% of the average wage; 44.9% for people at the average wage; and increases gradually to 56.9% for people at 150% of the average wage.

8. Data is available on the following website: http://go.worldbank.org/IRHX8QBQU0.

9. Widowers have access to the spouse's mandatory individual accounts, and, under certain circumstances, the social insurance benefits (see Annex 3.A1).

10. Across the OECD on average women earn 85% of men' wages (OECD, 2015b).

11. Pensionable age in the Russian Federation is 60 years for men and 55 years for women.

12. Part-time employment is based on a common 30-usual-hour cut-off in the main job.

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Annex 3.A1

Survivors' benefits in Kazakhstan

Survivors in Kazakhstan have access to three types of benefits: i) spouse's mandatory individual accounts; ii) state social benefit; and iii) social insurance benefit.

Spouse's mandatory individual accounts: A benefit based on the deceased's account balance is distributed among named survivors in proportions determined by the deceased (SSA, 2014). The survivor receives 100% of the insured's old-age pension.

State social benefit: The state social benefit (*loss of breadwinner allowance*) is paid on a flat-rate monthly basis according to family size and whether any family members have disabilities (see Annex 2.A2 in Chapter 2). Eligible survivors include a widow(er) of retirement age, disabled, or caring for children younger than age 8, provided that they were dependent at the time of the spouse's death (SSA, 2014).[1]

Social insurance benefit: The social insurance benefit, which is financed by employers' social contributions of 5% of the gross wage into the State Social Insurance Fund (SSIF) (see Box 2.1, Chapter 2), is paid to a widow(er) of retirement age, disabled, or caring for children younger than age 3, provided that they were dependent at the time of the spouse's death.[2] A monthly benefit is paid based on the difference between the insured's average monthly earnings in the last 24 months and 80% of the monthly minimum wage, multiplied by the income replacement rate, the number of survivors rate, and the covered period rate. The rate is 0.4 for one dependent survivor; 0.5 for two; 0.6 for three; and 0.8 for four or more. The income replacement rate is 0.6. The covered period rate is 0.1 with less than six months of coverage; 0.7 with six to 12 months; 0.75 with 12 to 23 months; 0.85 with 24 to 36 months; 0.9 with 36 to 48 months; 0.95 with 48 to 60 months; and 1.0 with 60 or more months (SSA, 2014).

Notes

1. Other eligible survivors include dependents unable to work, children younger than 18 (age 23 if a full-time student; no limit if disabled before age 18); and any relative caring for children younger than age 3 (SSA, 2014).

2. Similarly to the state social benefit, other eligible survivors include dependents unable to work, children younger than 18 (age 23 if a full-time student; no limit if disabled before age 18); and any relative caring for children younger than age 3 (SSA, 2014).

Chapter 4

Breaking down labour market barriers for people with disabilities

Few people with disability in Kazakhstan participate in the labour market, and – when employed – rarely manage to keep their job. This chapter looks at the role that institutions and policies play to help people with disabilities that are in a working age integrate the labour market. It provides an overview of people with disabilities in Kazakhstan, alongside an assessment of the institutional framework, including conditions of access to income support and activation requirements attached to benefits. Actionable policies to promote the employment of people with disabilities are suggested.

Introduction and key recommendations

Ensuring that people with disabilities (PWD) are not excluded from society and the labour market and that they are empowered to participate as fully as possible in the economic and social life lies at the centre of the economic policy agenda of Kazakhstan. While many countries, both OECD members and emerging economies, face the same challenge, it is particularly pressing in Kazakhstan reflecting the convergence of several concomitant forces. For a start, economic and labour market challenges are increasingly proving an obstacle for people with health problems to return to work, or to stay in their job. The economic downturn currently experienced by Kazakhstan raises the possibility that, with a time lag, many of the long-term unemployed end up increasing the caseload of disability beneficiaries. In the past, too many people of working age relied on sickness and disability benefits as their main source of income during the onset of an economic recession in many countries. In addition, pension reforms, as discussed in Chapter 3, including the retrenchment and gradual phasing-out of early-retirement schemes or options, as well as the elimination of many special unemployment retirement pathways, will mean that older workers – who had long been encouraged to retire several years before the legal retirement age – can no longer draw on so many options to leave the labour market prematurely. These workers will seek for other routes of access to benefits, with disability benefits a first candidate. Furthermore, globalisation pressures also matter. Insofar as the transmission effects of globalisation on technological progress tend to be skills-biased, they hit the employment opportunities of disadvantaged people particularly strongly. This includes the opportunities of many workers with disability who are far more strongly likely than the general population to have not completed upper secondary education, or even to have dropped out of school prematurely and less likely to have benefitted from vocational training. Adding to the above sources of pressure, in Kazakhstan the share of people with disabilities in total adult population is very low. The official figures set it at approximately 3.5%, which compares with a share of 14% for the EU average, reflecting a much narrower range of eligibility criteria used by Kazakhstani to qualify for disability. This raises the possibility that registration claims increase going forward, following measures undertaken by Kazakhstan to progressively conform to the international definition.

Building on an assessment of Kazakhstan's performance and policies regarding the employment of PWD, this chapter identifies suggestions for further improvements in order to counter the above pressures. It discusses current disability policies in Kazakhstan from an international comparative perspective and the key challenges to reduce disability benefit dependency. It sets out a comprehensive range of complementary measures to increase employment and employability of PWD in Kazakhstan going forward. Evaluations and lessons from innovative experiences in OECD and other countries are used to formulate recommendations tailored to Kazakhstan. The analysis concentrates on people with disabilities in the working-age population and as such does not focus on children with a disability and their education needs.

The main findings and recommendations are summarised below.

Averting old stereotypes

One key characteristic that sets Kazakhstan apart from other countries is the legacy of outdated language and words to describe people with disabilities. This largely relates to the fact that the old medical culture, whereby disability is frequently portrayed as tantamount to health impairment, is still very pervasive in the country. The OECD suggests to:

- *Promote a "people first" language, which is now common practice in the OECD countries*. Particularly, Kazakhstan should use the expression "person with disability" more systematically in its legal setting. Any differentiations in regulation by categories of clients (such as, the blind and the deaf, for instance), should be avoided.

Anti-discrimination law should be strengthened

The Labour Code recognises two circumstances under which an employer can, on the ground of disability, refuse to hire an employee, terminate a contract, or transfer an employee to another job without her/his consent. These occur respectively, when there is a need to protect the health of the person and/or the safety of others. However, insofar as the burden of the proof is on the employers, it can also result in abuses. The OECD suggests to:

- *Ensure that any decisions to refuse to hire an employee, terminate a contract, or transfer an employee to another job without her/his consent on the ground of disability be taken following a concerted approach.* This should involve both employers and workers' representatives.

Assess work capacity, not disability

The Medical and Social Expert (MSE) committees are responsible for carrying out the disability assessments. While, in principle, the MSE committees conduct the assessments using an interdisciplinary approach, taking a combination of medical, social and labour market aspects into account, in practice, the assessments remain biased towards the medical diagnosis of the individual's loss of physical and/or mental functioning. Limited, attention is paid to rehabilitation. The OECD suggests to:

- *Strengthen the priority given by the assessment to remaining work capacity of persons applying for a benefit and provide them with adequate employment supports so to ensure that they remain in contact with the labour market.* These measures are important to avoid unnecessary benefit claims and make the best use of people's remaining work capacities.
- *While the medical file could be kept under the responsibility of the doctor, the assessment of the client's social characteristics, work abilities and aspirations should be delegated to a multidisciplinary team.* Such a multidisciplinary team could comprise a labour expert, a vocational rehabilitation expert and a social worker, and co-ordinated by the case manager of the benefit authority.

Early intervention

Several welcome steps to accelerate assessments have been undertaken by Kazakhstan since 2014, when the government announced measures to reduce the number of administrative documents required to undergo disability claims. At the same time, the

database of persons with disabilities was centralised within a unified register, which enable many MSEs to shorten their assessment process from ten to one day. The OECD suggests to:

- *Efforts undergoing to ensure that the assessment and corresponding supports be done quickly go in the right direction and should be maintained.* They are essential to counter the risk that claimants remain inactive for too long, thus losing contact with the labour market.
- *Consider implementing a one-stop-shop benefit and service provision for people with disability.* This will help reducing risks that clients are continually shuffled between agencies.

Creating pathways to early vocational rehabilitation

Too little attention is paid to people with disability who can and wish to work in Kazakhstan. Figures from the nationwide survey on disability show that only 24% of PWD have access to an Individual Rehabilitation Plan (IRP). To a large extent, the low take-up degree of employment and rehabilitation programmes by those with work capacity reflects a problem in the way the rules have been conceived. Indeed, the MSE committee has no obligation to carry out the social and vocational assessment, since this is pending specific request by the client. Furthermore, as much as 46% of the people who have replied to the latest nationwide survey on disability have reported not being aware of the existence of an IRP. The OECD suggests to:

- *Automatically treat each claim for a disability benefit as a request for rehabilitation.* This will help strengthening access to rehabilitation. Some countries use a rehabilitation-before-benefit principle and countries such as Switzerland have recently tried to tighten this by moving towards a rehabilitation-instead-of-benefits principle.
- *Revise the content and format of the IRP with a view to making its recommendations on services and provisions more specific.* This will ensure that the Plans work as an effective tool to set out the individual's path to vocational training and job search. International practices suggest that support tailored to individuals and their specific circumstances is significantly more effective than general support schemes. Such a tailored support could help clients with job orientation and coaching supports, and vocational counselling, for example.

Supporting activation

Clients identified as being in need of help, through a timely activation-oriented assessment will, as a next step, undergo a properly identified activation process conducive to find an occupation adapted to their work capacities. The OECD suggests to:

- *Take measures to strengthen the capacity of employment and rehabilitation services to profile their clients in line with the results of assessments.* Profiling should be sufficiently individualised and effective in bringing together all the relevant information for each client, based on medical files, the employment history, and any services hitherto provided. At the same time, the profile should be sufficiently standardised so that its quality is independent from who had profiled the case and where it had been kept.

