Employment-Related Mitigation Measures in ECA Countries

Arvo Kuddo

Key messages

1. **Countries in the Eastern Europe and Central Asia (ECA) region have been impacted by the economic downturn to various degrees.** Measured by contraction of Gross Domestic Product (GDP), the most affected countries are the Baltic States, Armenia, Russia, and Ukraine. Constraints on public finances associated with the crisis limit the scope of labor market interventions. Very few ECA countries had set aside resources that can now be used to cushion an externally driven economic slowdown.

2. **A few countries (notably Kazakhstan, Russia and Turkey) have adopted a comprehensive package of anti-crisis measures, while most other countries are focusing on particularly vulnerable groups (such as youth) or on priority policy interventions (such as public works or training).**

3. **Efforts can be grouped into four main types of policy interventions:** (a) policies to create new jobs, (b) policies to protect existing jobs, (c) policies to enhance employability of job seekers, and (d) policies to provide additional income support.

4. **Several countries, most notably Latvia and Slovenia, have significantly increased the funding of ‘traditional’ employment programs provided through Public Employment Services (PES).**

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Measures to Cushion the Impact of the Crisis

There are growing constraints on public finances in many countries due to the actual and projected build-up of public debt, which limits the scope of labor market interventions. Only a few ECA countries (most notably Estonia, Kazakhstan and Russia) had set aside resources that can now be used to cushion an externally driven economic slowdown.

Currently, the labor market situation in many ECA countries can be characterized as lack of demand for labor. Overall, in 27 ECA countries for which data are available for June 2008 to June 2009, registered unemployment increased from 8.460 million to 11.354 million, or around 34 percent. The number of registered unemployed increased the most in three Baltic States, Turkey and Moldova (Figure 1).

Nevertheless, most governments in ECA have responded to the global economic crisis by making additional resources available for labor market and social policies, and with discretionary policy measures to cushion the negative effects of the crisis on workers and low-income households. Spending on unemployment benefits has increased automatically as job losses have mounted, and many governments have moved promptly to scale-up resources for active labor market programs.

In the short run, countries in ECA can react in the following main ways:

1. **Adopting a package of specially designed measures, such as the Anti-Crisis Program of the Government of the Russian Federation for 2009, or ad hoc policy measures aimed at particular groups of workers or job seekers.**

2. **Enhancing active labor market programs by allocating more funds for particular activities, especially for preventive vocational training, retraining, and skill improvement; temporary and public works jobs; or granting access to financial aid to entrepreneurs and self-employed.**

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1 This Knowledge Brief is part of a larger effort to monitor the social impacts of the global financial crisis undertaken by ECSHD. It is based on: Kuddo, A. “Employment-related Mitigation Measures in ECA Countries Adopted in 2009 in Response to the Current Economic Downturn.” November 2009. World Bank, Washington DC.


3 ‘Preventive’ vocational training is training of workers still on the payroll but under the threat of being laid-off. Training would prevent them from being laid-off, at least immediately.
Figure 1: Growth Rates of Registered Unemployment in ECA Countries, June 2008 to June 2009, in percent


- Expanding unemployment insurance and introducing unemployment assistance programs—in particular, expanding the duration of benefits payments, providing benefits to some new categories of job seekers, or increasing both minimum and maximum ceilings for unemployment benefit payments.

- Strengthening protective measures embedded in Employment Protection Legislation (EPL).  

A good example of employment-related crisis response is the Anti-Crisis Program for 2009 that was adopted by the Government of the Russian Federation in December 2008. This program earmarked an additional 43.7 billion rubles (US$ 1.3 billion) in the federal budget to stabilize employment. Subsidies were to be provided for co-financing regional programs approved in accordance with established procedure. The following additional activities were also included: (i) preemptive training of workers in case of a threat of collective layoffs; (ii) organization of public works, temporary employment, and study tours for unemployed, especially youth; (iii) targeted support to individuals, including organizing their migration to other areas to fill job vacancies; and (iv) assistance for small business development and self-employment of the unemployed.

