

Emerging labour market policy in Kazakhstan

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PREFACE

Kazakhstan promises to be a major country in the twenty-first century. Its land area is approximately the same as the whole of the European Union, and it has rich natural resources, as well as a reasonably well-developed industrial and agricultural base. Yet in the immediate future it faces enormous problems as it transforms itself from its former status as an element of the centrally-planned Soviet Union.

In that process, the labour market will surely undergo profound dislocations as it emerges as a basic feature of a new type of economy. As in other Central Asian Republics, the type of labour market that will emerge and the institutions underpinning it are far from being determined at this stage. The following paper is a contribution to a debate on what should be the contours of the labour market and the policy framework. It is anticipated that the ILO will work on the issues raised in the paper in more detail in the coming year, and its publication coincides with the establishment of a new ILO office in Almaty. We wish those working in and for it, most notably our colleague, Jim Windell, every success.

This paper is the result of fieldwork undertaken with ILO regular budget funding and financial assistance from the World Bank. It will be followed by a report on the results of an enterprise survey assessing the employment difficulties faced by workers with disabilities.

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1. Introduction¹

With the dissolution of the former Soviet Union, Kazakhstan became independent in 1991. It has a population of 17 million inhabitants and ranks second only to the Russian Federation in size. Kazakhstan, whose land area roughly equals that of Western Europe, stretches from the Caspian Sea to China. Despite its vast territory, the country is landlocked, and depends on its neighbours for access to international markets. Yet Kazakhstan has substantial economic potential. It is a significant producer, and exporter, of agricultural products, and it has a relatively developed industrial base geared mainly towards heavy industry, petrochemicals, agro-processing and textiles. Furthermore its reasonably well-educated workforce and rich natural resources - including oil, gas and nonferrous metal - make the country potentially the most important economic power in Central Asia.

In 1991 Kazakhstan's leadership embarked on a programme of market-oriented reforms, but the transition to a market system has been accompanied by many difficulties. During the 1990-92 period, Kazakhstan suffered a cumulative decrease in output that amounted to about 30 percent in real terms. Demand was negatively affected by a large drop in investment, a cutback in defense expenditures, and by depressed consumption levels reflecting the decline in real wages. Furthermore the collapse of foreign trade that followed the dissolution, first of the CMEA, and then of the Soviet Union, and the elimination of state orders all disrupted the established supply and product market links. Their impact on the economy was devastating because of the extreme integration of production in the former Soviet Union.

Kazakhstan also suffered from the inflation that swept through the ruble zone. Following decades of price stability, consumer prices increased by about 150 percent in 1991, then rose more than 25 times during 1992. Not surprisingly, price liberalization against the background of a sizeable monetary overhang and monopolistic market structure generated a steep change in the price level. But credit expansion was the main impetus to a continuous surge of inflation throughout the ruble area.

The free fall of the economy continued unabated in 1993. The rate of decline of GDP in the first half of the year accelerated slightly on 1992's fall of 15 percent. At the same time, prolonging the trend of the last quarter of 1992, monthly inflation rate increases remained as high as 30 percent during the first four months of 1993, before slightly declining to about 20 percent per month in May-August 1993. Then inflation speeded up again in September and October, before Kazakhstan introduced its own currency, the Tenge, in November 1993.

The rise in prices has caused considerable hardship to the population. Under hyper-inflation real wages have declined sharply and the real value of available social benefits has eroded. A growing number of people are living in absolute poverty and high unemployment is anticipated.

Kazakhstan faces major economic and social challenges in the near future. To reduce inflation and renew growth in the economy, the government is now planning to strengthen macroeconomic stabilization measures and accelerate the implementation of structural changes. The reforms are expected to involve the release of the currently "hidden" unemployed and the closure of inefficient enterprises. The functioning of the labour market will need to improve in order to cope with the likely increase in unemployment and to respond to the need for employment restructuring. At the same time, the people must have the means to adapt to the changes. Labour market policy, if appropriately

¹ An earlier version of this paper was prepared as a contribution to the World Bank draft report, "Kazakhstan: Social Safety Net, Issues and Reform Options in the Context of Fiscal Contraction", in September 1993. The views expressed in the paper are the author's and they do not necessarily reflect those of the World Bank. All the information and data presented in the paper were collected during field work in Almaty in September and December 1993. Data on output, employment and wages were provided by the State Committee of Statistics, and information on unemployment, labour market programmes and the Employment Fund were obtained from the Ministry of Labour. Special thanks to Richard Anker and James Windell for their comments.

designed and implemented, could serve both objectives: it helps mitigate the hardship of job loss, while facilitating employment adjustment through job-search assistance, retraining and redeployment of labour into more productive activities.