- *Design and deliver services in such a way to encourage clients to move into the regular labour market whenever possible.* Maintaining a close relationship with caseworkers is essential over the duration of service use to ensure that caseworkers can promptly and systematically refer their clients to the services needed at each stage and continue to help them adapt to the labour market. Any negative incentives – for either clients or caseworkers – that may hamper such progress should be removed.
- *Ensure that people with disability are given access to generic employment programmes.* This "mainstreaming" is used in many OECD countries, as good practice.
- *In a similar vein, develop new forms of sheltered employment that are more closely related to the regular labour market.*
- *Successful provision of activation services will require a more ambitious expansion than originally planned of the number of PES case workers.* These additional case workers should be trained to provide specialised assistance for hard-to-place jobseekers.

Employment quotas

Available estimates suggest that in Kazakhstan only about 34% of the jobs that should be carried out using the quotas are actually fulfilled by employees with disability. This underperformance suggests that more should be done to improve the effectiveness of the quota system. The OECD suggests that:

- *Rather than setting a national rate, Kazakhstan provides the local executive bodies (*akimats*) with more flexibility to decide upon the regional quota rates in collaboration with the representatives of the employer sector and the associations of people with disabilities.*
- *A fixed quota is set out only for hard-to-place people with disabilities, while using other promotion measures for people with light disabilities.* Alternatively two quotas could be envisaged – for people with disabilities in general and applying, within this broader group, a special higher quota for those with more severe impairment.
- *More options are provided to the employers to meet the quota, taking into account the specific circumstances of their businesses.* If, for example, due to the limited range of skills available, it is difficult for an employer to hire enough people with disabilities to meet the quota level, she/he could decide to pay a levy, or alternatively opt to provide and finance apprenticeships or on-the-job training.

Set out disability benefit as a transitory payment

Staying on disability benefit for a long time is particularly harmful for younger people, who have more to lose in terms of reduced opportunities for better social and economic integration. The OECD suggests to:

- *Use disability benefits as a temporary payment (like other working-age benefits) with the exception of people with severe health impairments.* Improved work capacity can be quite frequent at young ages despite an unchanged medical

condition, thanks to the ability to manage conditions more quickly than adults and because youth are better off in terms of handling conditions at the workplace.

- *Consider introducing some flexibility in the system of re-assessments at fixed time intervals.* One possibility is to grant the benefits for a defined period, whose length is determined at the time of the assessment. At each reassessment, the period until the next review is set. In this way, re-evaluations can be more focused and reduce the work load (and costs) of the assessment team.

Making incentives work

Subsidies are the most commonly employed policy measure in OECD countries for promoting employment opportunities for people with disability. The OECD suggests to:

- *Define broadly the subsidies destined to making workplace accommodation in such a way to allow targeting more than just accessibility.* While accessibility represents a key objective, the subsidy needs to address a package, which further to accessibility must involve supporting training measures (before and after recruitment of a person with disability), on-the-job assistance and awareness-raising coaching for managers and co-workers.
- *Ensure that the wage subsidy system is well targeted to the needs of the employer and the employee and flexible over time to reflect changes in the person's work capacity.* The subsidised share should decrease gradually and in line with the experience gained and the skills acquired as these are reflected in productivity.

Political economy of reforms

Successful change not only needs the right elements of reform but also has to pay sufficient attention to the way in which reform is being argued, designed and put in place. The OECD suggests to:

- *Take measures to ensure that both the need for reform and the desirability of the proposed solutions be communicated clearly and convincingly to stakeholders.* Together with the rigor and quality of the analysis underlying, this can significantly affect the prospects for reform's adoption and the implementation and the quality of the policy itself.

Monitoring

Last but not least, a major challenge in Kazakhstan is the lack of data on the outcomes of active labour market policies for people with health problems or disability, and where data exist, the limited flow of information across institutions and governments. With the shift towards a more employment-focused disability policy, the need for better and more comparable data based on jointly-agreed standards will become ever more evident. The OECD suggests to:

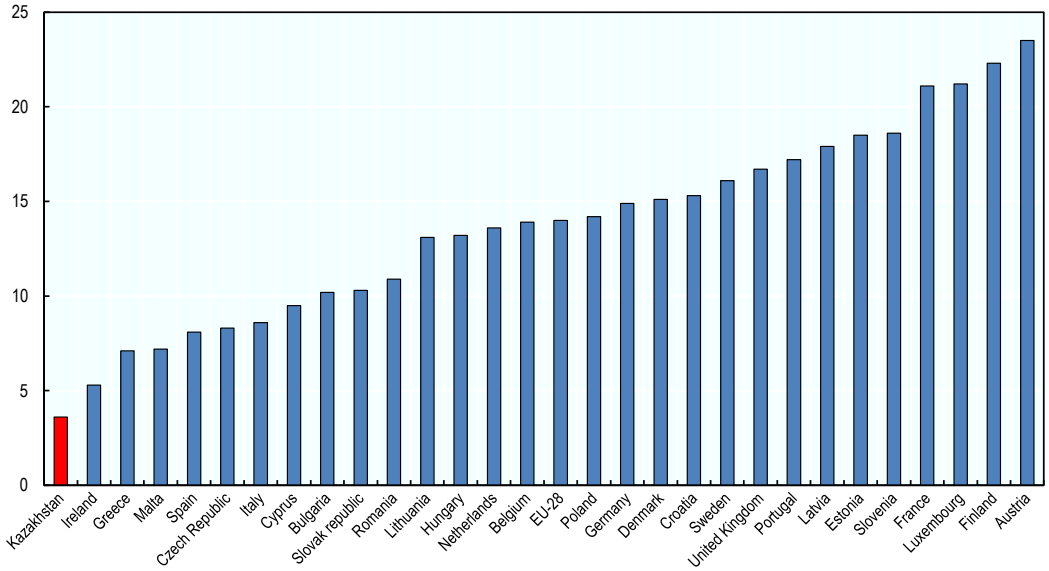
- *Strengthen the effort to improve the quality of the data available ensuring that the information collected is shared promptly*. Timely information sharing is essential for policy improvements to materialise. Different regions should be enabled to develop and trial their own creative policy responses. The outcomes of such diverse approaches should be shared among all regions in order to hasten the identification of optimal policy alternatives.

At the end of the day, the whole rationale behind the need for a comprehensive approach to disability policy rests on the importance to avoid the trap of disability benefits acting as a benefit of last resort for people potentially able to stay in, or get into, the labour market. The experience of many OECD countries and emerging economies alike shows that many people with health problems can work and indeed want to work in ways compatible with their health conditions. Therefore, engaging all disabled people with remaining work capacities in productive employment and ensuring that they are not ousted from the labour market too easily and too early is potentially a "win-win" strategy. It helps people avoid exclusion and have higher incomes. At the same time, it helps raising the prospect of more effective labour supply and supporting economic expansion in the long term. However, the international experience also suggests that achieving these potential benefits can be challenging for policy makers. This chapter builds on the key lessons from a broad range of available practices.

The labour market situation of people with disabilities

Reliable figures on the people with disabilities (PWDs) are not readily available for most emerging economies. Kazakhstan has created a centralised database for the registration of PWDs, and at the beginning of the second half of 2016, it registered about 644 200 PWDs While mildly increasing in absolute terms, this number has been fairly stable, as a percentage of the total adult population, during the recent past – at about 3.5-3.7% since 2010. Such a percentage is very low by international standards, as suggested by the fact that in the European Union, for example, the proportion of people with disabilities in the total population equals 14% (Figure 4.1). It should be taken into account, however, that the official figures for Kazakhstan likely underestimate the actual size of the phenomenon, reflecting the relatively narrow range of eligibility criteria used by the Kazakhstani administration to qualify for disability.

Figure 4.1. Percentage of people with a disability in EU member states and Kazakhstan as a percentage of the total population (aged over 16 years), 2011



Source: Eurostat and Agency of Statistics of the Republic of Kazakhstan.

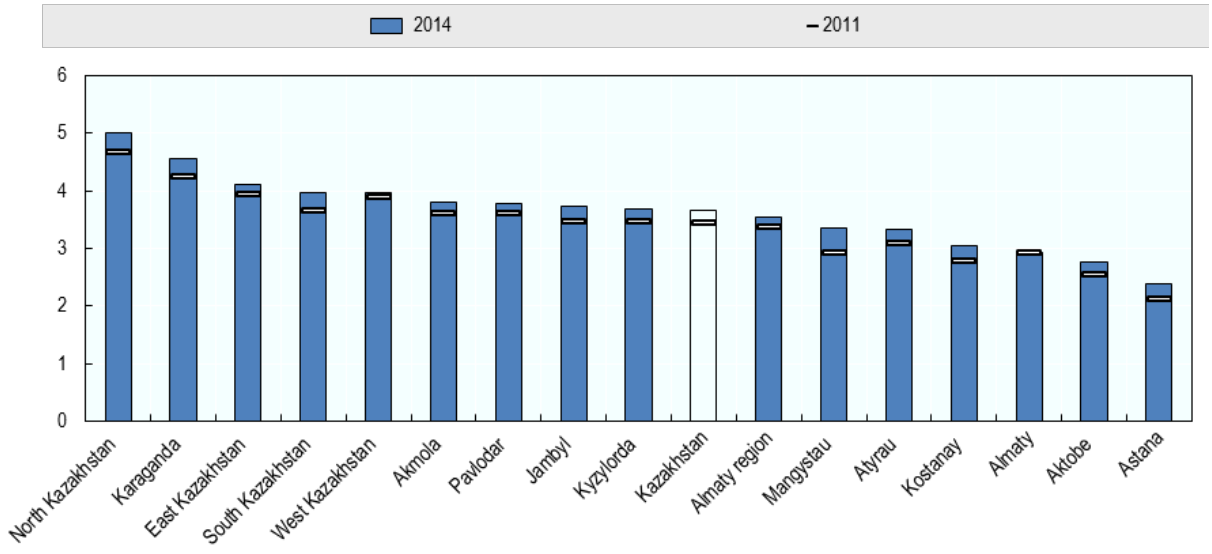
Beyond the aggregate picture, the situation of people with disability in Kazakhstan is characterised by the following key traits:

- Considerable heterogeneity across regions, with the share of people with disabilities ranging between 5% in the relatively lagging North Kazakhstan province and 2.4% in Astana (Figure 4.2, Panel A).
- The vast majority of PWDs (about two-third of the total) are in their working age (Figure 4.2, Panel B). Furthermore, 43.3%% has remaining or limited working capacity – i.e. belongs to the lowest statutory established degree of disability (Group III, i.e., people with a loss of work capacity between 30% and 59%); 47.8% to the moderate disability group (Group II, 60-79% work capacity impairment); and only 8.9% have a status as fully disabled (Group I, between 80 and 100% loss of work capacity).[1]
- Finally, people with disabilities generally have lower educational attainment than the general population. For example, only 11.4% of people with disabilities have higher education, which compares with roughly 25% for the total population (Figure 4.2, Panel C). Unsurprisingly, in such a context, disabled persons in Kazakhstan are typically offered low-paying, low-quality jobs.

