

**The Interdepartmental Action Programme on Privatization, Restructuring
and Economic Democracy**

**The employment impact of privatization and enterprise
restructuring in selected transition economies**

**Cross-country comparison of findings from establishment surveys in
Russia, Armenia, Georgia, Ukraine, the Kyrgyz Republic and China**

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Preface

In the early 1990s, the ILO launched a series of establishment surveys to track the employment impact of enterprise restructuring in transition countries. The survey findings were analysed in a series of country reports, which documented massive dislocation within the manufacturing sector of countries of the former Soviet Union during the first years of transition to a market-based economy, continued widespread surplus labour within enterprises, and rising poverty of employed workers due to unpaid leaves, cuts in work time, and wage arrears.

This report draws from the findings of enterprise surveys carried out from 1994 to 1996 in five of the newly independent countries - Armenia, Georgia, the Kyrgyz Republic, Russia and Ukraine. It compares performance between privatised and state-owned establishments and attempts to identify the most important constraints on the ability of manufacturers to increase production and generate jobs. It also compares the employment impact of enterprise restructuring in these countries to the reform process followed in China, based on a similar enterprise survey conducted in selected cities in China in 1995.

The form and consequences of enterprise privatization differ substantially depending on the structure of the economy in which individual enterprises are transferred away from government ownership and control. This report contributes to understanding the impact of privatization in the context of the fundamental reorientation of entire economies away from centralized command to decentralized markets.

Two background papers were commissioned in the preparation of this report. The Statistical Committee of the Commonwealth of Independent States in Moscow compiled socioeconomic indicators from official data sources of the five countries of the former Soviet Union. Catherine Sokil prepared a literature review of privatization methods and labour market policies in the selected transition countries. The purpose of these background reports was to gather comparable data on economic trends and social developments since the individual country reports had been written and to summarize subsequent changes in privatization and employment policies.

The original analyses of the country enterprise surveys are available in the Working Papers series of the ILO's Department of Employment and Training: On Russia (Guy Standing), on Armenia and on Georgia (Alexander Samorodov and Laszlo Zsoldos) on the Kyrgyz Republic (Jim Windell, Richard Anker, and Gyorgy Sziraczki for the first survey; Christine Evans-Klock for the second survey), on Ukraine (Guy Standing and Laszlo Zsoldos) and on China (Lin Lean Lim, Gyorgy Sziraczki, and Zhang Xiaojian). Esperanza Magpantay was responsible for managing the data files, data computation, and preparing tables and figures for this report.

The data sets analysed in this report are an important source of evidence of change in labour demand and the employment consequences of enterprises' efforts to adjust to new incentive and target structures. The review of this evidence is relevant to a number of basic issues on the employment consequences of privatization in the context of economic transition.

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The employment impact of privatization and enterprise restructuring in selected transition economies

Executive Summary

Over the past few years the ILO has carried out a series of studies on enterprise restructuring based on enterprise surveys conducted in countries of the former Soviet Union and other transition economies. This work has resulted in a number of country reports which analyse change in labour demand, terms of employment, human resource development, and provision of social services during the transition to a market-based economy. As a culmination of this work, the Employment and Labour Market Policy Branch has undertaken a cross-country comparison of the employment impact of privatization based on the empirical evidence provided by these enterprise surveys.

This report is based on evidence collected directly from manufacturers in China and five countries of the former Soviet Union (FSU): Armenia, Georgia, the Kyrgyz Republic, Russia and Ukraine. The surveys compiled data on employment, surplus workers, retrenchment, training, and remuneration from manufacturing enterprises. Opinions were also solicited from managers on the effectiveness and relevance of labour market policies and of banking institutions, foreign trade, and public finance policies.

This report synthesizes what has been learned about the social impact of restructuring from the individual country establishment surveys. In all, the surveys tapped the experience of nearly 2,200 manufacturers, with a total employment of more than one and a half million, and which had shed an accumulated total of 136,000 jobs in the single year preceding the survey. This micro data set is an important source of evidence of change in labour demand and the employment consequences of establishments' efforts to adjust to new incentive and market structures. The review of this evidence is relevant to a number of basic issues on the employment consequences of privatization in the context of economic transition:

Employment: Job losses totalled about 10 per cent in most of the surveys over the most recent year; but were as high as 15 per cent in the Kyrgyz Republic and as low as 3 per cent in China. It was expected that privatized companies, motivated to reduce costs, would shed redundant jobs faster than would state-owned enterprises during the initial adjustment stage of establishment restructuring, and that they would also adjust faster and spearhead job creation in the subsequent stage of economic recovery. Statistical analysis indicates that the rate at which privatized and state-owned establishments have shed jobs has not been very different, even when taking into account other factors such as industrial sector, initial size, independence from state authorities in selecting top managers, export orientation, and skill level of the work force. Only in Russia was there some statistical evidence of a difference in employment performance between privatized and state-owned enterprises, and that was demonstrated in a slower average pace of cutting jobs, not a lower tendency to retain surplus workers nor yet any greater likelihood to create new jobs.

Surplus labour: The survey evidence showed that despite the continuing job cuts, most establishments continued to be over-staffed: From one tenth of employed workers (in the Kyrgyz Republic) to one quarter (in Armenia) were considered redundant by their employers, and were thus in a vulnerable employment situation. Contrary to expectations, in each of the five FSU countries a higher share of privatized establishments than of state enterprises reported having surplus workers. The statistical analysis showed that privatized establishments did not,

on average, retain a lower share of surplus workers than did state enterprises, even when accounting for other differences. As is generally understood, to the extent that underutilised labour remains "hidden" within enterprises in the form of retained surplus workers, official unemployment statistics underestimate the number of persons in the labour force who are not gainfully or fully employed. The establishment surveys thus provide detailed information on levels of underemployment and of the greater need to stimulate job creation than might be apparent from official unemployment rates.

Privatization methods: Concern has been raised that favouring insider ownership in transferring manufacturing enterprises away from state control would retard restructuring of employment to economically sustainable levels when it implied that workers would have to cut their own jobs. The surveys permit comparisons between closed and open joint-stock companies, which differ in the extent of favouring enterprise managers and employees in the transfer from state ownership, and which were the most popular forms of privatization in the FSU countries. Differences between these two types of establishments in terms of their rate of downsizing and extent of surplus labour were found to be insignificant.

Poverty: The surveys documented the extent to which establishments resorted to unpaid leaves, reduced work schedules, extended maternity leaves, and wage arrears in order to decrease the costs of retaining surplus labour: One third of the workers covered in the Kyrgyz and Georgia survey had been placed on unpaid leave in the previous year, as had almost 15 per cent of the workers in the surveyed establishments in Russia and Ukraine. From 50 per cent of the respondents (in Russia) to 70 per cent (in the Kyrgyz Republic) owed their workers back wages. Apart from the falling purchasing power of wages, the widespread use of such workplace practices has contributed to growing poverty among employed persons. Furthermore, to improve their competitiveness, enterprises have been encouraged to cut back provision of benefits and social services, which have traditionally included subsidized housing, medical care, child care, and, in smaller cities, community utilities. Local government agencies have not had the revenue collection authority nor administrative capacity to replace enterprises as the providers of basic social services.

Impact on women: Women's job losses were proportional to their share of employment in Russia, Armenia and Ukraine. However, in Georgia and the Kyrgyz Republic women accounted for nearly two-thirds of the job loss compared to about half of employment. The surveys revealed bias against hiring women and against including them in training programmes- tendencies which may put at risk the quality of women's future employment opportunities. Workplace adjustment practices placed a disproportionately high burden on women, through extended unpaid maternity leaves and closure of enterprise-based clinics and child care centres.

The property transformation stage of the privatization and restructuring process is well underway in the FSU countries reviewed, and nearly completed in Russia. Policy priorities now turn to other areas in which reform is needed if the potential gains from privatization are to be realised. Market-enhancing institutions and policies in the areas of credit and investment, social protection and services, labour market functions and small business promotion are now the preeminent concerns. Effective policies in these areas are needed to create the market environment within which entrepreneurship and improved enterprise governance could lead to better employment outcome. Analysis of the survey findings also leads to a series of policy recommendations, including anti-poverty measures, for workers displaced from state enterprises or privatized establishments and for impoverished workers; improved labour market

institutions, including separating social services from employee benefits; and job creation efforts.

In China, the policy priority has been the "commercialization" of industry, rather than transfer of ownership, and on improving efficiency and competitiveness of the economy by submitting enterprises to more binding budget constraints (reducing state subsidies), allowing them more discretion in setting output and employment levels, linking directors' remuneration to enterprise performance and encouraging the growth of non-state enterprises. In 1997, Chinese officials announced renewed determination to increase market pressures on state enterprises and acknowledged that massive worker displacement would follow. China has taken a more active approach towards redeploying workers displaced from state enterprises and providing income support, compared to the FSU countries. The particular challenge will be to extend performance requirements to more of the state sector and to devote resources to labour redeployment and social services commensurate to the magnitude of redundancies that are anticipated.

The survey evidence in each of the six countries shows that the fall in employment had not bottomed out in any of the manufacturing sectors surveyed. Modest economic growth is unlikely to create jobs for displaced workers, or the openly unemployed. An increase in output can be expected to translate first into more productive employment for a larger share of surplus workers still formally employed. Faster and sustained growth over a longer period will be needed to create job opportunities in the manufacturing sector for workers already displaced and for unemployed labour market entrants.

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1. Introduction

1.1 The data: The surveys of manufacturing establishments

The series of establishment surveys was begun in Russia in 1990, entitled Enterprise Labour Flexibility Surveys. Later the survey instruments were adopted to local circumstances from a generic model questionnaire, with the China survey individualized most in order to capture the forms and issues of enterprise restructuring specific to its circumstances. Establishment surveys carried out by the ILO in Armenia, Georgia, the Kyrgyz Republic, Russia, Ukraine and China are the sources of data for the tables and figures in this report unless otherwise noted

In each survey, information was collected from establishments in two stages. The first part of the questionnaires, covering basic employment, wages, and production, was completed by plant managers on the basis of establishment records. The second part was filled in during a structured interview with plant managers, conducted in most cases by staff of national statistical committees. This part covered human resource development, recruitment practices, business and employment problems, responses to surplus labour problems, and views towards government regulations and labour market programmes.

This report is based on information collected in these surveys in several ways. First, it compares the salient findings of the original analyses as reported by the authors of the individual country reports (table 1-1). Second, in order to draw accurate comparisons, it was necessary to go back to the original data to impose common definitions of types of property forms and other establishment characteristics and to recompute the tables and figures used throughout this report. Third, because the present study has a sharper focus than the original country reports--the comparison of business performance and employment in privatized and non-privatized establishments--additional efforts were made to submit perceived differences to appropriate statistical testing whenever possible.

As shown in table 1-1, single survey rounds of the establishment surveys were conducted in Armenia, Georgia and China¹ while follow-up surveys have been conducted in the Kyrgyz Republic and Ukraine and no fewer than five rounds of surveys have been carried out in Russia. This cross-country report relies primarily on data from the most recent surveys because of their nearly concurrent reference periods (the principal exception being Georgia, as the most recently-conducted survey.) Where the country reports provide analysis over a longer time frame on subjects covered in this report, for example comparing most recent findings with those from earlier surveys, that perspective will be reported.