Against this background, the purpose of the paper is to review recent employment developments and to assess the existing pro-active and compensatory policies. The first section describes trends in employment by sector, industry and ownership. In addition, it attempts to identify those groups which are particularly affected by emerging open unemployment. Labour market programmes are examined in the following section, focusing on whether the current policy priorities are compatible with the needs of employment restructuring. The last section looks at the financing of labour market programmes. It tries to explore how appropriate funding could be secured under the double pressure of growing unemployment and binding financial constraints.

2. Employment restructuring: a hesitant start

Despite the dramatic decline in output over the past three years, the level of employment has so far been maintained, with unemployment (registered and unregistered) reaching about 3 percent of the labour force by mid-1993. Labour retention was made possible by real wage cuts caused by the lagged adjustment of wages to hyper-inflation and by relatively easy access to bank financing.

According to official statistics, employment increased from 7.29 million in 1990 to 7.57 million in 1992 (Table 1). In the past, more than 96 percent of the employed people in Kazakhstan worked in the state sector. This pattern has been changing rapidly since the late 1980s. The employment share of the non-state sector increased from 4 percent in 1985 to 7 percent in 1990, and then it jumped to 28.5 percent in 1992. Declining production and employment in state enterprises, commercialization and privatization², and the emergence and growth of an autonomous private sector have all contributed to this spectacular trend.

6 The most dynamic segment of the economy is the private enterprise sector (including the self-employed, contract workers, and the unpaid family members working in rural households), which comprised about 1.15 million people (15.2 percent of the total labour force) in 1992. The official statistics, however, may exaggerate the growth of the non-state sector. First, many people classified as self-employed have only registered their business with the authorities, but they are not yet in operation. Second, anecdotal evidence suggests that the private sector employment is primarily on a part-time basis. For example, many temporary and part-time workers often work only a few hours a day in the private economy in addition to their regular job in state enterprises, or they undertake private sector activities only while on forced leave in their main job. Third, the unpaid family worker is an obscure category, not necessarily reflecting private sector employment. For these reasons the above numbers should be interpreted with caution, though clearly private sector employment is on the rise.

2

Privatization measures so far have been limited to small enterprises, mainly through buy out by workers, and to a combination of leasing and commercialization of a few medium and large enterprises. By February 1993, out of the 33,000 state enterprises approximately 6000 had been commercialized or privatized. Of these 6000, 67 percent were small enterprises (Bang, 1993).

Table 1: Employment, 1985-1992

	1985		1990		1992	
	'000	%	'000	%	'000	%
State enterprises & organizations	6719	96.0	6775	93.0	5410	71.4
Lease enterprises	-	-	-	-	344	4.5
Joint-stock companies	-	-	-	-	251	3.4
Economic association	-	-	-	-	12	0.2
Public organizations	-	-	-	-	33	0.4
Joint ventures	-	-	-	-	7	0.1
Cooperatives	281	4.0	500	6.9	366	4.8
Private enterprises (incl. self-employment temporary and contract workers, and unpaid family workers)	-	-	13	0.1	1149	15.2
Total	7000	100.0	7288	100.0	7572	100.0

Source: State Committee of Statistics, Kazakhstan.

The statistical data on the state sector are probably more reliable. The employment decline in the state sector varied sharply by industry (Table 2). The largest absolute drop since 1990 occurred in construction, which shed 213,000 (or almost a third of its) workers, followed by transport, which contracted by 16 percent, or almost 120,000 workers. In industry, an employment decline of 7.6 percent from 1990 to February 1993 compares with an output fall of over 30 percent, indicating an increase in the level of hidden unemployment. The one area of significant employment expansion in the state sector was agriculture. It took on an extra 51,000 workers, no doubt in response to the agricultural recovery brought by good weather. Although representing a very small share of state sector employment, it is noteworthy that the banking and insurance sector expanded during this period because it might suggest some movement towards more market-oriented service activities.

The rise in prices has caused considerable deterioration in living standards. Despite large wages increases to compensate workers for price liberalization, wages have failed to keep pace with inflation. While the government raised minimum wages and public sector wages by 90 percent before the January 1992 wave of price liberalization, this was not enough to compensate workers fully: the real value of wages continued to fall throughout 1992. For the year as a whole, real wages fell by 30 percent compared to 1991. In the first half of 1993, average wages rose by about 10 percent per month compared to an inflation rate of at least 20 percent per month.

Table 2: Changes in Employment (State Sector), 1990-93

	1990	FEB. 1993 Change in Empl. from 1990	FEB. 1993 % Change in Empl. from 1990
National Economy	6476	-839	-12.9
Industry	1360	-103	-7.6
Agriculture and Forestry	1215	+51	+4.2
Construction	745	-213	-28.6
Transportation	610	-120	-19.7
Communications	89	-8	-9.0
Trade	530	-74	-14.0
Other activities in material production	128	-50	-39.1
Housing and other utilities	258	-107	-41.3
Health and Social Security	438	-26	-5.9
Education	737	-119	-16.1
Culture and Art	116	-46	-39.7
Science	109	-36	-33.0
Banking and Insurance	39	+6	+15.4
Administration	102	+6	+5.9

Note: Without Cooperatives, Collective Farms, Joint Ventures, Small and Private Enterprises.