Figure 4.2. Considerable heterogeneity across people with disability in Kazakhstan, 2011-14

Panel A. People with disabilities by region

Percentage of the population

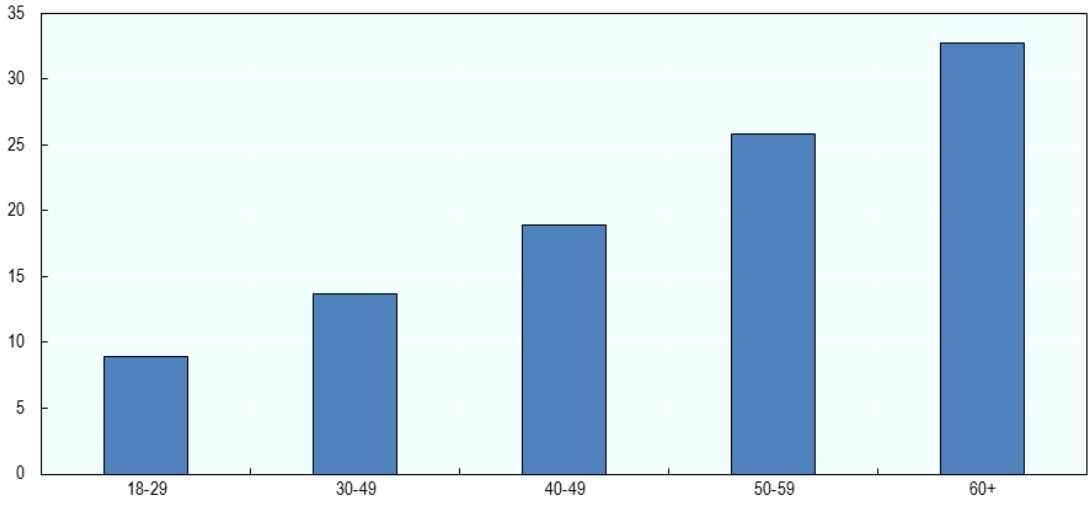


Source: Agency of Statistics of the Republic of Kazakhstan.

Figure 4.2. Considerable heterogeneity across people with disability in Kazakhstan, 2011-14 *(cont.)*

Panel B. Age distribution of people with disabilities, Kazakhstan, 2014

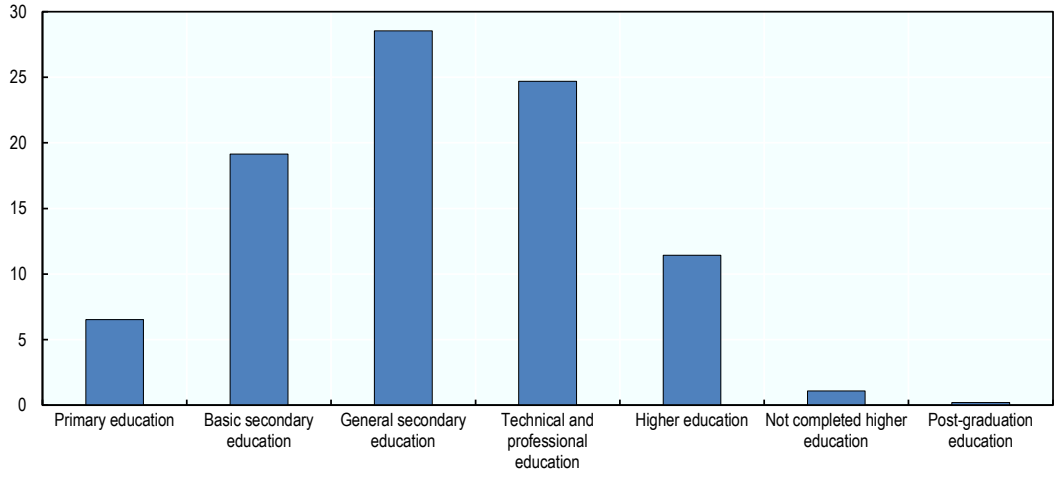
Percentage of all disabled people



Source: National Survey on People with Disabilities (2014).

Panel C. Educational attainment of people with disabilities, 2014

Percentage of all PWD

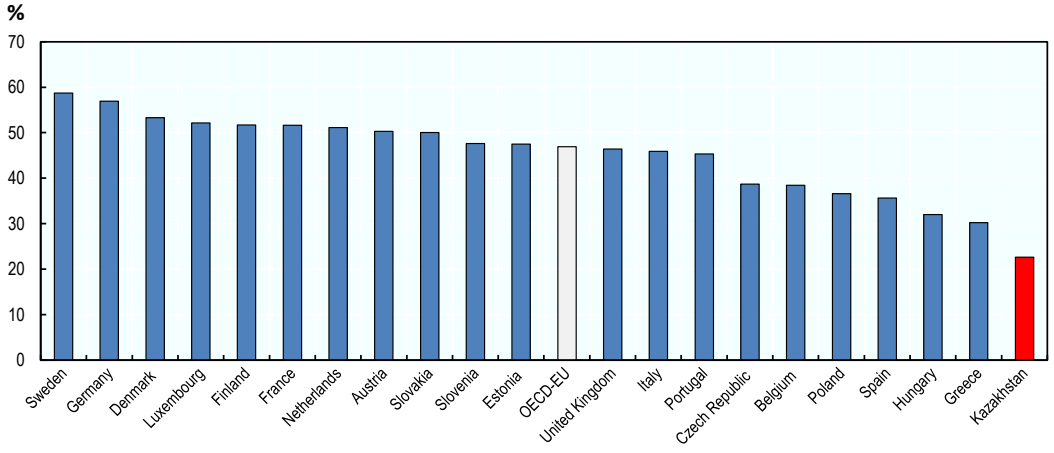


Source: Agency of Statistics of the Republic of Kazakhstan.

The latest available data show that the employment rate of people with disabilities in Kazakhstan is 22%, about half than the corresponding level for the average of the EU countries (Figure 4.3). Among those who have a job, underemployment and weak labour utilisation are key issues for concern. The share of PWDs working full-time in Kazakhstan is very low especially when compared to the general population, where full-time employment is notoriously high (see Chapter 1). At the same time, public works and social employment are the most widespread forms of employment among PWDs. About two-third of PWDs who are employed are in these jobs and typically hired on a temporary basis.

Figure 4.3. Employment rate of disabled people, Kazakhstan and OECD-EU countries, 2011

Percentage of the population



1. Data for 2011 OECD-EU; Data for 2013 Kazakhstan.

Source: Grammenos, S. (2014), "European Comparative Data on Europe 2020 & People with Disabilities", Academic Network of European Disability Experts, available at http://www.disability-europe.net/theme/comparative-data/reports-comparative-data, accessed 29 June 2015; Agency of Statistics of the Republic of Kazakhstan.

Economic and social determinants of low jobs for people with disability

The large systemic changes that have affected the Kazakhstani labour markets over the past decades have led to the emergence of new challenges for the labour market inclusion of workers with disability. Under the communist regime the state run and directly supported financially a range of special "sheltered" enterprises – often operated by the associations of disabled people – where people with disabilities used to be hired. These companies were able to provide special work conditions to their employees, ranging from adjusted salaries and workplaces, to flexible working times.

This enabled even those with severe impairments to be engaged in some productive activities.[2] With the transition to the market economy, the centralised system of state support for workers with disabilities came under heavy strains. Not only sheltered enterprises became increasingly perceived to perpetuate the segregation of people with disability, thus acting as a factor precluding their access to the regular labour market. Moreover, the decline of state subsidies and lessening business interactions with the state owned enterprises significantly altered their financial viability. At the same time, the incapacity to compete in the open market meant that only a small number of sheltered enterprises were able to survive, which permanently affected the employment opportunities of workers with more severe disabilities. Further adding to these sources of pressure, the adverse effects on the employability of low-skilled workers induced by the opening of the Kazakhstani economy to global competition and the related acceleration of technological change meant that people with disabilities were hit particularly strongly, given their lower average levels of education compared with the rest of the population.

Beyond economic transition and technological progress other factors explain the low capacity of workers with disability to participate in the labour market on an equal basis with other workers (Nesporova and Koulaeva, 2014). Typically, the availability of transportation means and mobility facilities remains limited for these workers and

generally not adapted to their needs. Many originate from poor families living in remote areas. They cannot afford to relocate or commute regularly using their private means of transport to urban centres, where they could more easily find suitable jobs but are too far away. While jobs are not easily accessible, alternative forms of work, such as teleworking, remain undeveloped.