In each country, the manufacturers to be surveyed had been identified at random from a list of manufacturers provided by the national statistical offices. In China, the lists were stratified by property form in order to ensure coverage across traditional and newer types of state-owned enterprises in each of five selected cities. In Russia and Ukraine, the lists were stratified by industrial sector in order to cover the same industries across selected regions. And in the smaller countries, the surveys attempted to cover the population of manufacturers in the most industrialized regions.

¹A second round of the establishment survey was carried out in China just as this report was being prepared, and the results were not available.

Table 1-1. Characteristics of Enterprise Labour Flexibility Surveys in six selected transition economies

Country	Number of establishments*	Reference period	Employment in surveyed enterprises	Number of regions covered	Country report and authors**
Armenia	333	1994-95	98,029	6	<i>Economic transformation and enterprise restructuring in Armenian industry</i> , Alexander Samorodov and Laszlo Zsoldos
Georgia	286	1996-97	56,366	6	<i>Economic transformation and enterprise restructuring in Georgian industry</i> , Alexander Samorodov and Laszlo Zsoldos
Kyrgyzstan 2nd round	232	1994-95	89,772	5	<i>The continuing employment crisis in Kyrgyz manufacturing</i> , Christine Evans-Klock
Russia, 5th round	472	1994-95	289,671	7	<i>The "shake-out" in Russian factories: the RLFS fifth round, 1995</i> , Guy Standing
Ukraine, 2nd round	566	1994-95	538,679	12	<i>Labour market crisis in Ukrainian industry: The 1995 ULFS</i> , Guy Standing and Laszlo Zsoldos
China	295	1993-94	467,578	5	<i>Economic performance, labour surplus and enterprise responses</i> , Lin Lean Lim, Gyorgy Sziraczki and Zhang Xiaojian

*Number of establishments (and employees) included in this cross-country analysis.

**Working papers available from the Department of Employment and Training

Due to the pace and extent of economic change (and political upheaval in Armenia and Georgia), the national statistical offices in the FSU countries could not provide an up-to-date accounting of the population of enterprises and employment, making it difficult to estimate what portion of the population of manufacturing enterprises and employment was covered by each survey. The descriptions of the survey samples provided by the authors of the original country reports are summarized below. To put the size of the samples into perspective, the employment covered by the surveys in each FSU country is given as a percentage of total employment in the manufacturing sector as estimated by the Economist Intelligence Unit (EIU) on the basis of international and national sources. However, as their figure includes employment in mining, the actual share of manufacturing employment covered by the surveys would be higher.

- In *Russia*, the survey sample was drawn at random from the lists of manufacturing establishments in seven regions: Moscow city, Moscow Oblast, St. Petersburg City, Nizhny Novgorod Oblast, Ivanovo Oblast, Tatarstan (Republic) and Vladimir Oblast. The sample was stratified by industry and drawn from all registered firms in manufacturing, regardless of property form. The total employment covered by the survey represented about 2 per cent of the total employment in industry and mining

estimated for 1995 (EIU). The survey was conducted by the Centre for Labour Market Study, Moscow, with assistance from the State Committee of Statistics of the Russian Federation, *Goskomstat* (Standing, 1996).

- In *Ukraine*, the survey covered a random sample of establishments, stratified by industry to give a cross-section of industries in each of 12 regions, including Kiev City (the capital), Kiev Region, Donetsk, Kharkov, Lvov and Nikolaev. The total employment covered by the survey was *equivalent to about 9 per cent of the total employment in industry and mining* for 1994 (EIU). The surveys were administered by the Ministry of Statistics (Standing and Zsoldos, 1995).
- In the *Kyrgyz Republic*, the survey attempted to canvass the population of manufacturing enterprises with at least 40 employees in the principal industrial regions of the country: the capital city Bishkek; Chu Oblast, the valley surrounding Bishkek in the northern part of the country; and the Osh Oblast in southern Kyrgyz, including the principal cities of Osh and Jalal-Abad. The sample was not stratified by industry or other characteristics. The total employment covered by the survey represented *about one third of the total 1995 employment in industry and mining* (EIU). Establishments were identified through records of the National Statistical Committee, which also administered the survey (Windell, Anker and Sziraczki, 1995; Evans-Klock, 1998).
- In *Armenia*, the survey was carried out in the cities of Yerevan (capital), Gumry and Varnadzor and in the regions of Armavir, Kamo and Razdan. In *Georgia*, the survey was carried out in the cities of Tbilisi (capital), Kutaisi, Rustavi, Batumi and Zugdidi and their surrounding areas. No attempt was made to stratify the survey samples by industry, size or type of property form as an attempt was made to include all registered manufacturing establishments in the survey. In Armenia, the employment covered by the survey represented *about one fourth of total 1995 employment in industry and construction* (EIU). In Georgia, the employment represented *about one fifth of total 1995 employment in industry*. These two surveys included establishments with ten or fewer employees. However, to improve comparability across surveys, these smallest employers were dropped in the cross-country analysis. The surveys were administered by the Labour and Population Section of the State Department of Statistics in Armenia and by the Labour Statistics Section of the State Department of Economic and Social Information in Georgia (Samorodov and Zsoldos, 1998).
- In *China*, the survey was drawn from the five main urban economies: Beijing, Shanghai, Guangzhou, Tianjin and Shenyang. These cities represented the range of the country's coastal urban economies: Guangzhou and Shanghai on the southern coast have experienced rapid, foreign investment-led growth. Tianjin and Shenyang represent the heavy industry-based economies of the North, with the problem of redundant workers in the face of enterprise restructuring and economic reforms most evident in Shenyang. The state-owned enterprises were deliberately over-sampled in order to track the effect of reforms on these key targets of restructuring and labour market policies. Surveys were administered by officials of the Labour Bureaus in the five cities. According to their data, the sample represented *about 0.12 per cent of industrial enterprises* and *about 3.3 per cent of the combined labour force* of these five cities. The survey did not cover rural areas and thus does not capture urban-rural differences (Lim, Sziraczki and Zhang, 1996).

1.2 Characteristics of survey respondents

The principal comparisons drawn throughout this report are between privatized and state-owned establishments within the selected countries, and between privatized establishments across countries. But the establishment surveys differ in terms of distribution by industrial sector, size, and urban or region concentration--differences which reflect their respective economies. This section briefly summarizes the surveyed establishments along these dimensions.

Distribution of the sample by *region* matters primarily because statistics from transition economies typically show that growth in central urban areas precedes adjustment in smaller cities or far-flung rural centres. Businesses in the capital city tend to enjoy some advantages not available to those elsewhere, such as better access to transport networks, preferential interest by foreign investors, and better developed banking institutions and business services. Thus the first dimension to note is that some surveys were more concentrated than others in the country's central urban region.

As shown in figure 1-1, concentration of respondents in the respective capitals was highest in Armenia and the Kyrgyz Republic (approximately 38 per cent of enterprises and 50 per cent of employment in each country). It was lowest in the Russian and Ukrainian surveys, with the central urban regions accounting for 19 per cent of the surveyed employment in Russia and 9 per cent in Ukraine. As noted, the China survey was restricted to principal urban centres. (Detailed data is provided in Appendix tables 1 and 2.)

Figure 1-1. Central urban regions' share of establishments and employment (p. 7)

The distribution of establishments by *industrial branch* reflects both the industrial composition of the economies and the sample design in each country (figure 1-2). The manufacturing establishments in Georgia and the Kyrgyz Republic were concentrated in processing agricultural products. The food and textiles industries accounted for half of the surveyed establishments in these two countries compared to about a third in Armenia, Russia and Ukraine. In Russia and Ukraine, heavy manufacturing (combining engineering, chemicals and metallurgy) accounted for 40 per cent of the surveyed establishments. The China urban survey had a comparatively small share of establishments in food processing (6 per cent) and larger concentration in heavy manufacturing (39 per cent in engineering and 13 per cent in chemicals).

Figure 1-2. Distribution of establishments and employment by industrial sector (p. 8)

Most of the surveys canvassed only *medium and large establishments* because small-scale manufacturing was a relatively minor player in the centrally-planned economies and had not yet emerged as a major component of the manufacturing sector. Establishments with more than 1000 employees accounted for half of the respondents in the China survey and a quarter of the respondents in the Ukraine survey. Medium-sized establishments, those with more than 100 employees accounted for about two thirds of the surveyed establishments in the Kyrgyz Republic and Ukraine, and 55 per cent in Russia. In marked contrast, a very large portion of the establishments surveyed in Georgia and Armenia were small: Establishments with fewer

than 100 employees, accounted for two thirds of the survey in Georgia² and half in Armenia, compared to about ten per cent in Ukraine and China, and about a third in Kyrgyz and Russia (figure 1-3). In each country, establishments with more than 1000 employees accounted for at least 40 per cent of all workers covered in the surveys.

Figure 1-3. Establishments and employment by size class (p. 9)

1.3 Main issues and organization of the report

Section Two summarizes data from the CIS Statistical Committee on the depth of recessions in the FSU economies. Trends in output in the manufacturing sector describe the economic context within which the individual establishment respondents were operating. This section then reviews the privatization process in each country, recognizing that removal of manufacturing enterprises from state ownership proceeded at a different pace in each country, and that the surveys captured establishments' adjustment at different stages of the process. The section ends by contrasting the transfer of ownership in the FSU countries with the ongoing enterprise restructuring process in China, which has placed greater emphasis on increasing commercialization and profit incentives and less importance on transfer of ownership and property rights.

Section Three begins the analysis of the establishment survey findings by documenting the extent of enterprise privatization and the types of new property forms that have emerged. It addresses the question of whether management change accompanied changes in property form, using data collected on distribution of ownership shares and methods of selecting senior managers. Privatized and non-privatized establishments are compared on those performance indicators which were collected in each survey, such as sales growth, export market share, and capacity utilization.

Section Four analyses what has happened to labour demand at the enterprise level during the process of privatization. The surveys document a one-year job loss of at least 10 per cent of the initial total employment covered in each of the FSU countries surveyed. This section employs various statistical tests to compare employment performance between privatized and non-privatized establishments. A multivariate model of employment change is estimated to look for relationships between removal of state ownership and employment, holding constant industrial branch, management selection, region, and other factors. This section also looks for evidence of any pockets of employment growth by comparing employment performance across industrial sectors, urban regions, and size classes of establishments.

Apart from massive job cuts, *Section Five* examines unemployment still "hidden" within enterprises in the form of surplus labour. It was formerly rational for enterprises to maintain employment at high levels because returns did not depend on worker productivity, nor firm profitability, but on access to state resources, which varied by size. One indicator of progress towards basing business decisions on profitability and productivity is whether redundant workers continue to be retained by enterprises. Comparing data across countries and multivariate analysis shows that privatized establishments have not been less likely to retain unproductive workers despite presumed cost-minimizing constraints.

²Establishments with fewer than 10 employees were included only in the Georgia survey. These establishments have been excluded from this cross-country comparison.

Section Six analyses the evidence on labour demand provided by the establishment surveys to evaluate what progress has been made toward the development of labour markets in these economies. Relevant indicators include establishment practices in hiring and retrenching workers and their recourse to official employment services. This section also examines the impact of enterprise restructuring on changes in remuneration and provision of social services, documenting growing poverty among employed workers due to wage arrears, in-kind payments and cuts in social services.