Source: State Committee of Statistics, Kazakhstan.

The decline in real wages and in real minimum wages³ has been accompanied by widening wage differentials. Wage changes varied markedly across sectors. All wages experienced sharp accelerations in nominal changes in response to accelerating inflation but at sharply different paces. For example, average industrial wages rose twice as fast as wages in health and education between 1990 and 1992.

Although unemployment is not an unknown phenomenon in Kazakhstan, it was first officially recognized when the Law on Employment went into force in July 1991. In the second part of 1991 four thousand unemployed were registered. The following year the number of unemployed increased, and by December 1992 there were 34,000 recorded jobless (0.5 percent of the labour force). In 1993, the unemployment figure first climbed to 40,000 by April and then declined to 37,000 by August (Table 3). The trend in the number of vacancies followed an opposite pattern: the number of vacancies dropped from 85,000 in October 1991 to 44,000 in January 1993 and then increased to above 60,000 in May 1993. The demand for labour was greater in industry and agriculture than in other parts of the economy.

Table 3: Registered Unemployed and Vacancies, Jan.-Aug. 1993

	Registered unemployed	Registered unemployed receiving benefits	Registered vacancies
January	35253	17226	43884
February	37171	17796	45306
March	39315	18504	48155
April	40563	19171	57987
May	39426	18571	61750
June	37557	17600	63988
July	37299	16945	68266
August	36817	16594	65954

Source: Employment Service, Kazakhstan.

The level of unemployment and the number of redundancies suggest that large-scale industrial restructuring and labour shedding have not started yet. During the first part of 1993, 4281 firms reported having redundancies. This involved 24,600 workers and employees, representing a 2 percent layoff rate in the enterprises concerned. 61.3 percent of the laid-off workers were women and 25.8 percent were young people under the age of 30. Displaced workers were the main source of unemployment, accounting for 37 percent of the registered unemployed in mid-1993.

Further insights into the sources and nature of the rise of unemployment can be obtained by analysing the composition of the jobless by sex, age and skills. An examination of these characteristics is also useful in determining appropriate labour market policies for target groups. The Kazakh employment service registered 40,500 unemployed between January and June in 1993. The vast majority of the unemployed (70 percent) are women. More and more young people under the age of 30 are also registering as unemployed (49.9 percent of total unemployment). In some regions they make up the bulk of the jobless: almost 80 percent in Turgai and over 60 percent in Kustanai. About a third of the unemployed are skilled workers; non-manual workers and specialists account for 25 and 10 percent of the unemployed, respectively. Urban dwellers represent 50 percent of the workless population and a large proportion of the unemployed (32 percent) have worked for more than ten years. Taking into account the composition of the labour force, it would appear that women, young people and urban dwellers face the highest risk of unemployment.

There are significant regional differences in the level of registered unemployment. In the Northern and Central part of the country unemployment is almost unheard of (0.2 percent), while in Western Kazakhstan the unemployment rate is close to 1 percent. In seven regions, including Almaty, Atizau, Western Kazakhstan, Porladar, Jerny, Ildi Kargan and South Kazakhstan, the unemployment-vacancy ratio is as high as ten to one. The labour market situation is particularly difficult in ecologically polluted areas, where 17 percent of the country's population live. With the acceleration of economic reform, regional differences in the level of unemployment and vacancies are expected to increase further. This will require major relocation of labour from declining regions to expanding ones.

The level of official unemployment as measured by those registered with the Public Employment Service (PES) does not reflect the real unemployment situation. Even before the economic reform programme started, it was believed that unemployment (defined according to ILO standards) may have been about one percent of the labour force. Since then the situation has undoubtedly worsened. A number of firms are experiencing financial difficulties due to non-payment of debts, non-delivery of inputs, and the transport difficulties in getting their goods to customers. Many problems are associated with the break-up of the former trade and supply links within the former Soviet Union. A large section of the workforce is either on forced (paid or unpaid) leave or is working reduced hours. In July 1993, for example, about 200 enterprises stopped working or introduced forced part-time work, which affected about 132,000 workers.