Moreover, mainstream national education and vocational training are not well adapted to the inclusion of people with disabilities. Where training facilities exist for individuals who have been disabled from birth, or an early age, they lack vocational character or focus on obsolete competences, for which there is little demand in the labour market. Furthermore, existing vocational education facilities often lack capacity to absorb all those with education and training needs who cannot attend regular education and/or are inaccessible to many, due to distance or other mobility difficulties. This also applies to those who have vocational skills but, due to their acquired disability, cannot use them and have to be retrained.

Barriers also stem from the defensive attitude of the business sector. Indeed, the perception of private employers is generally that the costs of the special obligations that have to be met to hire workers with disability – working time restrictions, special leave and workplace adaptations, for example – largely outweigh the benefit expected both in terms of productivity and competences. Therefore, increasingly employers contend that their business requires a workplace environment unsupportive of the employment of workers with severe impairment.

Taken together, these difficulties undermine the self-esteem of many potential workers with disability. Some react by refraining themselves from seeking vocational or higher education. Others feel that the administrative costs induced by periodical visits to the local employment office are disproportionately high compared with the little support received, in terms of job placement assistance and access to Active Labour Market Programmes. Therefore, rather than seeking a job in a difficult labour market, where disability benefits are likelihood to be supplanted by lower unemployment benefits, many people with disability opt to stay away from the labour market.

Recent reforms have not gone far enough

Disability policy has evolved significantly over the past quarter of a century in most OECD countries. Although, the composition of the chosen policy mix was influenced by the specific characteristics of each country – e.g., reflecting different starting positions, institutional setups, missing links and policy priorities – all these efforts were driven by a common objective. Namely, to provide adequate and secure incomes for people who are unable to work and their families and make for good incentives to work for those who wish and can work. To address this challenge most countries have progressively expanded the array of employment instruments available for people with chronic health problems or disability. Parallel measures to more strictly control access to hitherto easy-to-get sickness and disability benefits have also been taken. Consistent with these efforts, disability has ceased to be addressed as a medical issue alone. Instead, a broader tool box, combining socio-medical instruments, is now used to assess individual conditions in most countries.

In Kazakhstan the institutional setting governing the access to disability benefits has also undergone significant transformations. Much alike the OECD countries the priority has shifted from the protection of people with disabilities through social transfers and

compensations towards the promotion of rehabilitation and social integration. Awareness of the importance of providing good incentives and supports to work for those who can work has correspondingly increased.[3] Taken together, these challenges resonate well with those experienced by the other Eastern European and Central Asian countries following the breakout of the Soviet Union.

The overarching objectives of disability policy in Kazakhstan are identified in Section II of the Kazakhstani *Constitution on the Individual and Citizen*, according to which any "citizen of the Republic of Kazakhstan shall be guaranteed a minimum wage and pension, and guaranteed social security in old age, in case of disease, disability or loss of a breadwinner and other legal grounds" (Article 28, Para. 1).

The above general approach is substantiated in the law "On social protection of disabled people in the Republic of Kazakhstan" (2005), which states that disabled people include ones who are incapacitated by a chronic illness or injuries, which result in limitations and need for livelihood and social protection. The focus on physical incapacity alone is narrower than the approach followed by the *UN Convention on the Rights of Persons with Disabilities*, which puts the emphasis on capabilities, rather than assistance alone. More specifically, the UN Convention focuses on "long-term physical, intellectual or sensory impairments" and the relevance of their interaction with various barriers, which "may hinder their full and effective participation in society on an equal basis with others". Kazakhstan has ratified the Convention at the beginning of 2015.

The framework governing the working conditions for people with disabilities is outlined in the *Labour Code of the Republic of Kazakhstan*, which was promulgated in 2007, along with several recent acts. Article 6 of the Labour Code prohibits discrimination of people with disability (and other disadvantages) in the exercise of labour rights. Besides, special work arrangements are envisaged for people with disability. Namely, those in Groups I and II can upon assessment work part-time – up to a maximum of seven hours a day and 36 hours per week (Article 69) –, whereas those in Group III can work up to 40 hours per week, the same as any other employee. Although a reduced working time entails a proportionately lower wage, it also provides the right to an extra annual paid leave of up to 15 working days.

Several targeted measures to support the access of jobseekers with disabilities to the regular labour market were introduced in 2015. The system of compulsory job quotas for people with disabilities was updated.[4] In particular, the previous legislation, which set out a fixed quota of 3% for all firms, was replaced by a scheme of multiple quotas, which vary between 2% and 4%, depending upon the size of the firm.[5] In addition, the provisions aiming to support private investment to upgrade the quality of workplaces for people with disabilities were strengthened. Contingent upon respecting certain pre-defined standards, special subsidies are allocated to these investments. Finally, the latter changes mark an attempt to engage the employer sector in the professional orientation of disabled person.

With regards to actual implementation of policies and service delivery, the entities in charge of assessing claimants' applications for benefits are the Medical and Social Expert (MSE) committees. These committees are hosted within the territorial Departments of the Committee on Labour Social Protection and Migration – of which there are 126, all reporting to the Ministry of Labour and Social Protection. Each Committee is composed of at least three members, covering both medical and social expertise. A range of medical and socio-economic criteria are accounted for by the MSE, including the client's work-limiting physical or mental conditions, behavioural

characteristics – such as self-control, learning and communication abilities – and attitude towards self-care. This process results in each client being assigned to one out of the above three groups of disability, defined by degrees of impairment. For those with a work capacity an Individual Rehabilitation Plan (IRP) is recommended, which takes into account medical, social and vocational needs for support.

The Public Employment Service (PES) is responsible to help disabled jobseekers in their efforts to stay connected to the labour market based on the recommendations formulated by the MSE. To this end, it co-ordinates and supports clients' access to active labour market policy, including by means of professional orientation and some vocational training. Furthermore, the PES monitors the enforcement of compulsory employment quotas. However, only a limited number of eligible people have access to the PES and benefit from the services that it provides. Indeed, reflecting funding limitations, the PES is understaffed in many regions and case workers often lack knowledge about the needs disabled people and employment potential. It is not known how many of the 300 additional case workers planned to be hired by the PES will be trained to provide tailored assistance to people with disability.

Non-governmental organisations (NGOs), often led by people with disabilities, are also important actors of employment promotion. They focus on protection of their members' rights and organise campaigns to abate stereotypes and raise public awareness about the social and labour challenges people with disabilities face. The overall objective of their activities is to achieve equal rights for people with disabilities and their social integration. NGOs organise vocational training programmes and support entrepreneurship activities by their members (Naukenova, 2015).

Furthermore, the Employment Roadmap 2020 foresees measures to enhance the role of vocational education and training programmes to support people with disability who can work. In 2016, 5 200 disabled individuals took part in the Employment Roadmap 2020, of whom 4 800 were placed in a job after participation in the programme (3 200 in regular jobs, and 1 600 in temporary jobs). In 2016, 289 disabled individuals took part in professional training programmes under the Employment Roadmap 2020, 139 of them completed training and 121 of them were placed, 118 of them received regular jobs; 378 disabled individuals received training on entrepreneurship skills and received microcredit loans, 104 of them actually set up their own business. In addition, in 2016 the regions supported the placement of 8 000 disabled people as part of their own Comprehensive Employment Plans.

As discussed in Chapter 2, however, budgetary limitations keep participation very low, which significantly restricts the impact of these programmes. Kazizova and Pritvorova (2013) find that of the overall number of people accruing disability benefits, only 3.5-4.0% get exposed to some vocational rehabilitation or training. Kazakhstan has yet to ratify the *ILO Convention on Vocational Rehabilitation and Employment (Disable Persons)* – 1983 (No. 159) –, which sets out the main international guideline for promoting the employability of people with disability. The Convention calls for ILO members to "formulate, implement and periodically review a national policy on vocational rehabilitation and employment of disabled persons" taking into account their national conditions, practice and possibilities.

Public works and social employment programmes play a crucial role in the tool-box of instruments that the government can use to connect people with disabilities to the labour market. Two-thirds of disabled people with a job are employed in such activities, mainly through temporary employment. Overtime, growing public works have

contributed to offset the adverse effects on the employment of disabled people induced by the declining role played by the sheltered enterprises. However, the lack of complementary vocational training inevitably means that participants can hardly transit to regular jobs in the open labour market after fulfilling their assignments.

An holistic approach to foster the employability of people with disability

In all countries, filling the gap between policy intentions and the observed slow pace of change and poor employment opportunities for people with health problems requires a strong policy engagement through a fairly long period. This largely reflects the nature of disability systems, which – unlike other social protection systems, such as unemployment benefits, for example – have to support people who cannot work as well as others with varying degrees of work capacity. Kazakhstan, where changes are more recent than elsewhere, is no exception.

Still, evidence of improving disability outcomes in the OECD countries that were able to reform their systems thoroughly suggests that good policies can do a lot to help. Reform packages which include not only improvements in employment supports but also, and perhaps more importantly, tighter access to disability benefits through stronger work incentives for workers and financial obligations for employers, have an impact in changing labour demand and supply. The annual number of disability benefit claims responds swiftly to comprehensive system change, as seen from reform in countries such as Hungary, Italy, the Netherlands and Poland. Moreover, it appears that roughly half of those no longer coming onto the disability benefit rolls stay in work even without, or with only limited, employment support. This is encouraging although it is important to understand better what is happening to the other half, many of who will probably have moved onto other inactive benefits. Thus activation policies are a first priority challenge.

The remainder of this section aims to provide the authorities of Kazakhstan with a broad, holistic set of interdependent policy instruments, which, implemented in a practical and co-ordinated manner, could help improve the impact of disability policies in the country. The framework builds on the wide range of practices that are available in the OECD countries, focusing in particular on the lessons from their recent experiences that can be adapted to other contexts, such as the case of Kazakhstan.