Section Seven continues analysis of labour market issues, looking at changes in occupation structure of employment and training needs and practices. The discussion contrasts changes in human resource practices by privatized firms, and uses this information to predict what kinds of changes may persist and to identify what types of policy interventions would be most useful in protecting the quality of employment.

Section Eight compares the employment impact on workers by age and gender. It draws evidence from across many of the topics already mentioned to look directly at the effects of establishment restructuring on women employees. It calculates their share of job loss and training and compares these proportions to their initial share of employment. It draws attention to a disturbing trend towards greater burden of job loss and a disproportionate burden of restructuring costs being borne by women employees and suggests how this trend could be arrested in its early stages.

Finally, in *Section 9*, findings are presented on what managers or directors themselves identified as the principal constraints on business growth and their main employment problems. This evidence and the summary of survey findings are used as the basis for offering recommendations for employment promotion policies in the *Conclusion*.

Figure 1-1. Per cent of employment and per cent of establishments in central urban region

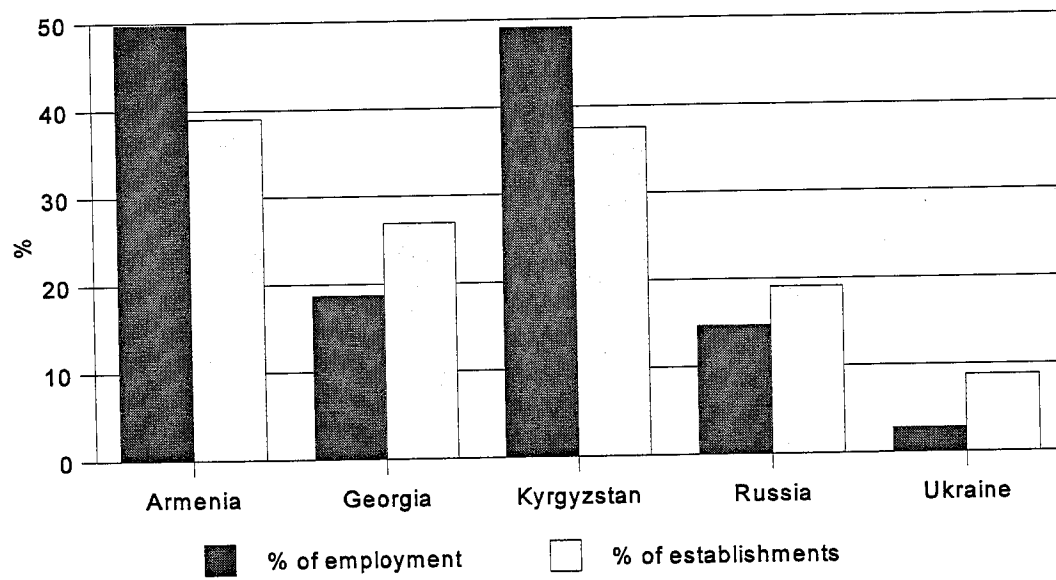


Figure 1-2. Distribution of establishments and employment by industrial sector

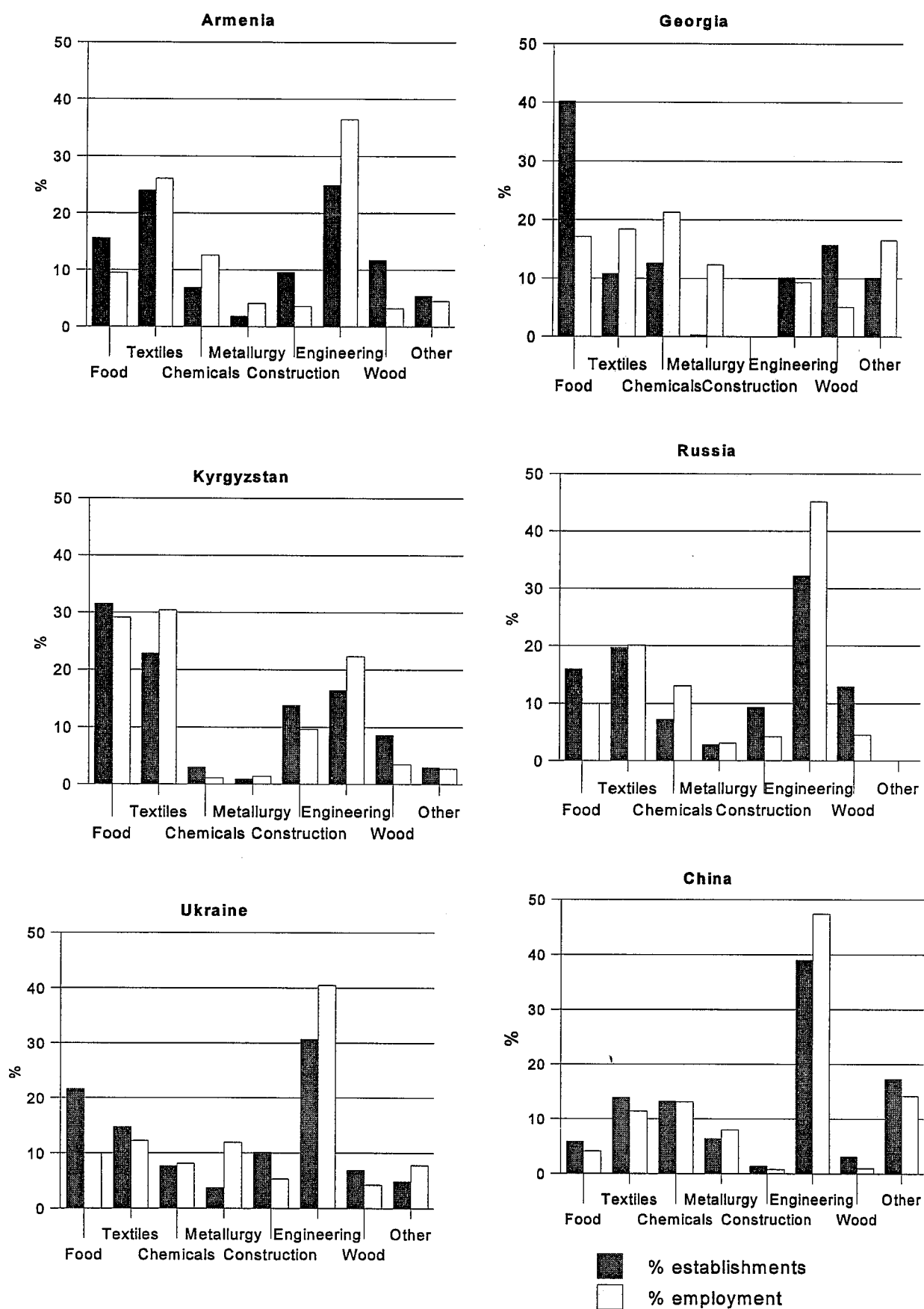
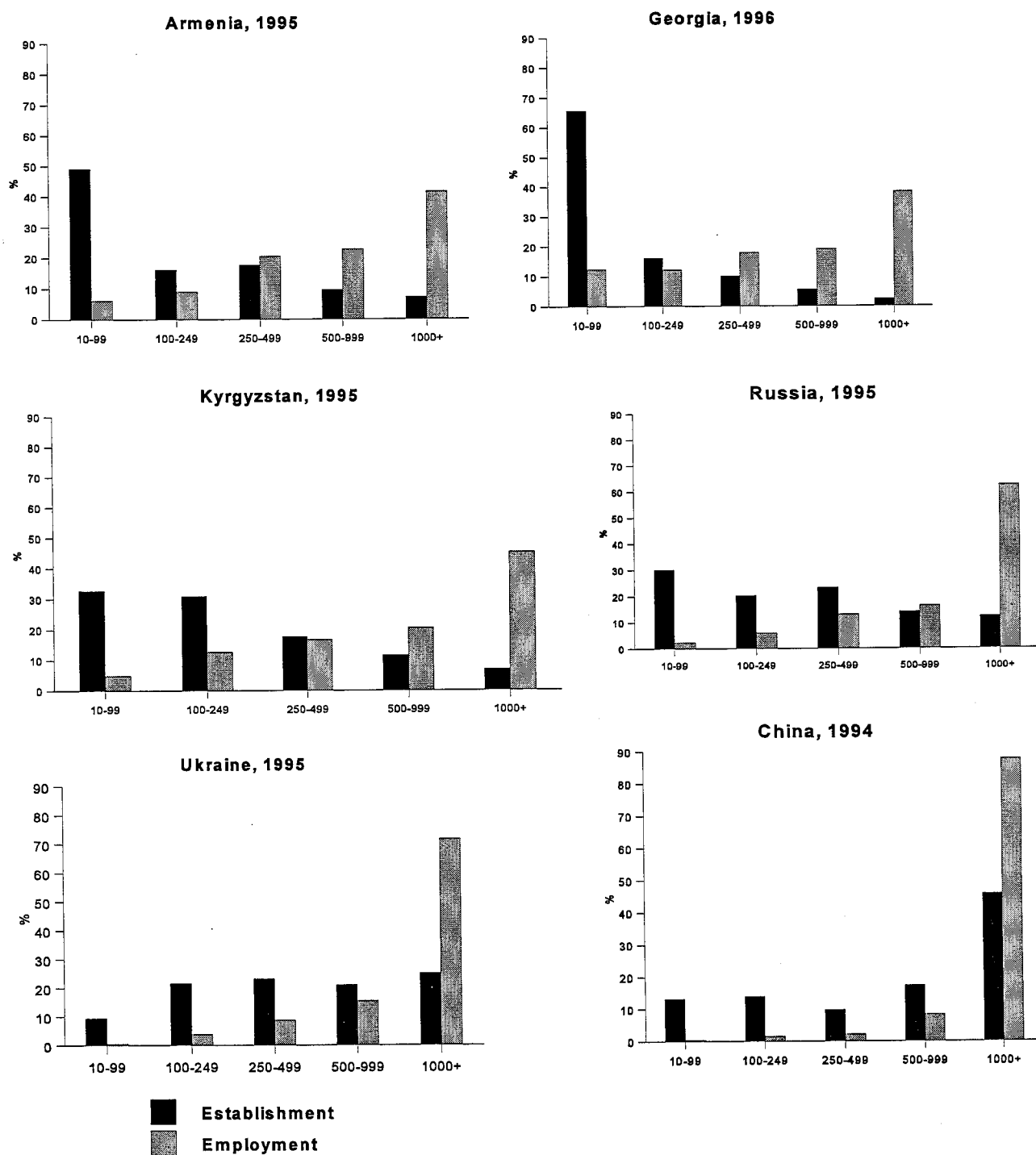


Figure 1-3. Distribution of establishments and employment by size class



2. Overview of economic performance and privatization methods

This section provides some context for the cross-country comparison of the enterprise survey findings. First it compares economic performance in the selected FSU countries, describing the economic circumstances within which survey respondents were operating at the time the surveys were conducted. Second it compares the methods by which these countries privatized state enterprises. The process began in different years, and the surveys captured enterprises at different periods of time in the process. Both of these basic factors should be kept in mind in comparing respondents' employment records and practices across the surveyed countries.