The extensive use of forced leave is one of the factors that keep the official unemployment figure low. Another reason may be a psychological one. For many decades unemployment was regarded as a "parasitic activity", resulting in a social stigma for the unemployed, and sometimes even a criminal charge. Although the notion of unemployment was legitimized in 1991, it still has a negative connotation in the public and many unemployed perceive their status as a personal failure. This tends to discourage many jobless persons from registering with the PES. There are further disincentives: the underdevelopment of employment services, the narrow definition of unemployment, the practice of registration, and the low level of benefits, to which we will turn later. What is important to emphasize here is that one should be wary about relying heavily on the current data of the unemployment register. That does not mean that they should not be used, since they have value and will have increasing value in the future. However, the deficiencies in the statistics warn that nobody should treat them as if they were an accurate reflection of reality.⁴

The employment situation is unlikely to improve in the near future. Furthermore, there are several factors which suggest that a significant rise in unemployment could be beginning: in particular, several thousand school leavers and graduates of vocational training school and higher education joined the labour market in September and October 1993, with little chance of finding a job. There is also an unknown number of discharged military personnel seeking jobs. Moreover, enterprise restructuring and privatization may also fuel the growth of unemployment. A new privatization programme, approved by the Government in March 1993, is expected to accelerate the pace of reform in this field.⁵ The privatization programme, together with macroeconomic stabilization, will undoubtedly transform the landscape of the labour market. With many state enterprises expected to start shedding redundant labour, both registered and actual unemployment are likely to worsen over 1994 and 1995.

Predicting the future course of unemployment is always difficult, as it depends on the pace of the reforms, the behaviour of the firms and on a set of internal and external economic conditions. In the case of Kazakhstan, where there has already been a severe contraction in production, and where negative economic growth is projected to continue at least for the next two years, it is likely that registered unemployment could amount to 4-8 per cent of the labour force by the end of 1994, and could rise even further to perhaps around 8-12 percent in the following year.

⁴ Russia has experienced similar problems with employment service data. For a detailed analysis, see G. Standing (1993).

⁵ The programme envisages: (a) a rapid sale of small scale enterprises such as shops and restaurants, through municipal auctions and tenders of assets, with appropriate measures to ensure competition in wholesale and trading through segmentation and auctions; (b) the mass privatization of medium- and large-scale enterprises after prior corporatisation, through the auctions of the majority of the shares to private investment funds; and (c) the privatization of very large enterprises on a case-by-case basis. The Government's target for the privatization programme is ambitious. All enterprises engaged in retail and wholesale trade, along with related trucking and distribution activities, are to be offered for sale before the end of 1994. Under the mass privatization programme, 30 percent of the assets of non-agricultural medium and large enterprises are to be privatized by March 1994, and 70 percent of these assets are to be privatized by March 1995.

It is even more difficult to project the regional distribution of unemployment in the country. Given the high concentration of industry in certain regions, labour shedding in those areas may lead to particularly high local levels of unemployment. To improve labour mobility, it is necessary to abolish the system of internal passports or resident permits ("propiska") and the system of regional coefficients in wage rates, under which the wage rates in depressed and environmentally hazardous areas are multiplied by a coefficient. If labour mobility improves and new economic opportunities open up, either in those regions or elsewhere, the spatial distribution of unemployment could change significantly.

The pace at which unemployment declines will depend primarily on the extent to which the reform programme succeeds in stimulating economic growth and employment, and on migration trends. Even if significant positive economic growth starts to occur around 1996 and 1997, it is clear that a considerable amount of unemployment will persist for some years to come. Demographic changes and trends in migration are expected to increase the size of the working-age population, particularly in the second part of the decade, and they will moderate the rate at which unemployment would otherwise have been absorbed. The traditionally high growth rate of the population has recently slowed down mainly because of a large migration outflow of ethnic Russians. Between 1990 and 1992, Kazakhstan suffered a net migration loss of about 359,100 persons -- more than 2 per cent of the country's total population in 1990. However, this development is likely to be a temporary phenomenon, and labour supply pressure may resume and increase in the coming years.

3. Labour market programmes in action

Over the past three years the government has taken considerable efforts to develop the public employment services (PES), to introduce labour market training and job creation programmes, and a system of unemployment benefits. The PES was established in July 1991, building upon the earlier system of placement offices that handled a portion of the recruitment for state enterprises in the Soviet Union. In August 1993, the PES had a staff of 2500 distributed throughout the country in 300 regional and local employment offices. The ratio of about 15 registered unemployed per staff member is roughly comparable to that in Switzerland or Sweden. Nevertheless such a comparison should also take into account that in Kazakhstan large-scale unemployment is still waiting to happen. In addition, the personnel of the employment offices lack experience and many of the basic skills needed to deal with the unemployed.

The lack of a modern information system and especially a nation-wide computer network for the registration and deregistration of job-seekers is another constraint facing the job placement service. It follows that major efforts have still to be made in order to accelerate the training of the staff and to introduce country-wide computerized vacancy and job-seeker registers. Another urgent challenge for the PES is to develop mechanisms and services to deal with mass lay-offs, particularly as plant closures become more prevalent in the wake of bankruptcies and privatization. Such special services might include the establishment of a "quick response team" in the PES to develop and present enterprises with proposals for action in an early stage. To be reasonably effective, such a service should be developed in close cooperation with the enterprise affected by job losses, and the trade unions and workers directly affected.

