

# **Promoting decent employment in Eastern Europe, Central Asia and Turkey**

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## **Executive summary**

The report examines the employment and labour market situation in Eastern Europe, Central Asia and Turkey in the 21<sup>st</sup> century and the manner in which it has been affected by the global economic and financial crisis. Based on an assessment of the anti-crisis measures adopted by the governments concerned, the report offers policy recommendations on how best to improve the employment dimension of recovery plans and strengthen employment strategies.

Despite years of improvement in the economies and labour markets in the region, underlying flaws in the growth models have been magnified by the crisis, with particular reference to the failure to place economic and employment growth on a sustainable footing. An examination of several key drivers of growth in Eastern Europe and Central Asia shows a dependency on the extraction, processing and export of hydrocarbons and other commodities, non-tradable sectors such as construction and services, and remittance-based domestic consumption. The vulnerability of these pillars of growth, when they were affected by the crisis, has meant that national macroeconomic situations and the capacity of enterprises to generate employment have been particularly badly affected. The lack of economic diversification has made the current economic and financial climate especially difficult for the countries concerned and their labour markets.

The improvement in economic performance since 2000 has failed to deliver commensurate outcomes in terms of labour market performance, resulting in only modest increases in levels of employment. Significant developments during this period are reflected in the changing sectoral composition of employment. The decline in manufacturing as a driver of GDP growth (with the exception of Turkey) is especially significant, as prior to 1990 it had provided a stable source of employment. Instead, many countries have experienced employment expansion in services, as well as in agriculture in certain cases. Agriculture has proven to be one of the main areas of growth of informal employment, which has also expanded since the 1990s in many of the countries concerned. The rise in informality, while offering a means of making a living for many in the region, is nevertheless a cause for serious concern in view of the insecurity that it generates in terms of income and social protection, thereby increasing the risk of falling into poverty.

Rising flows of remittance income emphasize the increased significance of labour migration. During the economic growth years, the Russian Federation and Kazakhstan were the principal receiving countries of migrant labour from Eastern Europe and Central Asia. Nevertheless, it is difficult to obtain an accurate picture of migration flows, as migration statistics tend to be confined to regular migrants, with the problem being

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compounded by the major differences in data collection methodologies in sending and receiving countries. Economic growth and labour migration contributed to the trend for unemployment rates to fall between 2000 and 2007, although employment gains remained modest. Data on these trends come from two sources: labour force surveys (LFS), which use the ILO definition of unemployment, and administrative data on registered unemployment. The figures for registered unemployment only amount to a small proportion of the unemployment levels recorded by LFS data in all the countries concerned. The available figures also show differences between countries in unemployment levels, the gender and age characteristics of unemployment and between urban and rural areas, as well as in the levels and trends of underemployment.

The increased flexibility of employment relations and the lower levels of employment security, due to weak labour market institutions, are both significant developments within the region. Beyond the informal sector, which is by nature completely flexible, formal employment has become more flexible as a result of the rising numbers of non-traditional employment contracts, including fixed-term contracts and self-employment, reduced working hours and liberalized employment legislation. Liberalization combined with poor enforcement of employment protection legislation and widespread informal employment are all increasing levels of labour market flexibility and reducing job security. However, displaced workers and new labour market entrants have not been compensated for the higher levels of flexibility through the provision of more effective assistance for (re-)employment by public employment services, in the form of intensive help in searching for jobs and in employment placement, broad access to active labour market policies, including training, and decent income support during unemployment.

The crisis has had a devastating effect on labour markets in the countries concerned, with job losses increasing in early 2009. Younger workers have been particularly affected as a result of cutbacks in recruitment. Underemployment and wage arrears have also increased markedly. Many migrant workers have been returning to their home countries as a result of the reductions in immigration quotas in receiving countries, while those who stay, and particularly irregular migrants, are increasingly exposed to exploitation.

Anti-crisis measures in the field of employment vary between countries, depending on the severity of the crisis at the national level, the public and private funds available to governments and differences in their capacity to design and implement employment protection measures. The two most favoured methods of intervention are investment in infrastructure, in combination with public works, and support for enterprises, through improved access to credit and tax breaks.

In its assessment of the anti-crisis plans adopted up to now, the report finds that they have generally been positive, rapid and cover the right areas. However, it raises several caveats, such as the low level of importance given to upgrading professional skills and education, the need to strengthen the capacity of labour market institutions and to engage in consultations with employers' and workers' organizations.

The report also focuses on the ILO's response to the economic and financial crisis. The ILO has been active in addressing the employment effects of the crisis through policy analysis, international events and dialogue. The need for integrated and coherent policies to restore growth and increase its employment content was emphasized earlier in the year at the Eighth European Regional Meeting. The 2009 ILO Summit on the Global Jobs Crisis also outlined key principles to be used by countries when crafting policy packages.

The recommendations set out in the present report, building on analysis of the economic and labour market challenges facing the countries, consist of short-term measures that are carefully combined with policies to stimulate balanced and sustainable development in the longer term. The recommended anti-crisis policies include time-bound employment retention measures, such as work-sharing schemes which, when combined with subsidized retraining for the acquisition of new skills, will boost the recovery of enterprises. Collective bargaining on wage freezes or wage cuts in exchange for an undertaking to avoid lay-offs can also offer an acceptable temporary solution in the context of the crisis. Support for enterprises, particularly small and medium-sized enterprises, is also encouraged through better access to credit, the simplification of administrative and financial rules and the development of support services. Longer-term recommendations focus on broadening the basis of production and exports. They include making the business environment more conducive for private enterprises, subsidizing education and skills training for new product areas and exports, and the provision of government support for entry into new markets.

The report recommends infrastructure works as a tool to boost employment, and highlights their effectiveness in fostering a propitious environment for domestic and foreign investment. Infrastructure projects can be combined with comprehensive public works schemes, which should include vocational training to strengthen their employment effect and their contribution to economic and labour market restructuring.

Labour market policy recommendations focus on strengthening the capacity of public employment services and broadening the range of and access to effective active labour market policies, with particular reference to training and retraining. Countries should also re-establish and/or significantly improve the coverage and level of unemployment benefits and social assistance. Measures need to be adopted to reduce informality and improve the enforcement of labour legislation. The changing nature of jobs, in terms of skills requirements, will require a significant improvement of vocational education and training systems, in addition to overall reforms of national education systems, so that the population is prepared more effectively to meet long-term employment and skills demands. Social dialogue, which is a pillar of the ILO's approach, is crucial for the formulation and effective implementation of comprehensive policy packages that enjoy a wide measure of support throughout society. This in turn requires the strengthening of the social partners and more effective guarantees by national authorities of freedom of association and the right to collective bargaining.