This section also briefly compares the reform and enterprise restructuring process in China with that of the FSU countries. High economic and export growth and the more minor role of outright privatization contrasts sharply with the enterprise reform process and results throughout the FSU countries.

2.1 Basic indicators of economic performance¹

The adjustment challenges faced by each of the newly independent republics reflects their different economic and social characteristics prior to the dissolution of the Soviet Union--differences which have grown during the transition years. As shown in figure 2-1, the range of GDP per capita across these countries has widened since 1991. Russia began the period with GDP per capita measured at 128 per cent of the CIS average, a lead which increased to over 150 per cent by 1996. Georgia's GDP per capita was the lowest of the selected countries in 1991, not quite 50 per cent of the CIS average, and fell to just below 40 per cent by 1996. Armenia's GDP per capita suffered the most severe fall and in 1996 GDP per capita was just one fifth of the CIS average.

Figure 2-1. Relative gross domestic product per capita, in current prices (p. 17)

The structure of these economies also differed significantly, particularly the relative size of the industrial sector. Industry contributed one third of total gross value added in Russia and Ukraine, 13 per cent in the Kyrgyz Republic and just 7 per cent in Georgia² (figure 2-2). Agriculture was the largest sector in Georgia, Armenia and the Kyrgyz Republic.

Figure 2-2. Distribution of gross value added by sector (p. 17)

These countries have suffered severe economic recessions since 1990. Table 2-1 shows the severity of the recessions by comparing each country's GDP in 1996 to its level in 1991 (in constant terms), as well as to the year prior to independence when GDP was highest. GDP in 1996 stood as low as 29 per cent of its 1991 level in Georgia, and as high as 60 per cent in only Armenia and Russia. GDP levels in 1996 were not higher than their 1980 levels in any

¹ Much of this section is taken from background materials provided by the Statistical Committee of the CIS, 1997.

² "Industry" included utilities, mining, manufacturing and publishing. Latest available data varied from 1993 in Georgia to 1995 in the Kyrgyz Republic and Russia.

of the countries, and were significantly lower in Georgia, equivalent to its 1963 level, and in Armenia, about the same as its 1975 level.

Table 2-1. Gross domestic product and industrial output (in constant prices)

	Year of maximum GDP	1996 GDP as % of maximum	1996 GDP as % of 1991	1996 industrial output as % of 1991	GDP=1996 in the year
Armenia	1989	53	63	51	1975
Georgia	1988	19	29	23	1963
Kyrgyzstan	1990	54	58	36	1981
Russia	1989	57	61	51	1979
Ukraine	1989	44	47	52	1977

Source: CIS Statistical Committee, 1997

The depth of the recession and the recovery patterns for each country are illustrated in figure 2-3. The year at which GDP stopped falling varied from as early as 1994 in Armenia, to 1995 in Georgia, and 1996 for the Kyrgyz Republic (the years in which GDP equalled at least 100 per cent of its level in the previous year). GDP continued to fall in Russia and Ukraine in 1996, although at a slower rate than in 1994.

Figure 2-3. Annual change in GDP, in constant prices, 1992-1996 (p. 18)

Similar trends were reported by the CIS Statistical Committee with regard to industrial output. After falling in the first three years of independence, growth of industrial output resumed in Armenia in 1994 and in Georgia and the Kyrgyz Republic in 1996. Industrial production continued to fall in Russia and Ukraine in 1996, the latest year for which the CIS had data. *In 1996 industrial output was estimated at half of its 1991 levels in Russia, Armenia and Ukraine, at a third in the Kyrgyz Republic and at just under a fourth in Georgia (also shown in table 2-1).* There was also a marked change in the

Indications of Industrial crises, 1996:

- Armenia:* Total industrial output in 1996 was half of its 1991 level. The worst hit sectors were light industry (at 32% of 1991 levels) and metal-cutting machinery (7%).
- Georgia:* Machine building output was 20% of its 1991 output; automobile production stood at 4% of its 1991 level.
- Kyrgyz:* Production in light industry equalled one third of 1991 levels. Food production was down 80%.
- Russia:* Production of consumer goods in 1996 was 46% of its 1991 level; production of footwear and television sets had fallen by 90%. Food production was halved.
- Ukraine:* Machine building and metal working were one third of their 1991 level; meat production was one fourth of its 1991 level.

Source: CIS Statistical Committee, 1997

composition of industry, with the best performance in mining and the deepest cuts in machine building and light industry.

The consequences for workers have been grim. Since 1990, when open unemployment was unknown, the number of unemployed workers officially registered by employment services has mushroomed, for example from 6,100 to 159,300 persons as of late 1996 in Armenia, from 100 to 77,200 in Kyrgyzstan, from 16,000 to over two and a half million in Russia. Total unemployment, including those looking for work on their own (without the assistance of the Employment Services) is in reality 2 to 3 times higher than officially supplied figures.

The level of official unemployment (the ratio of the number of unemployed persons registered by employment services relative to the economically active population) was 9.7 per cent in Armenia and below 5 per cent in the other countries in 1996. These unemployment statistics are notoriously underestimated because state employment agencies have only begun to collect data on this new phenomenon, and because their collection has relied on self-registration uncorroborated through labour market surveys. Inadequate levels of income support and re-employment assistance give displaced and unemployed workers little incentive to take this step.

For example, the CIS statistics reported that employment had fallen by 5 per cent in the Kyrgyz Republic since 1992, an unreasonable estimate given the 40 per cent decline in GDP reported from 1991 to 1996. In addition to collection problems, these figures reflect the fact that displaced workers hardly have the "luxury" of being unemployed given the woefully inadequate unemployment insurance or other social security benefits. The CIS also reported a decrease in the share of those in paid employment and a corresponding growth in self-employment (petty trade, working family members, etc.). The share of self-employment grew from 13 per cent in 1991 to 48 per cent in the Kyrgyz Republic, doubled in Armenia from 20 per cent to 41 per cent, tripled in Georgia (from 12 to 40 per cent), and grew from a minuscule two per cent in Russia to 10 per cent. The "self-employment" category undoubtedly conceals a great many workers unable to find new jobs in their previous professions and industries and who occupy themselves in odd-jobs, black-market employment, and other precarious and ill-paid work. A small fraction of the large number of workers classified in this category are small-business owners, entrepreneurs, or private contractors.

In addition, the official statistics fail to capture workers technically employed but for whom employers have no work, and thus are put on administrative leave, rotated lay-off, or reduced working schedules. This continued labour hoarding may explain why declines in GDP were accompanied by much smaller (reported) declines in employment. According to a UN report, in 1994 output fell by 15 per cent in the FSU but employment declined by only three per cent (UN, 1996). The enterprise surveys provide detailed information on the extent of surplus labour and enterprises' methods of reducing the cost of employing too many workers.

Each country has tried to implement social measures to protect the population from the most severe consequences of the extremely high levels of inflation experienced in most countries in the early years of independence. However, despite efforts to index wages and pensions and to regulate price increases on some basic consumer items, wage growth in 1992-96 was significantly lower than the growth in consumer prices. For example, the CIS estimated that during this period consumer prices increased 6 times faster than wages in Armenia, 4 times faster in the Kyrgyz Republic, and twice as fast in Russia. *Real wages in 1996 were estimated at 21 per cent of their 1991 level in Armenia, 26 per cent in the Kyrgyz Republic, 34 per cent in Russia and 44 per cent in Ukraine.*

Researchers, and the survey results as well, have identified disruption in supply and product markets and difficulties establishing national institutions and policies conducive to business growth, especially in the areas of tax, trade, and banking and finance, as the principal factors accounting for the sharp fall in production and employment. Building institutions and policies to support business growth proved more difficult than changing the property form of the businesses themselves.

2.2 Comparison of privatization methods and ownership forms ³

Most countries of the former Soviet Union adopted legislation for privatisation as early as 1991-92. Along with countries in East and Central Europe, the scale of privatisation as part of the transition from a command to market-driven economy in the FSU countries was unprecedented. Despite widespread consensus to remove the State from running production enterprises, implementation was held back by lack of consensus on how to proceed with privatisation and by the lack of effective institutional framework.

The privatization process began with the small enterprises, primarily in the service sector, such as retail, catering, personal services and construction. In Russia, Ukraine and Armenia, employee buyouts were the preponderant method for small privatization. Privatisation of large enterprises generally proceeded in two stages. First, state-owned enterprises were converted into joint-stock companies, a process often referred to as "corporatisation" or "commercialisation." Second, ownership shares were transferred via sale or some form of voucher distribution.

Enterprise management and solvency were not the only factors in the privatization process. In all cases, the equity implications of alternative methods of removing government from controlling enterprises has also been a major issue. The competing demands of these two objectives, enterprise performance and fairness (distributing back to the public the means of production which they had previously "owned" as state enterprises) were met in different ways in three basic methods of large privatization:

First, *mass privatization* involved transferring state assets to the population essentially free of charge. The primary vehicle of mass privatisation has usually been vouchers, which are distributed or sold to citizens, regardless of their work affiliation. This method was an effective and popular means of privatisation in many countries, not least because it resulted in broad ownership rather quickly. Because citizens became shareholders at low or zero cost, this method was perhaps most politically acceptable. On the other hand, mass privatization has potentially negative repercussions with regard to enterprise restructuring. The method fails to address the resource needs of a newly privatised company such as fresh capital, management expertise, technology, and access to markets. Also, the resulting broad ownership structures may complicate corporate governance.

A second form of privatization is through *sales to outsiders*. This consists of sales on a case by case basis, typically to one specific outsider investor through public or closed tenders, direct sales, or auctions. They were the main vehicle for foreign direct investment, and were more popular in some countries in East and Central Europe but are beginning to be used in Russia. Their advantage is that new owners bring investment capital and access to markets. Their disadvantage is that, on a piecemeal basis, this form of transfer is time-

³ Much of this section is taken from the background report prepared by Catherine Sokil, 1997.

consuming and costly. It is also, naturally, limited to those state enterprises with the best prospects for yielding a return on investment, and has been especially popular in extractive industries. This method has typically been more effective earning immediate cash for government budgets and less effective in restructuring large sectors of the economy.

The third method incorporates a variety of specific measures to transfer enterprises to their own managers and employees, known variously as *insider privatization*, *closed joint-stock companies*, or *management and employee buyouts*. In some cases, management and employees acquire a controlling interest. In others, minority shares are transferred to employees at preferential terms. Direct, large-scale transfers to "insiders" were the most popular form of privatization in the FSU. Through voucher-based programmes, most privatised firms became owned primarily by managers and employees. Early methods of ownership and decision-making decentralization during the *perestroika* period had already emphasized leasing arrangements, which could result in insider buyouts at highly preferential prices. These and other changes underway by the early 1990s had increased the power and autonomy of enterprise managers, and thus it was argued that no other form of privatisation was politically feasible.⁴ This method was deemed fair in that "ownership" passed to employees already considered "stakeholders." Like the mass voucher systems, however, this transfer method resulted in no infusion of capital or know-how.