Averting old stereotypes

One key institutional background that sets Kazakhstan apart from other countries is the legacy of outdated language and words to describe people with disabilities. This largely relates to the fact that the old medical culture, whereby disability is frequently portrayed as tantamount to health impairment, is still very pervasive in the country. One illustrative example of this mind set is the law of 2005 on the directions for disability policy, which uses the word “invalid”. On top of being discriminatory, this terminology underscores an outdated logic whereby assisting a person with disability is essentially a matter of undergoing health treatments and medical rehabilitation. It thus contributes to perpetuate old stereotypes.

To raise awareness towards correcting this bias, a “people first” language has now become common practice in the OECD countries, in line with a practice that was started by the Nordic and English-speaking countries. Particularly, a broad international consensus has emerged for supporting the expression “person with disability”, a wording that Kazakhstan should also embrace more systematically in its legal setting. Likewise,

international practice suggests that any differentiations in regulation by categories of clients (such as, the blind and the deaf, for instance), should be avoided. By setting the tone for the policy makers, social partners, the media and others in leading positions to portray people with disabilities sensitively, the shift towards a more appropriate language helps countering stigmatisation and discriminatory behaviours.

Recognising this challenge, several initiatives have been undertaken by Kazakhstan recently to promote a less discriminatory terminology, which can play an essential contribution to support a much needed change in attitudes. For example, suggestions on amending definitions of disability are set in various national legislative acts. While a welcome step, it will be crucial to ensure that these regulatory changes be approved and implemented without delay if discrimination of people with disability is to be eliminated on the ground.[6] In addition, the social media and state bodies are encouraged to play an increasingly active role in the reduction of stigmatisation through the launch of more regular campaigns. This will help keeping the public opinion's attention on the importance to create more friendly environments towards people with disabilities.[7]

Anti-discrimination law should be strengthened

While highly symbolic, the shift towards a more balanced terminology will not on its own be enough to alter the general perception of disability and the behaviours of key players. The complementary role played by anti-discrimination is also important to ensure equal treatment of people with disability (and other disadvantages) in job promotion. As discussed above, anti-discrimination is already an integral part of the Kazakhstani legislation, as it is in most OECD countries.[8] However, no specific evaluation exists of anti-discrimination rules.

There are also reasons to believe that proper enforcement remains challenging. The Labour Code recognises two circumstances under which an employer can, on the ground of disability, refuse to hire an employee, terminate a contract, or transfer an employee to another job without her/his consent. These occur respectively, when there is a need to protect the health of the person and/or the safety of others. However, the burden of the proof is on the employers, which could lead to abuses. One way to address this risk is through a shared decision approach, involving both the employers and the workers' representatives. In Sweden, for example, social partners play an active role in supporting job retention and reintegration of workers with chronic health problems or disability through consultations which facilitate labour market mobility. Particularly, recent bargaining includes clauses to grant rehabilitation paid by the employers in exchange for a less stringent employment protection. More flexibility in wage setting in collective agreements can also be helpful to allow payment of a reduced hourly wage in cases where a workers' productivity fluctuates or is reduced due to a disability.

Completing the transition from disability assessment to work capacity assessment

As discussed above, the MSE committees are responsible for carrying out the disability assessments. In principle, the committees are enabled to conduct the assessments using an interdisciplinary approach, taking a combination of medical, social and labour market aspects into account. In practice, the committees' assessments remain very strongly focused on the medical diagnosis of the individual's loss of physical and/or mental functioning. No, or very limited, attention is paid to rehabilitation.

Such a strong bias is revealed by the fact that – although doctors in the teams receive targeted training to assess the medical, but also the social and work abilities of claimants

– reportedly the composition of most committees' teams remains skewed towards the medical practitioners. In fact, typically three out of five members are doctors, with the other two being clerical staff. Furthermore, the evidence available suggests that there seldom emerge differences of opinion between doctors operating in the same MSE team, which casts doubts on the efficacy of keeping three practitioners. A more streamlined approach would be helpful in order to enhance the capacity of the committees to cope with a large amount of applications.

Within this operational context, one important question to address is where – i.e., at which particular phase of the assessment procedures – the medical dominance of the MSE committees is stronger. Useful insights to answer this question are provided by Table 4.1, which shows the specific rates of awarded claims in 2014, distinguishing between three groups of claims, new applications, reassessments and assignments to Individual Rehabilitation Plans (IRPs). Overall, the table points to the existence of a significant mismatch in Kazakhstan between the application phase, where the focus on remaining work capacities appears to be relatively more marked, and the continued strong medical approach being applied to reassessments and the IRPs. Indeed, out of a total 247 000 people who applied for a disability assessment, only about one in five claimants were awarded a benefit at the initial examination (19.8%). In addition, the overwhelm majority of the new beneficiaries in a working age were assigned to the less severe disability groups (89% of the total, as resulting from the combination between Groups II and III). However, such a low entry threshold contrasts markedly with the evidence of a very high threshold at the re-assessment phase – where 94.6% of applicants for reassessment were awarded a disability benefit in 2014. The medical bias is confirmed by a very high rate of medical rehabilitation in the IRPs, which coexists with a very low rate for vocational rehabilitation.

Table 4.1. Disability assessments, 2014

	Total	Awarded	Awarded (work age)	Of which, by type of disability group[1]		
				Group I	Group II	Group III
1) New applications for disability status (including children)	247 100	48 900 (19.8%)	38 743	4280 (11.0%)	22619 (58.4)	11 844 (30.6%)
2) Reassessments	163 400	154500 (94.6%)				
			Of which, by type of rehabilitation			
3) Individual Rehabilitation Plans (IRPs)	248 800		Medical	Social	Vocational	
			159 400 (64.1%)	65 800 (26.4%)	23 600 (9.5%)	
			By type of rehabilitation[2]			
4) IRP completed	209 600		Medical	Social	Vocational	
			144 300 (86.8%)	46 700 (77.2%)	18 600 (68.7%)	

1. Group I, between 80 and 100% loss of work capacity); Group II, 60-79% loss of work capacity; and Group III: 30-59% loss of work capacity.

2. Figures in parenthesis are percentages of all IRPs in the corresponding group.

Source: Information provided by the Ministry of Labour and Social Protection.

One challenge underscored by this setting is that the assessments of claimants and their potential to participate in the labour market should be strengthened. Furthermore, very high rates of awarded reassessments suggest that disability benefits are accorded based on the presumption that a claimant's health status is unlikely to improve, thus permanently precluding the individual from undertaking any work activity. The fourth line of Table 4.1 shows that rates of completion of IRPs are typically very high for all type of rehabilitation. However, it is not known whether these individuals are able to find their way in the labour market or instead have their disability benefits extended, which effectively excludes them from the labour market.

Hungary, Norway, New Zealand, the Slovak Republic and Switzerland are telling examples of OECD countries that, much alike Kazakhstan today, have faced in the past the challenge to move away from the medical focus to a well-performing interdisciplinary approach. Some of these countries have opted to keep the medical file under the responsibility of the doctor, while at the same time delegating to a multidisciplinary team the assessment of the client's social characteristics, work abilities and aspirations. Such a multidisciplinary team is made up of a labour expert, a vocational rehabilitation expert and a social worker, and co-ordinated by the case manager of the benefit authority. This being said, actual practices and their focus vary considerably across countries. In some countries, physicians receive additional training to also review some non-medical criteria, e.g. restrictions in daily living activities and mobility (e.g., United Kingdom) or in vocational capacities (e.g., Belgium). Poland has gone a step further by replacing the medical expert committee, which comprised three medical specialists, with one evaluating physician, who works under the social security agency. The physician is qualified as "evaluating physician", thus has undergone special training and has received a qualification in disability assessment.

Whatever the approach chosen, it should enable exploiting better the person's remaining work capacity. The Danish system, for example, now focuses on individual remaining functions and the identification of possible jobs the person can still perform. A comprehensive individual resource profile is put together covering a range of health, social (network) and labour-market experience and proximity criteria. Health is only one of many elements involved though it is a key factor in 95% of all new disability benefit grants. Similarly, in the Netherlands disability assessment is based on the person's functional abilities which are matched to job requirements in order to determine the residual earnings capacity (with 35% capacity loss required for a partial disability benefit). To avoid premature market exclusion, the job-matching process is based on hypothetical jobs in the economy, rather than actually available jobs, a practice common to many OECD countries.

Recognising these challenges, Kazakhstan has plans to revise the form and content of individual rehabilitation plans so as to comply with provisions of the International Classification of Functioning, Disability and Health. This work will be conducted in the course of broader work to modernise the Medical and Social Expert (MSE) committee. While a welcome intention, the timeline for implementation of this plan remains unknown.

Creating pathways to early vocational rehabilitation

Too little attention is paid to people with disability who can and wish to work in Kazakhstan. Figures from the nationwide survey on disability show that only 24% of PWD have access to an IRP (Ministry of National Economy, 2014). In part, low take-ups of employment and rehabilitation programmes by those with work capacity reflect a problem in the way the rules have been conceived. Indeed, the MSE committee has no obligation to carry out the social and vocational assessment, since this is contingent upon a specific request by the client. Furthermore, it reflects a problem of limited information. Indeed, as much as 46% of the people who have replied to the nationwide survey on disability have reported not being aware of the existence of an IRP. In other words, the existing mechanisms exclude a large proportion of those potentially eligible to rehabilitation. Based on figures provided by the MSEs themselves, 70% of those who are aware of the existence of the IRP option have indeed access to it. This evidence suggests that the efforts to promote awareness campaigns – aimed to ensure that disabled people

become better informed of the activities performed by the MSE committee – could be intensified.