As of July 2009, 1.061 million individuals were participating in four Anti-Crisis Programs - including 63,000 people in training programs, 966,000 in public works, 5,000 who received mobility grants, and 27,000 who received assistance in launching small businesses or becoming self-employed.

Many ECA countries are also expanding existing labor market programs and strengthening the capacity of the institutions that support these programs. Compared to 2008, Latvia and Slovenia tripled the overall budgetary allocations for active labor market programs (ALMPs) in 2009.

Labor market policy measures can be divided into the following main types of interventions:

- Measures to create new or temporary jobs—such as, public works and public investment programs, wage subsidies for new entrants, and start-up support and social security tax reductions.

- Measures to preserve and protect existing jobs—such as, short-term wage compensation and wage subsidies/tax concessions, or retraining and preventive training.

- Measures to enhance employability in case of job loss—such as, job search assistance, training and retraining; apprenticeship and internship programs; and mobility allowances.

- Income support programs—such as, an increase in unemployment benefits and training stipends, and/or extension in the payment duration, etc.

4 In 2009, only Belarus and Kyrgyzstan amended their employment protection legislation to make it more business friendly.
Table 1: Common Employment-Related Discretionary Policy Measures in Some ECA Countries

<table>
<thead>
<tr>
<th>Measures to create jobs</th>
<th>Bulgaria</th>
<th>Estonia</th>
<th>Latvia</th>
<th>Poland</th>
<th>FYR Macedonia</th>
<th>Turkey</th>
<th>Kazakhstan</th>
<th>Russia</th>
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</thead>
<tbody>
<tr>
<td>Public works/public investments</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
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<tr>
<td>Wage subsidies (for new entrants)</td>
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<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Reduction/exemption from non-wage labor costs</td>
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<td>X</td>
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<td>X</td>
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<tr>
<td>Start-up grants/support</td>
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<td>Measures to protect jobs</td>
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<td>Support of short-time work or temporary layoffs</td>
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<td>Wage subsidy/coverage of training costs while employed</td>
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<tr>
<td>Public loans/guarantees to firms</td>
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<tr>
<td>Preventive training/retraining</td>
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<tr>
<td>Measures to enhance employability</td>
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<tr>
<td>Training/retraining</td>
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<td>X</td>
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<tr>
<td>Apprenticeship/internship</td>
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<td>Income tax reduction</td>
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<td>X</td>
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<td>Provide income support to those unemployed</td>
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<td>Benefits increases</td>
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<td>X</td>
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<tr>
<td>Changes in duration of payment</td>
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<td></td>
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<td>X</td>
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The classification used above is, to some degree, arbitrary. For example, public works may fall both under ‘job creation’ or ‘income support’. Country examples from the ECA region are provided in Table 1.

Measures to Create Jobs

One ECA country with a massive public intervention program is Kazakhstan. In March 2009, the Government of Kazakhstan adopted the ‘Roadmap’--an action plan to support the regional employment and retraining of workers. The ‘Roadmap’ would add about 140 billion tenge (around US$1 billion) to the national budget and will be co-financed from local budgets. The ‘Roadmap’ emphasizes public investment and public works programs: construction and maintenance of piped water, electricity and gas, and sewage facilities; and highways and local roads, schools, hospitals, and other socially important facilities. The strategy also includes creating up to 63,100 ‘social jobs’ (for a duration of six months, with wage subsidies of 50 percent of wage costs) plus 34,400 fully subsidized jobs for six months for graduates.

To stimulate job creation, several countries in the ECA region--including Bulgaria, Estonia, FYR Macedonia, Hungary, and Serbia - have introduced or expanded their programs of wage subsidies, predominantly for youth. Belarus extended participation in paid public works programs to employees on administrative leave, given that many of them do not receive any compensation while they are on leave. Several ECA countries--such as Estonia, Latvia and Poland--have found additional funds for entrepreneurship assistance. In Romania, enterprises are now exempt from tax on reinvested profits.