The mass voucher method of privatization has also been criticized in the Russian experience for being carried out too quickly, without sufficient understanding on the part of workers and the general public, and consequently for poor results in terms of fairness because most of the shares for which people traded vouchers have turned out to be worthless (Martin, 1997). As in capitalist societies, information about enterprises and markets is not distributed evenly among the population. Those with inside knowledge and assets could profit by making investment decisions; others could rely only on chance in trading voucher for ownership shares. Also, in some countries, particularly in the Kyrgyz Republic, workers often traded vouchers for their apartments which technically had belonged to their employers, rather than for ownership shares.

In the Central European countries, foreign investors are proving to be agents of effective and rapid restructuring. Foreign participation has been much lower in countries where voucher privatisation has been implemented, across the FSU. However, other factors such as distance to European markets, a lag of several years behind Central Europe in beginning the restructuring process, more recent and deeper recessions, as well as even more limited connections to Europe before the political transformations began, also account for this difference in foreign investment.

At least for the period up to 1995, the most important large privatisation method used in Russia has been management/employee participation, followed by mass voucher auctions. In Ukraine, the predominant method has been mass voucher auctions, with a minority of insider transfers. In Armenia, mass voucher auctions have also been the predominant method. In the Kyrgyz Republic, the first privatization scheme emphasized transfer to employees and owners, which in the last few years has changed to a mass voucher distribution and auction system. According to OECD estimates (OECD, 1995), the number of majority privatized enterprises as a percentage of the total number of state-owned enterprises was quite high in Russia (71 per cent), and growing in Ukraine (27 per cent) and Armenia (17 per cent).

⁴ See, for example, Earle and Estrin (1993) and Boycko, Shleifer and Vishny (1995).

2.3 China as an alternative case

The countries of the FSU have implemented broad, far-reaching and relatively rapid privatisation, with an associated need for comprehensive reform of their labour market policies and systems of social benefits. The Chinese economic reform followed a programme of "gradualism" or a "dual-track approach," beginning a decade before privatization in the FSU.

The Chinese economic reform programme is characterized by the absence of substantial privatisation, which is considered politically unacceptable. The state retains ownership of state enterprises, but managers buy and sell an increasing share of inputs and outputs in free markets, the enterprises retain a share of their profits, and managers' compensation is linked to profits. Prices are still fixed for output sold under government quotas, but excess production over quota is sold in markets at free prices. Also, extremely liberal conditions for entry have led to significant increase in non-state firms, which provide vigorous competition to state enterprises. *Ease of entry and instituting new managerial incentives, rather than privatization, have been the key elements to China's approach to enterprise reform* (Lim et al., 1994).

The second great difference in the process of enterprise restructuring in China is that it has proceeded during a time of rapid economic growth. Annual growth of GDP was about 13 per cent in 1992 and 1993 and has stabilized at about 9 per cent since 1995. While enterprise restructuring may have been easier during a high-growth period, the success in enterprise restructuring has also contributed to sustained growth.

China's focus has been on enhancing industrial efficiency and productivity and on improving labour flexibility in the state-owned enterprises. Unlike in the FSU, changes in legal property form were not seen as the means to accomplish this. As in the FSU, however, state enterprises have had a dual role in society. They have the primary responsibility for providing both jobs and social services. But they also contribute the largest share of state revenue, which in part finance state efforts to encourage private and foreign investment, thus increasing competition and difficulties for the state enterprises. Also as in the FSU, these pressures have revealed the heavy costs to enterprises of surplus labour.

Enterprise reform has resulted in a proliferation of types of enterprises and has been coordinated with changes in financial markets, investments and provision of social services (Lim, et al., 1996). The most important of these has been the emergence of village and town enterprises (VTEs). VTE incentive systems are not identical to those of private owners because the establishments are expected to absorb agricultural surplus labour in small cities, towns and suburbs. They are collectives, controlled by local authorities rather than by workers, but have a stricter budget constraint than state enterprises and often enjoy a greater degree of management autonomy. For example, researchers have documented that VTEs can and do go bankrupt. The enterprise survey showed that VTEs have been the most dynamic economic sector.

Reform package for Chinese enterprises:

- Introduce corporate governance, with clear separation of ownership and management;
- Harden soft budget constraints through the reduction of fiscal subsidies and shifting bank credit to commercial terms;
- Recapitalize accumulated enterprise debts;
- Provide new financing for technical updating and improvements;
- Change enterprise ownership through sales, mergers, leasing, joint stock participation, as well as through bankruptcy proceedings.

IMF Survey, 21 July 1997, pg. 217

Another enterprise innovation is the labour service enterprise (LSE), collectives established by parent state enterprises with the explicit task of absorbing some of their surplus labour. Their degree of independence from state enterprises varies, and the parent companies are responsible for start-up capital, technical and managerial staff. Their productivity reflects their role in absorbing least trained workers and using equipment inherited from the parent enterprise. However, as both a form of social safety net for redundant workers and with some "modern" business incentives, the LSEs offer an alternative to displacement into open or hidden unemployment.

Joint stock companies are also part of the variety of enterprises in China, with shares owned primarily by employees or managers but also offered sometimes to outside investors. As in the FSU, transformation of state enterprises into joint-stock companies has not resulted in inflows of investment nor decreased social burdens. Enterprise restructuring has also been pushed by the inflow of foreign direct investment. This new competition in the form of joint ventures stimulates productivity improvements and has become a source of new job creation. Its influence is substantial, given that China has been the largest recipient of foreign direct investment in the developing world since the early 1990s (Lim, et al., 1996, p. 5).

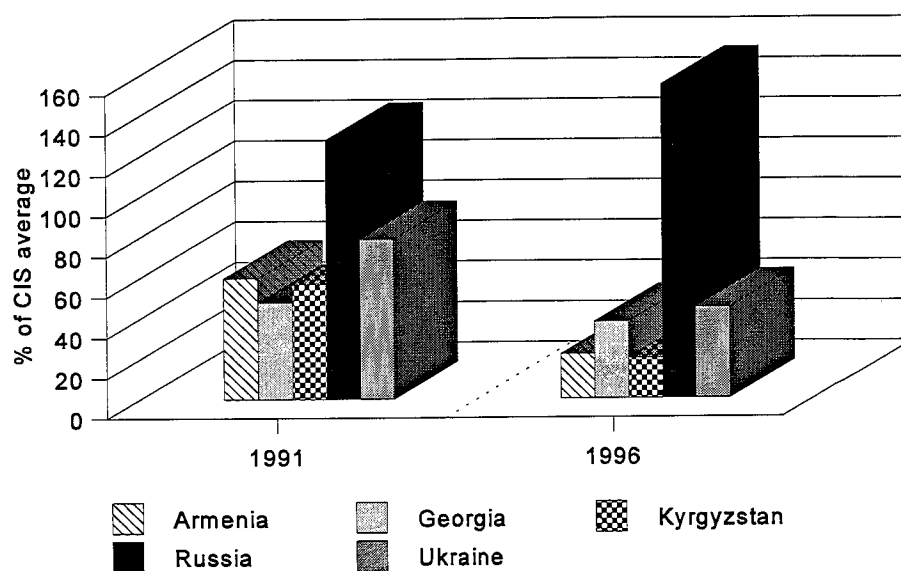
In addition to significant differences in enterprise restructuring due to foreign investment and strong economic growth, China's economic reforms differ from those in the FSU in that they have been shaped by efforts to cope with the large rural labour force. Competition between urban workers, accustomed to social protection, good wages, pensions, and subsidized housing, and rural workers, who receive no such benefits, is expected to intensify.

Recent government policy pronouncements have emphasized that the pace of enterprise restructuring will be accelerated and that massive redundancies will follow in the state enterprises. The active response documented in the enterprise survey will be challenged greatly in the years to come as modernization of the state sector continues.

Summary

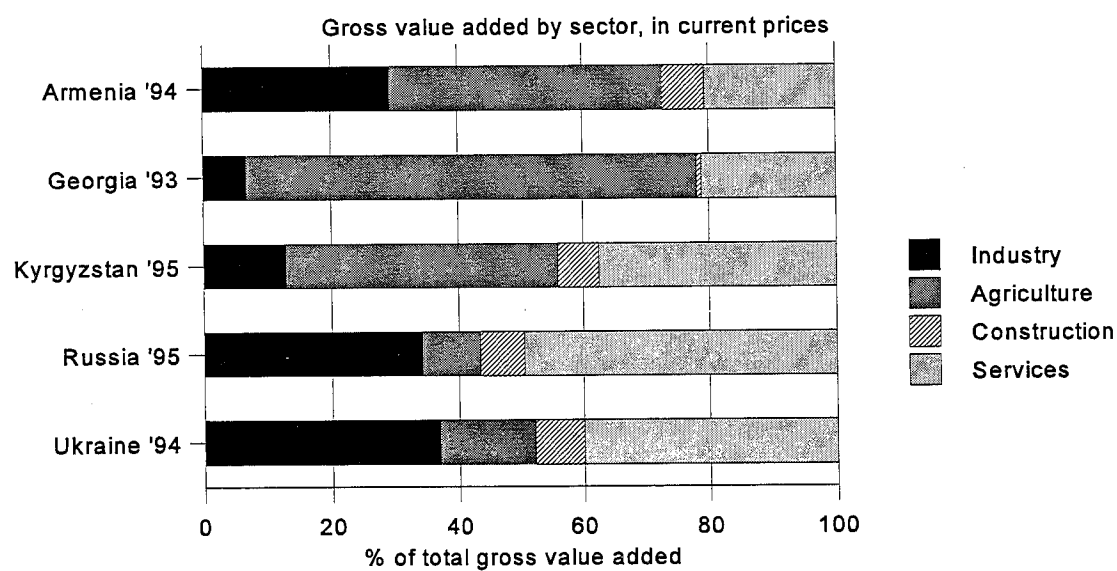
- Following severe recessions since 1991, only the smaller of the FSU countries surveyed have seemingly reversed the negative trend and achieved some GDP growth after 1995. Levels of manufacturing output, however, remain far below the pre-independence levels in each of the five countries.
- Employment performance of the surveyed establishments must be evaluated against this backdrop of severe recession - marked by disruption of supply and sales networks.
- In each of the FSU countries, ambitious privatisation programmes were undertaken, with some preferences given to employees and managers of state enterprises. The privatization programmes of the five countries have more common elements than differences, as they all relied on mass privatisation with significant management and employee participation.
- In China, privatization has played a relatively minor role in enterprise restructuring. Reform strategies have emphasized enterprise creation under a variety of institutional frameworks to encourage both productivity growth and labour absorption.

Figure 2-1. Relative gross domestic product per capita, in current prices



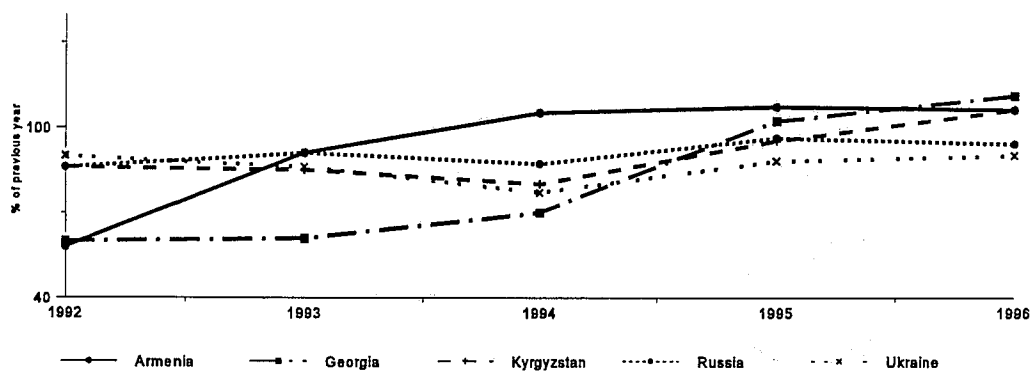
Source: CIS Statistical Committee.