In considering priorities for training policy, the main issues to be addressed are: how much training will be needed; in what areas; and the implementation of large-scale training programmes. So far, efforts have focused on supporting enterprise-based training to prevent redundancies and on the training of unskilled school leavers. The problem with the former is that little is known about how many participants would have obtained work even without training, and whether they have displaced other job-seekers in finding work. Therefore financing the retraining of the employed as an alternative to redundancies should be carefully monitored and well targeted. This is especially urgent and important because there are indications that many employers facing financial constraints are not shedding labour at all and are increasingly turning to the PES to seek support for their training programmes.

Training programmes for the unemployed have been organized on a modest scale so far. In the first half of 1993, 9958 unemployed persons were referred for retraining by the PES, mostly at vocational and technical schools operated by the State. The duration of training programmes varies between one and nine months, with an average of six. The overwhelming majority of the trainees (82.6 percent) were below the age of 30, and 68.7 percent of the participants were placed in jobs after completing the training programme. Whether the results now observed will maintain when the number of unemployed swells is doubtful, given the lack of adequate preparation by the PES.

In periods of economic restructuring, retraining programmes should be at the heart of labour market policy because workers in declining industries are losing not only their jobs, but very often lack the appropriate skills for redeployment. Without training and retraining many will remain unemployed, while the growth of new industries could be hampered by skill shortages. Therefore, with the acceleration of labour shedding, efforts need to be shifted from the retraining of the employed to the retraining of the laid-off workers. Furthermore it is useful for labour market training and retraining to be implemented in a decentralized manner, with the participation of employers, local union representatives and local education providers. Experiences of industrialized countries show that a close cooperation between the actors in evaluating the needs of the economy can minimize the risk that some retrained workers will not in fact find employment in the specialty for which they have been retrained.⁶

To be efficient, labour market training and retraining programmes have to be compatible with the long-term policy orientation that a country has chosen in terms of up-skilling and human resources development. Some of the training programmes, particularly those organized for unemployed youth, can almost be seen as a "normal" step for them to enter the labour market. These training programmes may therefore become gradually integrated into the ordinary education system in the future. This, in combination with demographic trends, may gradually reduce the need for the Kazakh labour market authorities to address the particular problems facing school leavers, especially the unskilled.

The government has introduced several job creation schemes. Some of them are "bridging policies" trying to prevent lay-offs through wage subsidies or create temporary job opportunities (public works), while others promote the creation of permanent jobs (programmes for small towns with high unemployment, for rural population and for the ecological disaster zones).⁷ Given the expected erosion in the resources available for pro-active measures (see section 3), a major issue concerns policy priorities: Should labour market policy focus on maintaining the level of employment and delaying lay-offs through subsidies or should it concentrate on extensive job-search and mobility assistance and training programmes? As economic restructuring requires a substantial reallocation of labour from declining industries to expanding sectors, only the latter approach could simultaneously promote labour market adjustment and prevent the build-up of large-scale, long-term unemployment.

However, certain forms of subsidized employment might prove to be useful. For example, if unemployment is very high in a local area, the question of whether to implement a public works programme may be explored in consultation with the local authorities. Some public works have already been organized in Kazakhstan in response to unemployment. For example, during the first six months of 1993, 4,651 people participated in public works programmes, mainly in agriculture (seasonal work) and, to a smaller extent, in housing and the industrial sector. Almost 50 percent of the participants were younger than thirty and the average duration of the schemes was two months. The programmes are useful in that they offer earnings opportunities for those unemployed who are not eligible for benefits. Also, a temporary employment opportunity may help reduce the risk that some long-term unemployed become alienated from the life of the work.

⁶ See, "Active labour market policies in a wider policy context", Report for the Committee on Employment and Social Policy (GB.258/ESP/2/5) ILO, Geneva, November, 1993.

⁷ For a detailed description of the job creation measures, see T. Behgametov (1992).

A frequent criticism of public works programmes is that they do not provide effective ways of reintegrating the unemployed into the economic mainstream. In so far as they generally involve unskilled jobs with low pay and little long-term potential, participation in public works programmes often attract a stigma and tend to undermine rather than improve the workers' chances of finding a stable job. The experience of Kazakhstan appears to support this argument because only 12.3 percent of those who left the scheme in the first half of 1993 found employment.