By contrast, OECD countries, particularly European ones, e.g., Austria, Germany, Hungary, Luxembourg and Switzerland, have for long placed attention to the integration of rehabilitation into benefit assessment. In Denmark, for example, the regulation states that possibilities for rehabilitation must have been exhausted before a disability benefit can be granted. In Austria, vocational rehabilitation became compulsory since 1996 and each claim for a disability benefit is automatically treated as a request for rehabilitation. Early intervention kicks in each time the present job cannot be resumed. A similar rehabilitation *before*-benefit principle is also applied by Hungary. In a more ambitious approach, Switzerland has shifted from rehabilitation-*before*-benefit to binding rehabilitation-*instead*-of-benefit. This shift was implemented together with measures to reinforce early intervention, as well as new measures to promote job adaptation, placement and socio-professional rehabilitation. In Luxembourg, people with partial work capacity are now obliged to enrol in training and reintegration measures. These countries have seen a slowdown of disability benefit inflows recently, though the impacts of strengthened obligations are not easy to isolate from the effects of other concomitant change.

Kazakhstan, a country that hitherto has not had any rehabilitation requirements in its system, might wish to opt for a milder version initially, to test the acceptability and impact of such approach. In the United Kingdom, for example, *Pathways to Work* helps people with disabilities or health conditions that make it difficult for them to find work. Anybody claiming incapacity benefit, income support because of incapacity, or a severe disablement allowance, automatically receives extra support through this mechanism, which can help people by providing extra money to help when they start work, provide training programmes to help people develop their skills, and provide specialist help in coping with their health condition or disability. The process involves a set of mandatory work-focused interviews, which are ordinarily set up monthly. These interviews target new benefit applicants only, even though people already receiving a disability benefit could volunteer to go through the same process. In many areas *Pathways to Work* is administrated by government employment agency – *Job Centre Plus*. In other areas it is run by private and voluntary sector organisations. One lesson from the UK experience is that support tailored to individuals and their specific circumstances is more effective than general non-targeted approaches as a tool to set out the individual's path to vocational training and job search.

Addressing challenges arising from fragmented policy structures and existing co-ordination gaps between institutional bodies is also a priority. By preventing risks of conflicting objectives and undesirable duplications of responsibilities, it helps raising efficiency. Where different players – such as the social insurance, employment offices, health care providers, and municipalities, for example – operate in silos, each driven by their own responsibilities and objectives regarding client groups, the opportunity costs due to unexploited synergies can be significant. To tackle these gaps Kazakhstan could learn from the example of Sweden, which has recently implemented measures to increase the co-ordination between the Social Insurance Agency (SIA) and the PES by encouraging the two bodies to work more closely together on clients capable of vocational rehabilitation. These changes have resulted in more positive institutional interactions, including at the local level, as staff from both agencies can now plan together the best use of available resources. In a similar vein, in 2001 Germany overhauled its well-developed but rather complex system of vocational rehabilitation by

harmonising the legal basis of service provision. Among other gains, this helped to widen the choice of vocational services to rehabilitees.

One-stop-shop service provision to help early engagement with clients

The speed of rehabilitation assessments is essential to avoid that claimants remain inactive for too long, thus risking to loose contact with the labour market. Important steps to accelerate such assessments were undertaken by Kazakhstan in 2014, when the government announced measures to reduce the number of administrative documents required to undergo disability claims. At the same time, the database of persons with disabilities was centralised within a unified register. Thanks to these measures, several MSEs were able to shorten their assessment process from ten to one day. In addition, the government is introducing measures to better manage the sharing of information between MSEs and the state social security, which will allow to significantly reducing paperwork and administrative procedures. For example, clients will no longer be requested to provide the duplicates of their identity cards since the information will be accessible from the national database. Furthermore, integration allows receiving an electronic document using the electronic signature of the service agency.

In a more decisive move towards integration, several countries have opted recently for the implementation of a one-stop-shop benefit and service provision for people with disability. In New Zealand a more co-ordinated delivery of income support and employment assistance to clients has been made possible by the merger of the Employment Service and the Work and Income Authority into the newly created Department of Work and Income. Similarly, in the United Kingdom the creation of a new agency – Job Centre Plus – that operates on a far more customer-oriented basis has provided a single point of delivery for jobs, benefits advice and support for people of working age. Norway has tried to fully merge the Public Employment Service and the National Insurance Authority into one new public administration to avoid that clients are continually shuffled between agencies.

A number of countries – the United States, Australia, Canada, Israel and the United Kingdom, for example – have recently complemented the more traditional disability assessment process using a system of fast-track procedures. The new mechanism allows accelerating claims thanks to the possibility to rely on sophisticated software and electronic processing (see Rajnes, 2012). The aim is to give priority to the claims deemed to merit special handling because of the severity of the disability – e.g., people who are blind, or with a terminal illness. Therefore, fast-track procedures typically concern a very small percentage of the overall pool of disability applicants – no more than 5%.

Complementary tools to support activation

Clients identified as being in need of help, through a timely activation-oriented assessment will, as a next step, undergo a properly identified activation process conducive to find an occupation adapted to their work capacities. In the following, a few issues in relation to the nature and structure of effective service provision are addressed.

Profiling

First, employment and rehabilitation services need to profile their clients in line with the results of assessments. International experience points to the critical importance of profiling to be sufficiently individualised and effective in bringing together all the relevant information for each client, based on medical files, the employment history, and

any services hitherto provided. At the same time, the profile should be sufficiently standardised so that its quality is independent from who had profiled the case and where it had been kept.

Australia's Job Seekers Classification Index, which is performed when a jobseeker first registers with Centrelink – the country's online account for social and health-related payment and services, including employment assistance – provides a relevant example of individual but streamlined profiling approach. It recognises the jobseeker's labour market disadvantage, identifies people at risk of long-term unemployment and, especially for people with disability, may trigger a Job Capacity Assessment. The latter in turn has a dual role, i.e. to assess work capacity and refer the person to appropriate assistance and coaching.

Norway and New Zealand are example of countries having introduced a work-ability assessment. This is a new profiling tool for all claimants, aimed at identifying those in need of more help at an earlier stage, assessing what measures would be required to maintain labour market attachment, and developing an individual action plan. Through adapted "work and income talk" with clients, it takes into account things like: the skills and attributes a person brings to the workplace; the type of work a person can do, now and in the future; the things a person can do at work; the number of hours a person can work; and a person's confidence to find work. Following the result of the assessment or profiling, clients are channelled to the most appropriate service, or provider. The type and intensity of service will vary with the clients' needs, and also partly depend on the specific service environment in a country.

Flexibly adjusted services

Services should be designed and delivered in such a way to encourage clients to move into the regular labour market whenever possible. A close relationship with caseworkers should be maintained over the duration of service use, so that caseworkers can promptly and systematically refer their clients to the services needed at each stage and continue to help them adapt to the labour market. Critically, all negative incentives – for either clients or caseworkers – that may hamper such progress should be removed.

In this regard, conflicts of interests may arise for service providers, depending on the funding system in place. For instance, service providers may have an interest in keeping clients on their programmes. Such adverse effects can be reduced by a funding scheme that focuses on outcomes rather than inputs or outputs. This is critical in countries with a weak PES or in poorer communities, where non-profit and private providers effectively assume the role of case-managers as well, thereby making it more difficult for the public authorities to oversee the process.

In a similar vein, sheltered employment – which remains widely used in several OECD countries, notably the Netherlands and Poland – can become a trap for people with disability who have a stronger skills potential. For some people sheltered employment is the only option to do meaningful work. However, there is a risk that the providers of sheltered employment hold on to their best workers, thus precluding them the opportunity to compete in the regular labour market, where they could continue to develop their competences and careers. Responding to these challenges, some countries have developed new forms of sheltered employment that are more closely linked to the regular labour market. In Finland and France, for example, the social enterprises assign special emphasis to the professional development of workers and the skills acquired while in sheltered work. To strengthen the focus on career progression into the open labour market, Norway

has set a ceiling to the share of people that can stay in sheltered employment permanently. In the Netherlands, reforms emphasise the right of access to tailor-made sheltered employment which can also be offered by regular companies. Poland and Hungary use accreditation criteria, seen as a vehicle to support the creation of suitable workplaces to the reduced work capacity of persons with disability. By fulfilling the criteria companies can apply to a special subsidy, with the right being extended to non-sheltered workplaces. At the other end of the spectrum, however, in the United States sheltered employment is no longer considered as a measure of successful employment.

Mainstreamed and specialised services

"Mainstreaming", i.e. giving people with disability access to generic employment programmes, is a policy used in many OECD countries. For instance, in Poland in 2005 disability beneficiaries became entitled to services hitherto restricted to those formally registered as unemployed. With the change in mind-sets and policy orientation, to fully appreciating a person's ability rather than concentrating on disability, general labour market services became increasingly engaged with offering services to people with disability as well. In some countries, including especially the Nordic countries, the PES or its complement became fully responsible for labour market integration of all people of working age. As such, not only are new services potentially accessible for jobseekers with disability, but also service procedures and objectives are harmonised with those used for other target groups in similar need of improved employability, such as the long-term unemployed, youth with incomplete education or older workers with outdated skills.

Key to a successful implementation of mainstreamed employment services is to ensure that new client groups are sufficiently represented in programmes. At the same time, the focus on tailoring services to individual needs implies that specialised services will also be needed. Denmark, for instance, has addressed this challenge by having one expert for disability employment in each employment office. The role that these experts play is complemented by one specialised national entity, which operates for the country as a whole by providing advice to all communities. In this way, the merits of mainstreamed services – a stronger orientation and simpler gateways to the regular labour market – are obtained without losing the benefits from special services for special needs. Other countries, for example Australia, have kept the distinction between general and disability employment services so that the latter remain provided by specialists. At the same time, they pay attention to ensuring that the processes and funding regimes are harmonised. Elsewhere, for example in New Zealand, special funds to develop innovative services are provided that can be more finely customised to the varying needs of persons with disability.

A common lesson underscored by these experiences is that adequate staff capacity, supported by sufficient funding, is essential to enable all people with chronic health problems or disability to access the regular labour market. In Kazakhstan, the already heavy-burdened PES will unlikely be able to take on the new caseloads of people with disabilities, while at the same time continue to focus on the traditional target group of unemployed clients. This can quickly turn into a difficult selection problem among conflicting priorities, particularly during a job crisis such as the current one, which implies a rise in PES caseload. In this context, Kazakhstan should consider a more ambitious expansion than originally planned of the number of case workers working in the employment agencies. Moreover, some of these additional case workers should be trained to provide specialised assistance for hard-to-place jobseekers.