Figure 2-2. Distribution of gross value added by sector (current prices)



Source: CIS Statistical Committee.

Figure 2-3. Annual change in GDP, in constant prices, 1992-1996



Source: CIS Statistical Committee, 1997.

3. Enterprise privatization and performance: Survey evidence

3.1 Emergence of new property forms

The individual country surveys substantiate that the privatization process has been extensive in each of the FSU countries under review, and second, they demonstrate that privatization has taken effect in a wide variety of new types of ownership and legal property forms. The distribution of property forms documented in the surveys is summarized in table 3-1. The share of surveyed establishments remaining in the state sector ranged from a high of 40 per cent in Armenia to a low of 14 per cent in Russia. Although the state sector is dominated by centrally-owned enterprises, it also includes establishments owned by municipal authorities and production cooperatives. In China, establishments organized as traditional state-owned enterprises accounted for nearly half of all surveyed establishments. New forms of state ownership accounted for an additional 30 per cent of the establishments, including labour service enterprises (16 per cent of the survey) and village or town enterprises (14 per cent).

Table 3-1. Distribution of establishments by property form

Property Form		Country					
Aggregated	Disaggregated	Armenia	Georgia	Kyrgyzstan	Russia	Ukraine	China
STATE	State	40.8%	20.3%	30.6%	13.8%	32.3%	47.8%
	Labour Service Enterprises						16.3%
	Village/town Enterprises						13.9%
PRIVATE	Joint Stock Open*	8.7%	41.6%		42.6%	28.8%	3.4%
	Joint Stock Closed	31.8%	3.5%	58.2%	19.3%	17.7%	
	Joint Venture						17.3%
	Other Private	15.0%	32.5%	7.3%	19.7%	5.1%	
OTHER	Other	3.6%	2.1%	3.9%	4.7%	16.1%	1.4%
Total number of enterprises		333	286	232	472	566	295

* Designation of joint stock companies as open or closed was not included in the China or Kyrgyz surveys. Privatization was generally in the form of closed joint-stock companies in the years covered by the survey in the Kyrgyz Republic.

In each of the FSU countries the principal form of privatization has been conversion to joint-stock companies. As explained in the preceding section, the degree to which shares in these companies were distributed to the population at large through mass voucher systems

(open joint-stock) versus to managers and workers of their own plants (closed joint-stocks) varied by country. The open form of joint-stock companies was most prevalent in Georgia and Russia, accounting for two out of five of all surveyed establishments. The closed form was dominant in Armenia (one out of three establishments) and in the Kyrgyz Republic.¹

Property forms other than joint-stock companies classified as "private" accounted for less than 5 per cent of surveyed establishments in Ukraine to more than 30 per cent in Georgia (figure 3-1). The "other private" category includes individual or family businesses, various forms of partnerships, and joint ventures with foreign investors. Across all of the FSU countries, only five establishments captured in the surveys were joint ventures, evidence of the small share to date of foreign investment in the manufacturing sectors of these economies (and possibly also of the failure of national statistical offices to fully account for these new types of enterprises in the lists of manufacturers used to create the survey samples.) By contrast, most of the establishments considered "private" in China were joint ventures, which accounted for 17 per cent of the survey. Another 3 per cent identified themselves as joint-stock companies.

Figure 3-1. Distribution of establishments by property form categories (p. 29)

Finally, a number of property forms could not be considered fully state-controlled nor fully transferred to private ownership and management. This grouping was most significant in Ukraine, accounting for 16 per cent of surveyed establishments. Most of these establishments were leaseholdings. The term generally refers to establishments which are owned by government agencies but leased to employees or workers. The property rights, managerial control and profit orientation of such establishments are unclear, and so for the purposes of this report, and its emphasis on comparing performance of privatized and non-privatized establishments, these establishments were kept as a separate category. In all the other FSU countries the "other" category contains less than 5 per cent of surveyed establishments. Besides leaseholdings, this category includes public organization enterprises and consumer cooperatives.

Table 3-2 summarizes the classification of property forms as "state" or "private" as used throughout this report. *In most cases, "privatized establishments" will refer to the aggregate grouping which includes open joint-stock companies, closed joint-stock companies and other non-government property forms.* However, a narrower comparison will be made, between open and closed joint-stock companies, where this distinction may be relevant, such as whether the degree of employee ownership in emerging forms of property ownership is connected to enterprise performance.

¹ Although the Kyrgyz survey did not distinguish between closed and open joint-stock companies, the principal original form of privatization was to insiders, and only in the later stages was privatization carried out through open auctions. Thus most of the Kyrgyz privatization has been in the form of closed joint-stock companies.

Table 3-2. Definition of property form categories

Aggregated categories		Disaggregated categories
All surveys	FSU countries	China
STATE	1. State (includes municipal enterprises and production cooperatives)	1. State (centrally-owned enterprises) 2. Labour Service Enterprises 3. Village/town Enterprises
PRIVATE	2. Open joint-stock companies 3. Closed joint-stock companies* 4. Other private (includes individual and family-owned enterprises and joint ventures)	4. Joint-stock companies 5. Joint Ventures (foreign partners)
OTHER	5. Other (includes leased enterprises, consumer cooperatives, enterprises of public organizations, associations and collectives)	6. Other collectives
Note: Privatization was almost exclusively in the form of closed joint-stock companies in the years covered by the survey in the Kyrgyz Republic.		

Figure 3-2 shows the distribution of private and state-owned establishments and employment in each of the surveys. The privatization process has been most extensive in Russia: Four out of five of the surveyed establishments were no longer in the state sector and these employed nearly 85 per cent of the workers covered by the survey. Georgia and the Kyrgyz Republic were not far behind, with two-thirds of all workers employed in privatized establishments. In Armenia, about 55 per cent of establishments had been privatized, and in Ukraine about half. Privately-owned establishments remained a small minority in China, accounting for less than one fifth of the establishments and total employment covered by the survey.

Figure 3-2. Share of establishments privatized and their share of total employment (p. 29)

The survey also revealed that the privatization process was not yet complete at the time the questionnaires were administered. Directors at state-owned establishments were asked whether they expected to be privatized in the near future. Two-thirds of the remaining state-owned establishments in the Kyrgyz Republic expected to be transformed into joint-stock companies, as did nearly 40 per cent of those in Ukraine and 20 per cent of those in Armenia. Future changes were limited in Georgia and Russia where the privatization process had been most extensive.² Among firms already privatized, very few anticipated additional ownership changes (about 10 per cent in Armenia and Russia, and 5 per cent in Georgia and Ukraine).

² Very few of the state enterprises in China anticipated change, a finding that almost certainly is out-of-date given the accelerated privatization programme followed subsequently by the Government.

Figure 3-3. Property form changes planned by state-owned establishments (p. 30)

In most of the countries, joint-stock companies were fairly evenly distributed across size classes (figure 3-4). However, establishments with fewer than 100 employees dominated the set of joint-stock companies in Georgia but were a small minority in Ukraine (less than 5 per cent). Except for Ukraine, the smallest share of joint-stock companies was in the largest size category, but, as was shown above, large establishments also accounted for the smallest share of surveyed establishments. The joint-stock companies were also widely distributed across manufacturing sectors (figure 3-5), and their distribution mirrors that of manufacturing activity in each economy. Food, engineering, and textiles (including apparel and footwear) were typically the dominant sectors.

Figure 3-4. Distribution of joint-stock establishments by size class (p. 30)

Figure 3-5. Distribution of joint-stock establishments by industry (p. 31)

3.2 Ownership and management

This section reviews survey findings on whether change in governance has accompanied change in property form. Evidence was collected from most of the surveys on two relevant points: the degree to which establishments were owned by employees and the method of selecting senior managers. The first topic reflects policy decisions to transfer ownership to those with a direct stake in the success of the enterprise and to avoid transferring ownership of the means of production to only an elite few. Both systems, direct transfer of shares to managers and employees through closed joint-stock companies or mass voucher systems and auctions by which citizens could acquire shares in other companies, were designed to serve this objective. The previous section documented substantial change in ownership. This section asks if there is evidence from the surveys that employee owners were able to exercise effective, as well as *de jure*, control over their workplaces.

The degree of employee ownership in closed joint-stock companies, where managers and workers received preferential access to acquire stocks, was uniformly high. Managers and workers owned nearly 90 per cent of shares on average in Russian and Ukrainian closed joint-stock companies, 70 per cent in Georgia and 50 per cent in Kyrgyzstan (figure 3-6). Employees also controlled a substantial portion of shares in the open joint-stock companies: nearly 60 per cent on average in Russia, 50 per cent in Ukraine, and 40 per cent in Georgia.

Figure 3-6. Employee ownership in joint-stock companies* (p. 31)

For three of the countries, additional survey data indicate that employee ownership was not dominated by managers or professionals. In Russia, blue-collar workers owned, on average, half of the shares in closed joint-stock companies and a third of the shares in open joint-stock companies. In Georgia, blue-collar workers owned half of the shares on average of closed joint-stock companies; in the Kyrgyz Republic they owned one fourth. *These*

findings confirm that under the new property forms, employees have substantial potential influence on the management of their own workplaces.

One indicator of the extent to which employees have exercised this potential is their role in selecting enterprise managers. Moreover, whether establishments themselves have the authority to select top managers, as opposed to having them appointed by national or local government agencies, is an important indicator of their autonomy. Survey findings show that management selection has been markedly independent in Russia, Ukraine and Georgia. In Russia and Ukraine, managers at nearly every closed joint-stock company had been selected by shareholders meetings, a board of directors, enterprise board or directly by employees (figure 3-7). By contrast, just two out of five managers of Kyrgyz joint-stock companies and three out of five managers of Armenian joint-stock companies had been elected rather than appointed by government agencies. The separate factors of property form, ownership and control have been combined in a variety of ways in the transition countries, and it remains unclear what sort of corporate governance structures will emerge.³

Figure 3-7. Senior manager selection by enterprise boards or employees (p. 32)

However, the survey question did not distinguish whether, in exercising their selection prerogative, employees had endorsed existing management or had selected new managers. Thus care must be taken not to overstate the extent to which employee-ownership has resulted in actual change in management. Some indication of managerial turnover is available for the Kyrgyz Republic, where respondents were asked for the year in which the current senior manager had been selected. Somewhat surprisingly, a smaller share of privatized establishments than of state-owned establishments had changed managers since the start of the privatization process. Limited managerial turnover, in Kyrgyzstan and presumably in the other countries under review, could be explained by both the small size of the labour pool of business managers from which to recruit as well as the controlling influence of current managers as stockholders.