However, it need not be this way. Public works can provide the unemployed with a worthwhile job, while helping the community through sponsorship of projects that respond to local needs. The projects should respond to a clearly identified community need; they should be socially, environmentally and economically useful. Although more costly in the short-term, schemes that combine training with work experience may be more successful. Local sponsorship, management and supervision can reduce the costs. If properly organized, public employment programmes can be a short-term and useful way of creating and maintaining human capital, especially in a situation of mass lay-offs and for those experiencing long-term unemployment. Furthermore public works programmes are cost-efficient compared to payment of unemployment benefits.

Kazakhstan has introduced compensatory measures such as severance pay and unemployment benefits. According to current regulations, a person who is laid off first receives severance pay for a period before being entitled to receive unemployment compensation.⁸ Severance pay is paid by the previous employer over three months, provided that the laid-off person registers at the PES within two weeks of being laid off. If the laid-off person fails to register with the PES, the payment period is only two months. The monthly severance payment is set at the level of average earnings received by the individual over the last two months of work.

It is often argued that generous severance pay creates disincentives to shed labour and burdens enterprises with costs at a time when the reallocation of labour from unprofitable firms to expanding sectors is essential to the success of the reform. In addition, the current law requires an employer to give an employee two months advance notice of an eventual lay-off, followed by three months severance pay. What this implies is that the enterprise, from the very date that an employee first starts his job has an obligation to pay at least five months of wages. Not only does this tend to discourage employers to shed redundant labour in over-staffed state enterprises, but it also creates a barrier to employment in the newly set-up private enterprises. Private employers may resort to non-regular forms of employment to avoid advance notice and severance pay altogether, generating a "secondary labour market" with virtually no social benefits or protection.

On the other hand, some warn that a substantial reduction in - or a complete abolition of - the protection of employment might induce employers to pursue a competition strategy that is based on lowering wages and cutting their workforce when needed. This may allow obsolete and inefficient management to survive, and external competitiveness could deteriorate, especially due to poor product quality and sluggish innovation. A degree of employment protection, the reasoning goes, may encourage employers to train their workforce, to invest in new methods of production, and to introduce new and improved products, upon which the long-term competitive success of enterprises depends.

Clearly, both flexible labour market regimes and protectionist regulations have positive and negative effects on the process of industrial restructuring. The outcome of each system depends on particular circumstances. For example, in a country where the adjustment mainly takes the form of internal restructuring of existing firms, a degree of employment protection appears to boost innovation and productivity. The situation is quite different in transition economies, including Kazakhstan, where restructuring also involves large-scale reallocation external to individual firms, for example through

⁸ All employees are entitled for severance pay following redundancy. Entitlement is extended to persons who lose their job through professional illness or an accident at work. An employee who voluntarily resigns or who is dismissed for disciplinary reasons is not eligible.

the decline of certain industries and the growth of others, and through a similar inter-firm reallocation of labour.⁹ In such a situation there is a need for increased employment flexibility and labour mobility. It appears that the period of notice and especially the period of severance payment should be reduced and adjusted so that they facilitate the process of restructuring. But this does not mean that the regulations concerning lay-offs should be abolished completely. In fact, a major challenge for the Kazakh policy makers is to find a delicate balance between the need for labour market adjustment and the need for employment protection.

From a comparative perspective it appears that Kazakhstan applies a narrow definition of unemployment. There is a waiting period (usually one week) before the PES registers a person as unemployed. The purpose of the waiting period is to give the PES enough time to find a suitable vacancy for a job-seeker. The matching of job-seekers with vacancies is undoubtedly a basic function of the PES. However, this should not be used as a reason for not regarding someone (who is without work and seeking work through the employment service) as unemployed. The application of the widely accepted ILO concept of unemployment¹⁰ would not hamper the job matching function of the PES, while it would surely improve the reliability of unemployment statistics.

Whereas Kazakhstan currently applies a narrow definition of unemployment, the unemployment benefits system has a wide scope of entitlement. If registered, laid-off workers, voluntary leavers, dismissed persons, labour market re-entrants, school leavers and other first-time job-seekers are all entitled to unemployment compensation. According to the regulations, if a laid-off person is registered with the PES and at the end of the three-month severance payment period he has not been placed by the service, the person becomes entitled to receive unemployment compensation. The level of benefit is 50 percent of his previous earnings, and the maximum duration of the benefits is 26 weeks. School leavers and other first-time job-seekers receive 75 percent of the minimum wage for a maximum of 13 weeks. The level and duration of the benefits are somewhat different for re-entrants, voluntary leavers and dismissed workers.¹¹

The level and coverage of the unemployment compensation are major policy issues because of the undesirable disincentive effects related to the design of the unemployment benefits system and its financial sustainability. In Kazakhstan the level of benefits is far less generous than may seem; due to rapid inflation and the lack of an indexation mechanism, the benefits quickly lose their purchasing power. Policy-makers should address the problem of how to modify the current system of unemployment compensation in order to maintain the purchasing power of benefits, to encourage the benefit recipients to undertake an active job-search, and to improve the financial sustainability of the system. As the experience of Central and Eastern European countries shows, the modification of the system will probably be unavoidable when unemployment begins to rise rapidly. Although a variety of solutions have been adopted by different countries in reforming access to unemployment

⁹ For a systematic comparison of external versus internal restructuring activities, and their employment implications, see R.B. McKersie and W. Sengenberger; *Job Losses in Major Industries: Manpower Strategy Responses*, OECD, Paris, 1983.