Keeping the balance right between work-first and train-first services

The principle that clients should be provided with services that are tailored to their needs also applies when answering the question as to whether work-first approaches should be preferred to train-first approaches. Thus, clients who are already job-ready will benefit most from ordinary employment-oriented services. At the same time, less skilled clients, typically most in need of training and pre-employment services should be priority candidates to receive vocational rehabilitation and other educational measures. This being said, available assessments of vocational rehabilitation measures show fairly mixed results, with employment outcomes ranging between 20% and 70%. Several studies report evidence of creaming or selection effects as driver of good results, alongside lock-in effects – participants who do not look for a job intensely during the rehabilitation period and therefore remain locked into non-employment. Other works report positive results of educational measures on the probability of returning to work (e.g. Bach, 2007; and Westlie, 2008), particularly targeted training (and also other social or medical programmes) for those people who cannot return to work immediately. Yet in order to be effective existing vocational rehabilitation measures need to be complemented by employment orientation (Ireland), including with a focus on trial work, as is being used increasingly in Norway, for example.

Several countries, such as Sweden, for example, have in recent years refocused their employment services away from education and towards work-first measures and wage subsidies. Finland and Denmark offer interesting examples on the effectiveness of wage subsidies for people with disability. The small-scale, well-targeted system in Finland was shown to be effective, but it helps very few people. By contrast, Denmark's system of heavily and permanently subsidised jobs is large-scale (offering employment to some 5% of the labour force), but comes with significant substitution and deadweight loss – effectively subsidising a transition to part-time employment. This suggests that there is a balance to be maintained between size and degree of targeting of a scheme. This partly explains the effectiveness of supported employment models, which place people into work first, followed by ongoing support on the job by a job coach so as to ensure a sustainable placement.

Towards more effective uses of employment quotas

Evidence by Kazizova and Pritvorova (2013) suggests that in Kazakhstan only about 34% of all jobs expected to be covered using the quota system are filled by employees with a disability. This underperformance has several explanations. Firstly, quotas are often used to keep the jobs of existing workers, particularly people with emerging health problems, rather than to hire jobseekers with health problems or disability. Moreover, the employers' perception of contractual obligations is that they are too burdensome and excessively onerous, thus hampering their willingness to take on any new workers with health problems. For example, these include accommodation costs and potential costs arising from increased chances of lawsuit in case of contract's termination. Furthermore, fines are difficult to enforce in practice. Employers usually declare that, although they have tried, they have been unable to recruit people with disability in the labour market because of lack of candidates with adequate qualifications. Collecting the information needed to contradict these claims can be hard. All in all, these explanations show that, if not finely managed, the quota system can inadvertently reduce the employment opportunities of unemployed people with disabilities.

The problem is not specific to Kazakhstan. It is common to many OECD countries, although the design of quota schemes varies considerably, depending upon the type of targeted companies – private vis-a-vis state-owned –, the minimum size from which the quota applies, the rates and the sanctions for non-compliance (Table 4.2). Evaluation of the impact in Austria and Germany, two countries with relatively high quota enforcement and fulfilment (OECD, 2010), confirms that the quota helps workers who are developing a disability to stay in work, more than it supports the integration of jobseekers with disability, so that the net employment effect is negative (Humer et al., 2007).

Table 4.2. Key features of the quota systems in selected OECD countries

	Employment quota (percentage of all employees)	Sectors	Minimum size of enterprise (number of employees)	Sanctions in case of non-compliance
Japan	2%	All	>55	Yes
Belgium	3%	Public	>20	No
Ireland	3%	Public	No minimum	No
Germany	5%	All	>20	Yes
Poland	6%	All	>25	Yes
Italy	7%	All	>50	Yes

Source: Fuchs (2014); Department of Work and Pensions (2014); Sakuraba (2014); Prins and van Vuuren (2015).

There are no obvious solutions to the above pitfalls. Where policy makers have responded by adopting an integrated approach, involving not just actions to improve enforcement of the quota system, but also other employment promotion measures, such as vocational rehabilitation, for example, results have been encouraging. A combined approach seems particularly indicated for the countries where law enforcement is comparatively weaker. International practices also underscore the critical importance to set out the structure of incentives in a way that is acceptable for all parties involved – people with disabilities, employers and the state. The latter issue will be addressed further below.

Quotas have to be fixed realistically. This is particularly important in Kazakhstan, given the presence of wide differences in the structure of labour markets across regions and sectors. One option could be to provide the local executive bodies (*akimats*) with some discretion to influence the local quota rates, rather than to have one national rate. To better reflect specific circumstances and capacities to provide suitable jobs for people with disabilities, the local quotas could be set out following a concerted dialogue process, involving the *akimats*, the representatives of the social partners and the associations of people with disabilities.

Ensuring that the quota system supports the placement of those with more severe impairments is also a key. To this end, a range of viable international solutions and good practices are available to Kazakhstan. Germany and France, for example, fix the quotas only for hard-to-place people with disabilities, while using other promotion measures for people with light disabilities. Alternatively, there could be two quotas, namely one for people with disabilities in general, within which a special sub-quota for people with more severe impairments could apply.

In order to strengthen enforcement, some decisional freedom could be left to the employers as to how to fulfil the regulations, taking into account the specific

circumstances of the company. If, for example, due to the limited range of skills available, an employer is unable to hire enough people with disabilities to meet quota level, she could opt for the payment of a levy, rather than being forced to pay a fine. The revenues from the collection of the levy could be used to the finance apprenticeships or on-the-job training programmes for people with disabilities. As an alternative to the payment of the levy, the employer could decide to subcontract part of her company's production to the network of social enterprises, or to buy products from them.

Promoting the scheme and monitoring its performance will require the support of the PES. This includes through enabling the PES to provide information to the employers about levies and the imposition of fines, appropriate advice on workplace adjustments to suit the needs of people with disabilities, the subsidies available to their realisations and how to create special vacancies for disabled workers. Information campaigns could be launched to raise the business sector's awareness about the quota system.

Set out disability benefit as a transitory payment

Except for a few people with severe health problems, disability benefit, like other working-age benefits, should be a temporary payment. To implement this principle many countries, including Austria, Germany and Poland, follow the practice to reassess entitlements at periodic intervals. Similarly, in Kazakhstan, re-examination of an (adult) recipient may take place after half a year, one year, or two years, depending upon the type of disability and the age of the recipient. However, Table 4.1 above shows that "denial rates" are very low in re-assessments, with only 5% of claimants being found to be no longer eligible, reflecting improved health/disability status. This evidence suggests that entitlements are permanent for an overwhelming majority of recipients. At the root of the problem is that the MSEs evaluating commissions are heavily understaffed, with some commissions having to cover as many as 15-20 000 clients in several regions, a number that remains increasing, particularly in the countryside (Kazizova and Pritvorova, 2013). In this context, evaluation procedures are to a great extent relegated to a "box ticking" exercise, largely based on the review of the medical dossier provided by the treating health professional. Face to face contact between the commission and the disabled person is minimal.

Particularly under presently tight budgetary conditions, one option available to Kazakhstan could be to replace the system of re-assessments at fixed time intervals with a more flexible system. In the Czech Republic, France, Hungary, the Slovak Republic, the United Kingdom and most non-European countries benefits are granted for a defined period, whose length is determined at the time of the assessment; at each re-assessment, the period until the next review is set. In the United States, for instance, this period ranges from 6-18 months if medical improvement is expected to every seven years if no such improvement is expected. Other countries do not set the review period initially but instead review entitlements at irregular intervals.

Staying on disability benefit for a long time is particularly harmful for younger people, who have more to lose in terms of reduced opportunities for better social and economic integration. It also appears that improved work capacity despite an unchanged medical condition could be quite frequent particularly at young ages, thanks to the ability to manage conditions more quickly than adults – e.g., a mental health condition – and because youth are better off in terms of handling conditions at the workplace. In this context, there is increasing recognition that granting a disability too early in life is counterproductive. Denmark has recently discussed the option to replace disability benefit

for young people by a more active regime. In the Netherlands the benefit scheme has recently been split into two phases: 18-27 year-olds are given a mandatory "participation plan", either work or study with a wage or study subsidy, with intense job-seeking support and job coaching. Only at the age of 27 is a final assessment performed to establish their degree of disability (i.e. the degree of earnings capacity loss with respect to the minimum wage). Disability benefit grants at a very young age indeed seem to steer people with disability into benefit dependence. While differences across OECD countries in disability beneficiary rates of the 20-34 year-olds are stark, they are below 0.5% of the corresponding population in countries which require labour force experience for their main disability programmes (e.g., Austria and Germany).

Making incentives work

Subsidies are the most commonly employed policy measure in OECD countries for promoting employment opportunities for people with disability. Employers who, by referral of the PES, create or retain jobs for people with disabilities may be compensated financially in two ways: i) subsidies destined to support the costs of making accommodations to a workplace; and ii) wage subsidies supporting the costs of employing a worker with a chronic health problem or disability. Although there is considerable overlap, the former are more often used to retain workers, while the latter for stimulating new job hires. The risk typically faced by a scheme providing a generous and permanent wage subsidy is to encourage employers and employees to transform a full-time job into a subsidised part-time position.