The lack of a labour market in experienced managers is one of the defining differences between the privatization process in economies emerging from state control and the privatization of large state-owned enterprises within market economies (for example, telecommunications or airlines). In the latter, senior managers experienced in business administration and market competition could be hired from the private sector. In the transition countries, the inflow of managerial know-how was initially available primarily through joint ventures with foreign investors. In most cases, establishments relied on directors who were successful in managing their businesses in the command economy to learn "on-the-job" the new rules and means of competing for scarce resources or customers in the developing market economy. A common criticism is that the privatization process was too easily controlled by former state directors, and the ample opportunity for corruption undermined enterprise

³ Standing (1996) classified governance systems of the Russian establishments by taking into account property form, character of share ownership and form of management selection. By his accounting, 23 per cent were state governance, (state-owned and managed), 29 per cent were private governance (joint-stock or private enterprises with 50 per cent or fewer shares owned by employees, and managers selected by shareholders or by an enterprise board), another 23 per cent were employee governance (similar to private governance with workers and management together majority shareholders) and 25 per cent were worker governance (workers hold majority of the shares and appoint management).

restructuring.

Another defining feature of corporate governance in the establishments emerging from state control is the potential for change in unionization - a potential largely yet unrealized (Standing, 1997; Hoffer, 1997). Within state enterprises unions had been part of the system, rather than independent representatives of labour. For example, many had responsibility for managing enterprise-based benefits and social services. Recently, unions have started to exercise an independent voice, galvanized by mounting wage arrears - equivalent to years worth of unpaid back wages in some well publicized cases. The challenge for developing an independent workers representatives is the particular institutional role unions played under the Soviet system, the ownership role of labour in their own enterprises, and the still open question of how much governance they will exercise on the basis of share ownership.

3.3 Sales and market performance

Changes in ownership form and the extent of on-the-job learning had not usually resulted in growth of output or sales by the time the surveys were taken. This is understandable given the general depressed state of the economies in which the establishments found themselves. Even so, direct comparisons of sales and marketing performance between privatized and state-owned establishments reveal few areas in which the change in property form was associated with higher sales or new market penetration.

Enterprise performance across countries corresponds closely to the national output statistics presented in Section 1. In the Kyrgyz Republic and Ukraine, where deep recession persisted, most establishments reported that sales had fallen over the previous year (70 per cent of Kyrgyz and 80 per cent of Ukrainian surveyed establishments). In Russia and Armenia about one third of the establishments reported that sales had increased. Recovery was most evident in Georgia, where 45 per cent of establishments reported sales growth over the previous year (figure 3-8).

Figure 3-8. Distribution of establishments by sales performance over preceding year (p. 32)

Sales performance was remarkably constant across types of establishments. As shown in figure 3-9, in only Ukraine and Russia were privatized establishments slightly more likely than state enterprises to improve sales. And in each country the share of privatized establishments that reported sales growth was only negligibly different from the share of state-owned establishments.⁴

Figure 3-9. Share of state and private establishments reporting sales increase (p. 33)

A different set of performance indicators was collected in the China survey. Analysis in the country report revealed that the state-owned or state-controlled sector performed poorly compared to joint ventures, joint-stock companies and village/township enterprises (Lim, Sziraczki and Zhang, 1996). Indicators on which this assessment was made included profits,

⁴The chi-square test for difference between private and state-owned establishments in the proportion of establishments reporting sales increase was not statistically significant in any of the five countries.

productivity and capacity utilization. For example, nearly two-thirds of the village/township establishments reported rising profits compared to 40 per cent of the traditional state-controlled establishments.

Among the FSU countries, bartering output has become a common survival strategy, as businesses resort to exchanging their output for material inputs, for labour, or for consumer goods with which to "pay" workers. This is in large part a mechanism to circumvent bottlenecks in supply and marketing networks caused by government revenue shortfalls and failure to pay for goods received and by strict monetary policies which have tamed inflation but left businesses with little access to operating capital. Bartering is most prevalent in the Kyrgyz Republic and Ukraine - countries where economic recovery has been relatively delayed. However a third of the Russian establishments and a fourth of the Armenian ones also reported bartering some portion of their output (figure 3-10). One out of three Kyrgyz manufacturers and one out of six Russian manufacturers had increased bartering over the previous year.

Figure 3-10. Incidence of bartering (p. 33)

Bartering was not restricted to newly privatized establishments, although state enterprises bartered a lower portion of output on average than did privatized companies in each country (figure 3-11). The average share bartered by privately-owned establishments was nearly twice the average among state enterprises in Russia and Ukraine, and 30 per cent higher in the Kyrgyz Republic.⁵

Figure 3-11. Average share of sales bartered, state and private establishments (p. 34)

Whether bartering signals that an establishment is more or less successful is ambiguous. It could be viewed as a last resort of those with poor product quality or less resourceful sales personnel, or as a short-run response to liquidity crises and depression of demand by firms with long-term viability. What is clear is that the practice contributes to an unfortunate cycle of decreasing tax revenue, worsening budget deficits, limiting resources available for welfare and public investment and causing further payment delinquency by state agencies.

Export performance, on the other hand, is consistently regarded as an indicator of a successful manufacturer, reflecting product quality, price competitiveness, and delivery reliability. Across all the countries surveyed, privatized establishments appear to be more successful at exporting. Two-thirds of the Chinese joint-ventures exported, selling on average about a third of their total output abroad. Half of the privatized establishments in Ukraine reported exports, but the average share of output exported was 17 per cent (table 3-3).

⁵ The difference between the average share of sales bartered among state versus private establishments was statistically significant in each of the three countries (at the 10 per cent level in Kyrgyz Republic, 5 per cent level in Russia and 1 per cent level in Ukraine).

Table 3-3. Export performance

Country	Average per cent of sales exported		Percent of establishments that export		Of those that export, average per cent of sales exported	
	State	Private	State	Private	State	Private
Armenia	5.3	12.49***	14.7	24.86**	35.9	50.2
Georgia	7.6	6.3	12.1	14.0	63.0	44.9
Kyrgyzstan	11.2	14.2	28.2	43.42***	39.7	32.6
Russia	3.5	5.4	12.3	27.53***	28.6	19.6
Ukraine	10.9	8.8	48.1	53.1	22.5	16.5
China	10.6	19.21**	40.4	65.45***	26.1	29.4

Notes: Data for Armenia and Russia refer to the first half of 1995, Kyrgyzstan 1995, Georgia 1996, Ukraine and China 1994. Significance levels of difference of average per cent exported between state and private establishments: ** 5 per cent level, *** 1 per cent level; same levels for significance of difference in the proportion of state and private establishments that export. For China, private refers to joint ventures only.

Many of the Kyrgyz and Armenian manufacturers were exporters, 43 per cent and 25 per cent respectively; the average share of their sales exported was also high, 33 per cent among Kyrgyz exporters and 50 per cent among Armenian exporters. One reason exports appear high, of course, is that sales to longstanding customers in other regions within the FSU are now labelled exports because the regions have become independent republics. Data collected in the Kyrgyz survey showed that exports to non-FSU countries were practically nonexistent (one per cent of sales on average).

As shown in figure 3-12, there is no consistent export performance trend between closed and open joint-stock companies, except that both tend to outperform state enterprises (with the exception of Ukraine). In comparing share of sales exported in the two years preceding the survey, private and state establishments were equally likely to have reported an increase.

Figure 3-12. Average share of output exported, by property form (p. 34)

Export performance seems much more closely related to size of establishment than to property form. In each country, the average share of sales exported varied positively with establishment size, measured in terms of number of employees (figure 3-13). Again, the somewhat better performance by establishments in the smaller countries, Armenia, Georgia and Kyrgyz Republic, may well reflect the smaller size of their domestic economies and greater former reliance on markets throughout the former Soviet Union.

Figure 3-13. Average share of sales exported, by size of establishment (p. 35)

The final performance indicator for which data was collected in each survey is capacity utilization. As the export data indicated, many establishments were built with capacity corresponding to the unified market under the former Soviet Union. Not surprisingly, with

these now international markets disrupted and the transformed national economies still emerging from recession, most establishments reported very low capacity utilization rates. In the smaller countries, half of the establishments reported using less than 30 per cent of their physical capacity (figure 3-14). In Russia, half of the establishments used less than 50 per cent of capacity. The contrast with the Chinese establishments, in a growth environment, is great: More than one third of the surveyed Chinese establishments used at least 90 per cent of their physical capacity. As pointed out in the original country report, the survey was limited to large cities and is not representative of establishment performance in smaller cities or rural areas.

Figure 3-14. Distribution of establishments by capacity utilization rates (p. 35)

Privatized establishments reported lower capacity utilization on average than did state enterprises. As an aggregated group, privatized establishments reported far lower average capacity utilization in Armenia (34 per cent compared to 50 per cent average among state enterprises) and Russia (59 per cent compared to 66 per cent for state enterprises) and higher utilization rates in China (85 per cent compared to 80 per cent among state enterprises).⁶ As shown in figure 3-15, average capacity utilization for state enterprises ranged from a low of 32 per cent in Georgia to a high, among the FSU countries, of 65 per cent in Russia. By contrast, average capacity utilization rates for joint-stock companies ranged from about 20 per cent in Armenia and in Georgia, to about 50 per cent in Ukraine. The category of privately held companies, as opposed to privatized joint-stock companies, rated highest in capacity utilization in each country.

Figure 3-15. Average capacity utilization rates, by disaggregated property form (p. 36)

The country reports also identified low capacity and lack of economies of scale in manufacturing as long-run problems confronting establishments. The contrast could not be more striking between privatization in the FSU countries and China on this point. Whereas in China high growth encourages investment and growth, in the FSU countries establishment profitability may well require investment to bring production scale down to levels that can be efficient and sustainable in smaller national or regional markets. It is against this review of establishment performance that changes in employment, the subject of the next section, must be assessed.

Summary findings

- Although privatization has been extensive and the potential for change in management accountability profound in the new forms of property ownership, most of these establishments remained in precarious position at the time of the surveys. Most reported flat or still declining sales, many continued to rely on barter trade for disposing their products, and the vast majority were operating at inefficient levels of output.

⁶ Differences between mean averages of private and state establishments were statistically significant at the 5 per cent level in Russia and at the 1 per cent level in Armenia.

- In the FSU countries, the portions of privatized versus state-owned establishments that reported sales growth were not significantly different. In China, however, state-owned or state-controlled enterprises performed poorly compared to joint ventures, joint-stock companies and village/township enterprises.
- Across all the countries surveyed, privatized establishments appear to be more successful at exporting products, although most of these exports may be to other FSU countries.