¹⁰ According to the ILO definition an unemployed person is someone who is "without work", "currently available for work", and "actively seeking work". The term "without work" refers to a specified brief period (usually a week). But the reference period does not necessarily mean the week that follows registration with the PES. It may be that somebody has been without work for a long time before he first visits the public employment service.

¹¹ A skilled re-entrant who worked less than 12 weeks during the past year but who has at least a one year employment record receives the minimum wage for the first 13 weeks as unemployment compensation and then 75 percent of the minimum wage for the second 13 weeks. All other re-entrants are entitled to only 75 percent of the minimum wage as unemployment benefits. Those who left their job voluntarily or were dismissed for disciplinary reasons receive benefits only after a three month waiting period at the level of 75 percent of the minimum wage for a maximum of 13 weeks. An unemployed person who is within a period of two years prior to retirement age may qualify for unemployment compensation of up to nine months, if the PES cannot find him a job.

compensation, certain changes are common: tightening the eligibility criteria, reducing the duration and coverage of unemployment benefits (particularly for first-time labour market entrants and dismissed workers), and linking unemployment benefits more closely to active labour market policy measures. It is likely that Kazakhstan will have to face these uneasy and unpopular decisions soon.

4. Financing labour market programmes: Employment Fund

As part of its economic programme, the Government has set up an Employment Fund to finance unemployment benefits, training and job creation programmes, job placement facilities and migration (rehabilitation) programmes. The Fund raises its revenues via a 2 percent payroll tax levied on enterprises. State and private employers are obliged to contribute to the fund. However, agricultural enterprises and institutions financed directly from the state budget have been exempted. Table 4 shows the revenue and expenditure for 1992 and for the first eight months of the Fund's operation in 1993. Since the current level of unemployment is low, a considerable part of the Fund's revenue has been saved (62.7 percent in 1992 and 43.1 percent in January-August 1993). Furthermore the largest single expenditure category is the rehabilitation of migrants rather than the pro-active labour market policies.

Table 4: Revenue and Expenditure of the Employment Fund

	1992 (million Rubles)	Percent	Jan.-Aug. 1993 (million Rubles)	Percent
A. Revenues	3937	100.0	15488	100.0
1 Obligatory employer contribution	3672	93.3	13019	84.1
2 Residual from 1991	265	6.7	2469	5.9
B. Expenditures	1468	37.3	8809	56.9
1 Public employment services	475	12.1	1617	10.5
2 Subsidized enterprise-based training to prevent lay-offs	361	9.2	656	4.2
3 Partial compensation for enterprises for training of laid-off workers	--	--	68	0.4
4 Other training programmes for unemployed	142	3.6	607	3.9
5 Job creation through employment centres	261	6.6	401	2.6
6 Public works	8	0.2	47	0.3
7 Employment programmes for women, youth and for ecologically polluted areas	--	--	420	2.7
8 Unemployment benefits	71	1.8	483	3.1
9 Migration	150	3.8	4510	29.2
C. Balance	2469	62.7	6679	43.1

Source: Ministry of Labour, Kazakhstan.

Although the Fund has not been fully exhausted so far, with the expected fall in employment and declining real wages, the revenue base for payroll tax may substantially narrow and the current surplus may disappear. An additional factor that might negatively affect the revenues of the Fund has been the reallocation of labour from the state sector to non-regular forms of employment and to the emerging small-scale private sector, where various forms of tax concessions have been granted and where the avoidance of social security and unemployment contributions is widespread. According to the Ministry of Labour, the Fund's current income is about 20 percent lower than it should be due to tax evasion. Anecdotal evidence suggests that private firms are resorting to a variety of tax-avoidance practices. The financial problems of firms may also have contributed to delays or shortfalls in collection.

As developments in the Central and Eastern European transition economies show, with the growth of unemployment both total expenditures and the spending on unemployment compensation will increase rapidly.¹² Kazakhstan also can expect a similar scenario in the near future and therefore, plan ahead with resources and pro-active labour market strategies. For example, if the unemployment rate increases to 5.5 percent by December 1994, 22.6 percent of the Fund's revenues will be spent on unemployment compensation at the end of 1994. If unemployment increases to 13 percent, 40 percent will go for unemployment compensation.¹³ Thus, the combination of rising unemployment and binding constraints on the revenues of the Employment Fund is likely to result in a narrowing of the resource base for pro-active labour market policies in 1994 and 1995.