Workplace accommodation subsidies have gained momentum during the spreading of anti-discrimination legislation across OECD countries. The main lesson is that the notion of workplace accommodation is much broader than the elimination of technical and architectural barriers, as such. While the latter is an essential objective, workplace accommodation involves a range of interdependent components, which also need to include training measures (before and after recruitment of a person with disability), on-the-job assistance and awareness-raising coaching for managers and co-workers. It is the package of these components that should constitute the target of the subsidy. As a move in the right direction, from 2018, when Law No. 482-V "On Population Employment" (dated 6 April, 2016) will enter into force, subsidies will be provided to employers who will take measures to reduce technical barriers, thus facilitating the accessibility of disabled employees to their workplaces.[9]

As far as the wage subsidies are concerned, those systems that are well targeted to the needs of the employer and the employee and flexible enough to reflect the person's work capacity, including progress achieved over time, are most efficient. For example, effectiveness increases when the level of the subsidy can be differentiated according to the assessed work ability of the person, rather than being set at the same share of the compensated wage for all cases. Moreover, the subsidised share could gradually decrease in line with the experience gained and the skills acquired as these are reflected in productivity. Several countries have interesting systems in place:

- The Swedish employment agency offers a flexible wage subsidy mainly for new recruitments. The subsidy can cover up to 80% of the wage cost for a period of up to four years. The level of the subsidy is determined by the degree of work capacity, as assessed by the agency, and adjusted regularly in line with changes in the individual's capacity.

- In Luxembourg the PES operates a wage subsidy that lasts three years. To extend the subsidy an employer must re-apply and prove that the productivity of the person has not progressed.

One major issue for wage subsidy schemes is to avoid moral hazard effects. If the subsidy is too generous and/or easy to claim, this is likely to raise deadweight losses by encouraging the employers to apply for the subsidy for vacancies which could be filled without support. Finland is very strict in terms of conditions to be fulfilled by the employer, which has enabled to stimulate employment in subsidised firms without distorting competition or crowding out employment in non-subsidised firms. Despite the risk of deadweight losses, one key open issue with wage subsidies remains stimulating their use. Indeed, take-ups are often low, be it because payment periods are set too short and inflexibly, low payment levels, narrowly defined target groups and/or burdensome procedure to justify eligibility. Like in the case of the quotas, information campaigns can be very helpful to increase employers' awareness of available state subsidies to facilitate contracting disabled job applicants.

Another important challenge facing governments is how to adapt the tax and benefit regimes for persons with disability to provide them with the best financial incentives to take up jobs, remain in work and increase work effort. Promoting work incentives for people on disability benefits has been pursued by several OECD countries. This was a high priority in the United Kingdom, which introduced a special tax credit in 1999, later on merged into the general Working Tax Credit. To ensure that work pays, the system provides a wage top-up for people with disability working at least 16 hours a week in low-paid employment. The Netherlands uses a de facto permanent in-work benefit for individuals with partial or temporary disability through a wage-related benefit payment. To address the low take-up problems often associated to such tax schemes, some countries have adopted measures to make it easier to combine disability benefit receipt with income from work, sometimes by introducing or increasing earnings disregards (e.g., Ireland, New Zealand, Portugal and the Slovak Republic). In addition to the combination of work and benefits, countries have sought to promote employment of people with disability by extending the possibility to put the benefit on hold while trying work for a certain period of time and being able to return to the benefit without reassessment. Such possibility was extended to two years or more at the end of the 1990s in Finland and Norway and more recently in Canada and is now possible without any time limit in Denmark and Sweden. Finally, a few countries have introduced special rehabilitation benefits paid at a higher level than disability benefit to encourage people to take employability-improving rehabilitation measures (e.g. Norway and recently Hungary).Political economy considerations

Sickness and disability system reform is a huge task, for several reasons. First, the underlying policy goals are potentially contradictory: to provide income security during periods of short or long-term work incapacity, while at the same time helping people to stay in the labour market or to enable them to return to it as quickly as possible. Second and partly related to this, the group of people to be helped is extremely heterogeneous, requiring a wide range of different forms of incentives, supports and services to be provided by one and the same system. Third, the group of stakeholders involved is broader than in other policy fields; not only are social and employment issues at stake but the medical sector is also involved, both in assessing eligibility and in rehabilitating workers. Fourth, changing one parameter of the system (e.g. eligibility assessment) can have complex effects on other parameters (e.g. early intervention). Finally, reforms of

other social assistance and social insurance systems often have a major impact on sickness and disability benefits, which have become in several cases the "benefit of last resort".

For these reasons, it is difficult to make structural system reform happen. Successful change not only needs the right elements of reform but also has to pay sufficient attention to the way in which reform is being argued, designed and put in place. An issue that arises when governments are considering comprehensive reform is the ability to communicate clearly and convincingly to stakeholders both the need for reform and the desirability of the proposed solutions. The rigor and quality of the analysis underlying a reform can affect both the prospects for its adoption and the implementation and the quality of the policy itself. At any given moment, the political context will also influence the reception by the general public, by stakeholders and by policy elites of any particular piece of analysis and policy recommendation.

Quality data and benchmarking

Quality data have to be collected in order to generate enough attention to benchmarking outcomes and policies against other countries. Placed in a comparative context, policies, institutions and practices that seem normal can come to be looked at through more critical lens. By stimulating a political discussion, these new lens can catalyse a consensus on reforms as much as possible capable to prevent people flowing onto long-term disability benefit. A major challenge in Kazakhstan is the lack of data on the outcomes of active labour market policies for people with disability, and where data exist, the limited flow of information across institutions and governments. The reasons behind include the relatively short history of employment and rehabilitation measures for persons with disability; the local nature of services; and the lack of proper incentives of service providers to innovate and seek information about better services elsewhere. Yet the shift towards a more employment-focused disability policy implies that the need for better and comparable data based, on international standards, will become ever more evident.

As soon as quality data are produced, sharing of information must follow for policy improvement to materialise. Different regions can develop and trial their own creative policy responses, and the outcomes of such diverse approaches be shared with others experiences in order to hasten the identification of optimal policy alternatives. This could generate healthy races to the top between performing regions or localities. Denmark and Switzerland have recently tried to achieve better overall results by publicising and sharing process outputs and employment outcomes obtained by municipal job centres (in Denmark) and regional disability benefit authorities (in Switzerland).

Trial-and-error, experiencing new regional schemes and approaches, or pilots in a few service units, can be a useful approach before a country-wide roll-out. This is often done in the United Kingdom, for instance. But in order to benefit from such an approach, and to minimise the probability of error when rolling-out the scheme, the trial needs to produce enough benchmarking evidence to inform the ultimate roll-out. To the extent possible, evidence should be based on rigorous scientific evaluation with a comparison/control group. For instance, a country may initially decide to set aside, say, 5% of total spending for programme evaluation, as was done as a part of general labour market policy reforms (the Hartz-reforms) in Germany. This has had a major impact on the amount of evidence available and, in turn, led to a complete overhaul of many labour market programmes.

Notes

1. Order of the Minster of Healthcare and Social Development of the Republic of Kazakhstan, dated 30 January 2015, No. 44.
2. See Nesporova and Koulaeva (2014) for a broader discussion.
3. The framework for accession to disability benefits was initially set out in the "Rules for carrying out the medical and social expertise", Decree No. 750, 20.07.2005, of the Government of the Republic of Kazakhstan. Subsequent amendments include the rules on "Approval of the medical-social expertise", Government Resolution No. 1113, 29.11.2008. Implementation guidance were defined by the Minister of Health Care and Social Development through two orders, respectively No. 759, 27.12.2013, on the "Standard organisation of medical rehabilitation of the population of the Republic of Kazakhstan" and No. 26, 22.01.2015, on "Issues of rehabilitation of persons with disability.
4. Law "On introducing changes and additions in some legislative documents on migration and employment", nr. 421-V from 24/10/2015.
5. Specifically, the new scheme includes three quota rates: i) 2% for firms employment between 50 and 100 employees; ii) 3% for firms in the range between 100 and 250 employees; and iii) 4% above 250 employees.
6. See the "Action Plan on Ensuring Rights and Improving the Quality of Life of People with Disabilities in the Republic of Kazakhstan 2012-2018", whose third stage of approval was endorsed by the Decree of the Government of the Republic of Kazakhstan dated 14 April, 2016. No. 213). The plan is that the newly suggested definitions be analysed by the Republican Terminology Commission of the Government of the Republic of Kazakhstan in the near future.
7. According to the Ministry of Information and Communications, thousands of media products were produced under the "Action Plan on Ensuring Rights and Improving the Quality of Life of People with Disabilities" in the period 2012-18. The regular invitation of people with disabilities in TV programmes is encouraged.
8. Among the first OECD countries to establish such legislation were Canada in 1985 through the Canadian Charter of Rights and Freedoms and the United States with the 1990 Americans with Disabilities Act (effective 1992). In many European countries, a ban on discrimination on the basis of disability was implemented more recently as part of the EU obligation to adopt similar legislation. In some countries, legislation was first introduced softly and then strengthened gradually in terms of scope and eligibility. In the United Kingdom, for instance, the Disability Discrimination Act was initially implemented in 1994 but the employment rights part came into force only a few years later; in another round of change, the latter was extended to cover a larger number of companies including smaller ones. Also the United States, with its latest reform, recently aims to reach a larger group of people.

9. The state budget is planning to allocate KZT 207 million in 2018 and KZT 1 413 million in 2019 to support the initiatives undertaken by the business sector to reduce technical barriers.

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(81 2017 07 1 P) ISBN 978-92-64-27560-7 – 2017

Building Inclusive Labour Markets in Kazakhstan

A FOCUS ON YOUTH, OLDER WORKERS AND PEOPLE WITH DISABILITIES

Kazakhstan has made major economic and social advances in the past decade and a half. Yet, Kazakhstan needs to sustain high growth rates in the future to converge towards the living standards of OECD countries. This report provides a review of the labour market and social policies that could help Kazakhstan in its dual objectives of building more inclusive labour markets, while maintaining a path of strong growth. It explores the role that institutions and policies play in helping vulnerable groups to access gainful and productive jobs, particularly focusing on three key groups: youth, older workers, and people with disabilities, and provides a comprehensive set of policies to increase the employment and employability of these groups. Evaluations and lessons from innovative experiences in OECD and other countries are used to formulate recommendations tailored to Kazakhstan.

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ISBN 978-92-64-18844-0
81 2017 07 1 P

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