Measures to Preserve Jobs

FYR Macedonia, Latvia, and Ukraine have provided targeted assistance to certain sectors and enterprises most affected by the crisis. For example, in Ukraine, a Memorandum of Understanding was signed between the Government and the mining and chemical industries in which enterprises in relevant industries agreed not to dismiss workers or lower wage levels and social benefits in exchange for preferential credits, tax deductions and lower electricity costs.

Several countries are protecting jobs through social security tax reductions. In Turkey, as part of the so-called Labor Package 2008, social security contributions for employers were reduced by 5 percentage points. Also, social security contributions for the young and women were reduced, and social security contributions for disabled workers will be paid by the Treasury.

Kazakhstan’s ‘Roadmap’ anticipates training and retraining up to 146,500 workers. Preventive training of workers still on the payroll also plays an important role in Russia’s Anti Crisis Program.
Measures to Enhance Employability

In 2009, the public employment services (PES) in Armenia, Croatia, and Estonia almost doubled the budget for training, and FYR Macedonia significantly increased funding for programs on employment incentives and on integration of disabled individuals. In Latvia, training measures for the unemployed and job-seekers were expanded and co-financed by the European Social Fund using a voucher system. People participating in the measure are also eligible for training grants.

In Belarus, a wage subsidy in the amount of the minimum wage paid to the employer for hiring apprentices, and compensation for payment of social insurance contributions for these youth, was introduced. However, the estimated number of beneficiaries of ALMPs (other than initial counseling) remains low in most ECA countries.

In many countries, the number of frontline counselors/advisers is totally inadequate for delivering ALMPs, in particular effective and personalized mediation services. In response to the increased workload on existing staff, and to improve the service provision to job seekers, some ECA countries have expanded PES staff. For example, Estonia increased its numbers of job counselors by one-third in 2009 and Russia added 2,500 employees (an increase of 7 percent) to its State Agency for Employment in the same year.

Measures to Provide Income Support

Unemployment benefit rules have been changed in several ECA countries. In Poland, the social unemployment subsidy was extended from 12 months to 18 months in 2009. However, unemployed persons who refuse to accept job offers from their local job offices will lose their status and be removed from the unemployment register for 120 days after the first unjustified refusal, for 180 days after the second refusal, and for 270 days after the third refusal.

In Romania, the maximum duration of unemployment benefits was extended from six months to nine months, and in Russia, the maximum unemployment benefit was increased to 4,900 rubles (around US$170). However, a few countries are tightening the regulations concerning unemployment benefits. In Hungary, the Government is implementing a policy measure called ‘The Way to Work’ which restricts the eligibility criteria of welfare provisions for long-term unemployed who have already exhausted the duration of their unemployment benefit. The rationale behind this measure is to encourage more effective training and job-seeking activities.

Reflecting also an increase in the number of registered unemployed, benefit costs have multiplied. In August 2009, Estonia was forced to raise the unemployment insurance contribution rate from 0.9 percent to 4.2 percent - employees now have to pay 2.8 percent of wages towards unemployment insurance and the employers’ share is 1.4 percent of wage costs.

Although active labor market services are necessary to cushion the blow of an economic downturn, it is necessary to note that they do not, on their own, create jobs. ALMPs are much more effective at addressing structural rather than demand-deficient unemployment. A large-scale direct job creation program is justified during an economic downturn when aggregate demand is depressed and there are few vacancies. Interventions to directly create jobs can have significant costs and uncertain benefits, especially beyond the short term. They are sometimes intended to increase demand in the economy or to provide work experience with a view to improving employability, or achieving both of these objectives. Massive public investment programs tend to create only temporary jobs. Training can also play an important role in combating skills shortages in specific sectors and occupations but only if it fulfills the needs of the labor demand.

Resumption of economic growth is critical for easing the tensions in the labor market. In addition, the challenge of job creation can only be addressed through a comprehensive strategy that has both economic and social elements and that addresses both labor supply and labor demand.

About the Author

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