A reform of labour policy is therefore needed to shift more resources to pro-active programmes, particularly for those that promote labour mobility. Furthermore, steps should be taken to enforce payroll tax compliance. If the unemployment situation worsens (e.g. beyond 13 percent) and the revenue base of the Fund sharply contracts, the Government may consider additional measures to augment the resources for labour market policy. The possible options include the extension of the 2 percent payroll tax to agricultural enterprises and the introduction of a modest worker's contribution to the Employment Fund. Also, expenditures from the Fund not directly related to the labour market can be avoided, as may be the case in assistance to immigrants). Such expenditures could be financed, for example, from the general revenues.

Conclusions

Over the past three years Kazakhstan has made considerable progress in transforming its economy from a command to a market system, though major changes are still waiting to happen. Macroeconomic stabilization and structural reforms are expected to accelerate employment restructuring. In this context, the core of the reform programme is to redeploy labour from inefficient enterprises to more productive activities. However, many factors are reducing the mobility of labour from loss-making to profitable enterprises. For example, the present system of severance pay tends to create disincentives to firms to shed labour and hinders rapid and efficient labour allocation. Therefore, the system needs to be modified to make it more flexible. For similar reasons, the right of the public employment services to delay mass redundancies by six months should be restrained and complemented with an appropriate early warning system. At the same time, a programme package needs to be prepared for the PES to be able and ready to provide services and support in mass redundancy situations. In addition, regulations that restrict regional labour mobility and market-based wage determination require a thorough examination as to whether they are compatible with the need for increased labour mobility.

Immediate steps are required to train the staff of the Public Employment Service and to introduce region-wide computerized vacancy and job-seekers registers. These problems should be addressed before mass unemployment emerges to ensure that the employment service is prepared and

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The rise in the number of unemployment benefit recipients has resulted not only in an increase in total expenditures for labour market programmes, but also in dramatic changes in its composition at the expense of active policies. For example, in the Central and Eastern European countries total expenditures for labour market programmes increased from about 0.5 percent of the GDP in 1990 to between 1 and 2 percent in 1992, a proportion which is roughly in line with the size of the labour market budget in most OECD countries. Meanwhile the share of unemployment compensation in the budget has already increased over the period from 1990 to 1991 from 58 to 82 percent in Poland, while it has doubled (from 34 to 70 percent) in Hungary and Bulgaria (from 32 to 62 percent) (OECD Employment Outlook, Paris, July 1992; and Employment Observatory, Central and Eastern Europe, Commission of the European Communities, Brussels, no.4, May 1993).

¹³

World Bank mission estimates, see "Kazakhstan: Social Safety Net, Issues and Reform Options in the Context of Financial Contraction", World Bank, Washington D.C., September 1993 (draft report).

capable of administering benefits and running pro-active labour market programmes during high unemployment. To be effective, resources and labour market policies should be decentralized to meet the special needs of different regions, and the employment programmes should be designed and implemented in close cooperation with the social partners.

It may also be necessary to revise the system of unemployment benefits in order to remedy its undesirable disincentive effects and to improve its financial sustainability given the anticipated rise in unemployment. Changes might include a tightening of the eligibility criteria for unemployment compensation (especially for first-time labour market entrants, re-entrants and dismissed workers), and the introduction of an indexation mechanism linking the level of benefits to movements in prices. Policy makers may also seek methods of combining passive benefits with active measures more closely. Furthermore the introduction of flat rate unemployment benefits would reduce costs as well as ease administration.

Policy measures to reduce labour supply, as a response to rising unemployment, can also be explored. The scope of such policy action is especially important in Kazakhstan where an increasing working-age population puts additional pressures on the labour market. Reducing the labour supply of the pensioner workers and young people might ease the employment situation. For example, pensioner workers, who collect both pensions and wages, represented about 7 percent of all pensioners in 1991. The introduction of a policy that stipulates that workers are eligible for either wages or pensions, not both, is likely to ease labour-supply pressure, at least in the short-term. The labour supply of young workers may be reduced by increasing the age of compulsory schooling and expanding educational opportunities. This could have the double advantage of reducing short-term labour supply and improving its quality in the longer term. Furthermore, government can discourage people from multiple job-holding and encourage part-time work -- an employment status not widely used in Kazakhstan.

Given the expected growth of unemployment and binding constraints on the resources available for employment programmes, the current system of labour market policy needs to be reformed. It appears that priority should be given to those programmes that improve the flexibility of the labour market and facilitate the reallocation of labour between sectors, industries and regions. The development of public employment services, job-search and mobility assistance and training schemes is the main goal of such a policy package. If well designed and implemented, it has a chance of facilitating employment adjustment and helping mitigate the social costs of economic transition.

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