Figure 3-1. Distribution of establishments by property form categories

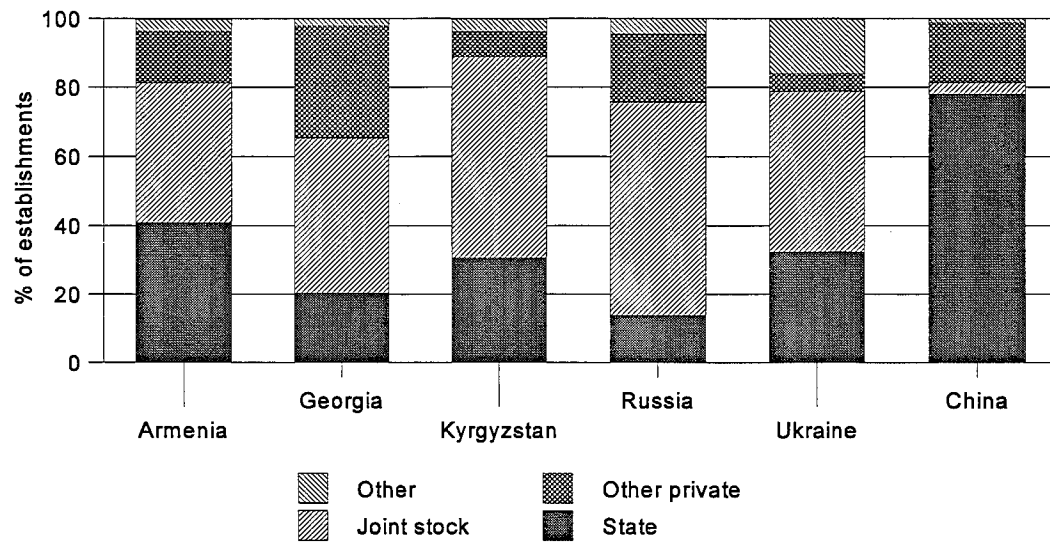


Figure 3-2. Share of establishments privatized and their share of employment

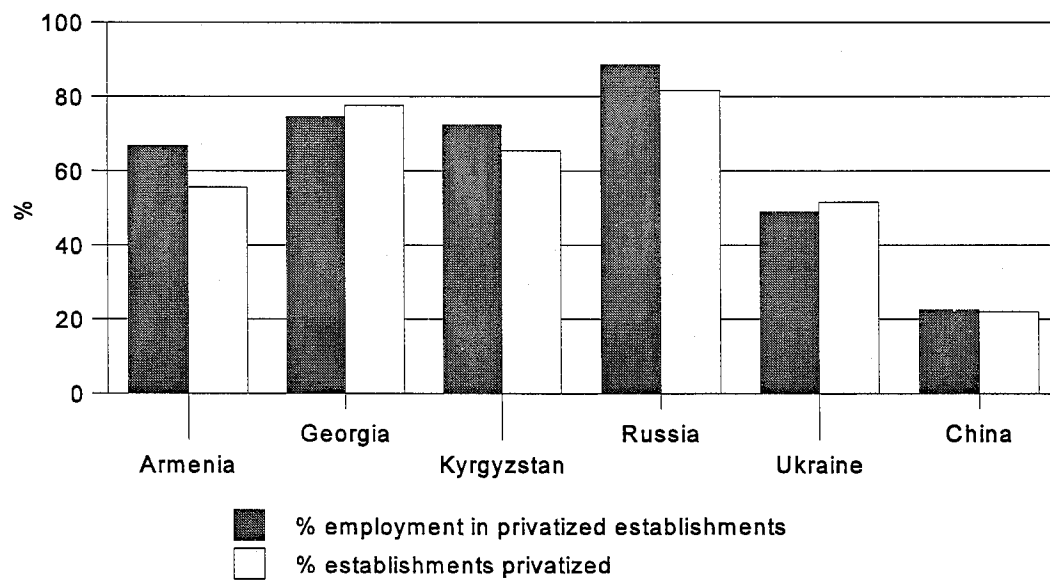


Figure 3-3. Property form changes planned by state-owned establishments

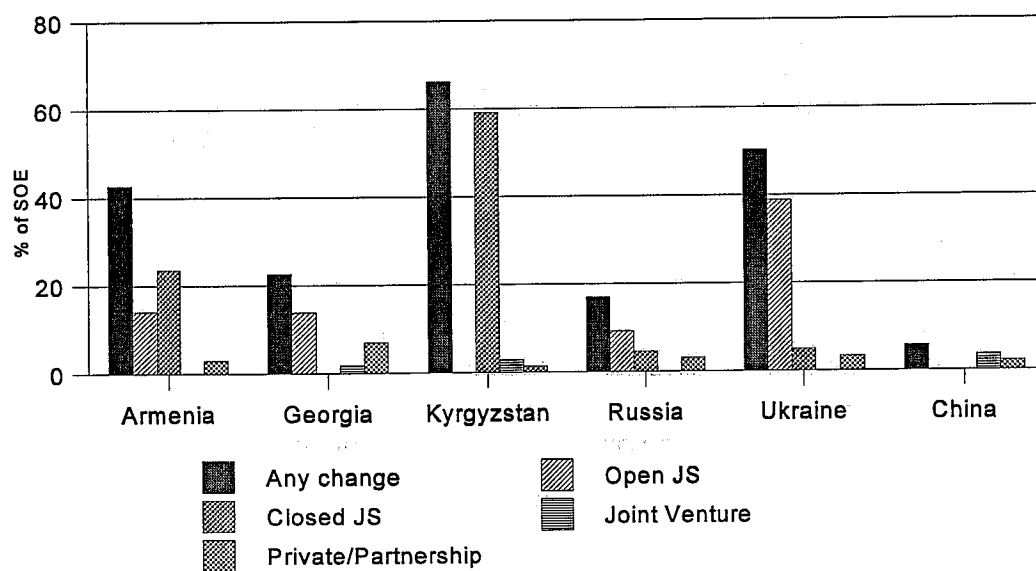


Figure 3-4. Distribution of joint-stock establishments by size class

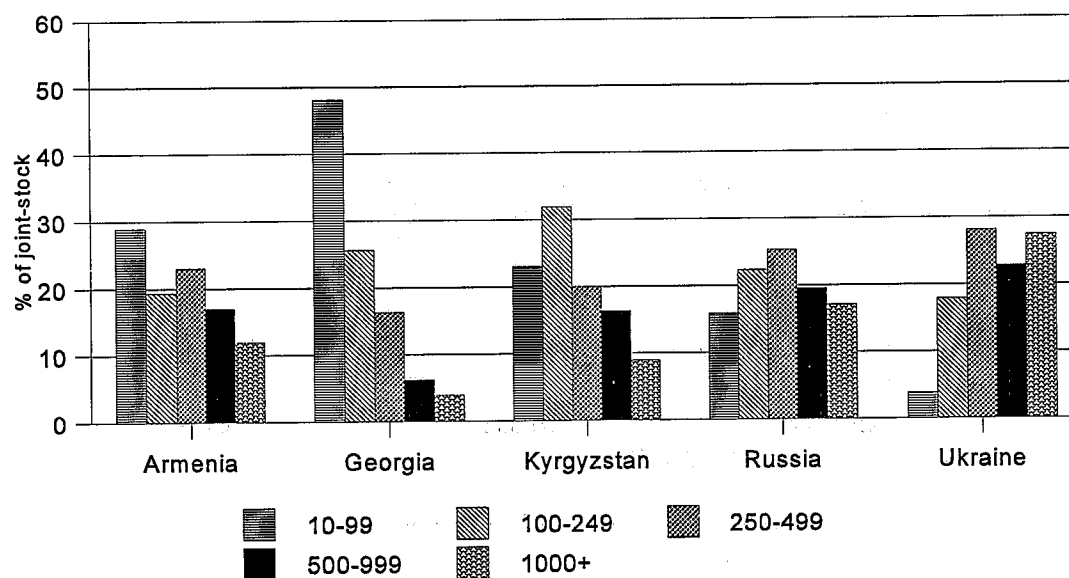


Figure 3-5. Distribution of joint-stock establishments by industry

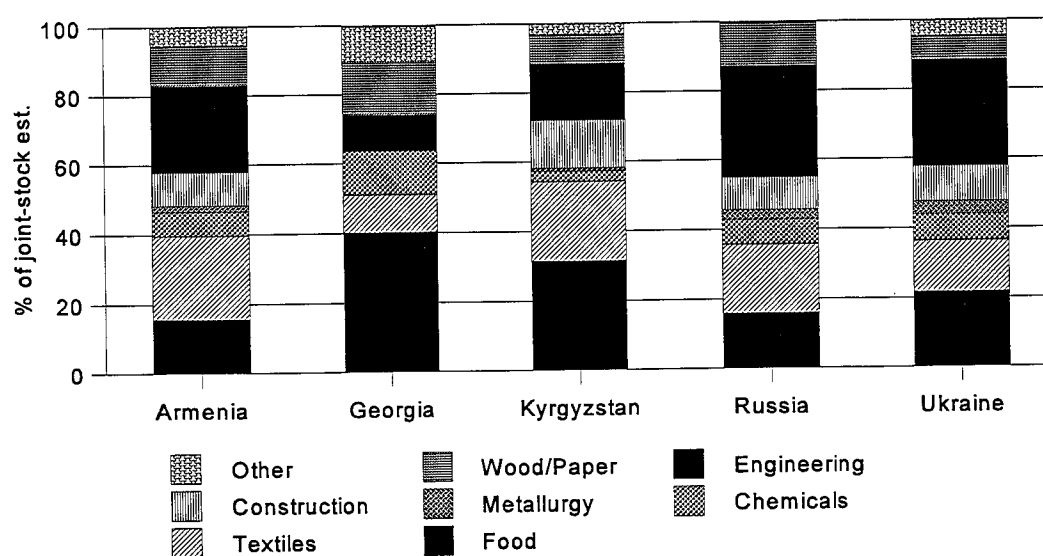
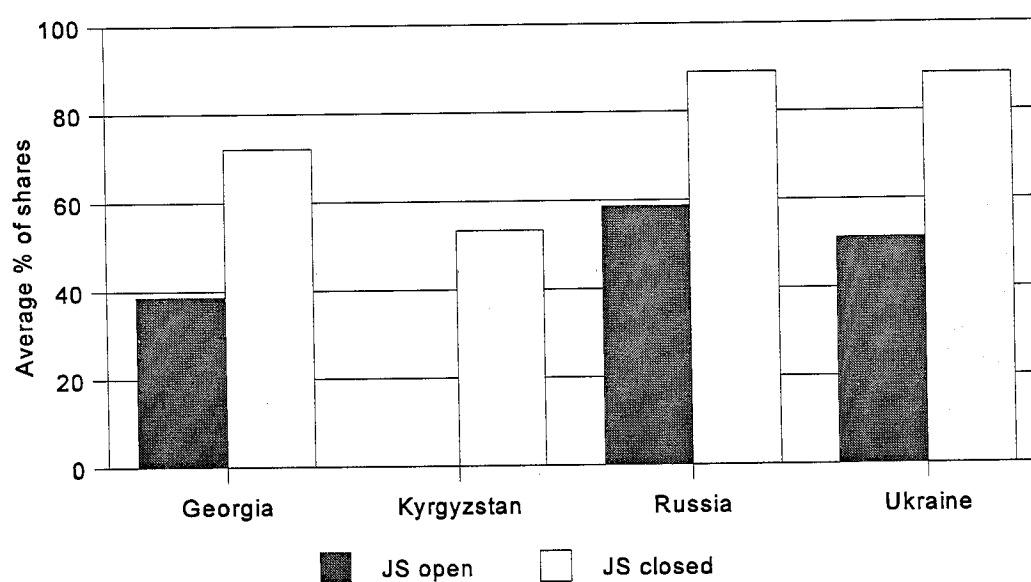


Figure 3-6. Employee ownership in joint stock companies



Note: * Average per cent of shares owned by managers and workers. Comparable data was not available for Armenia.

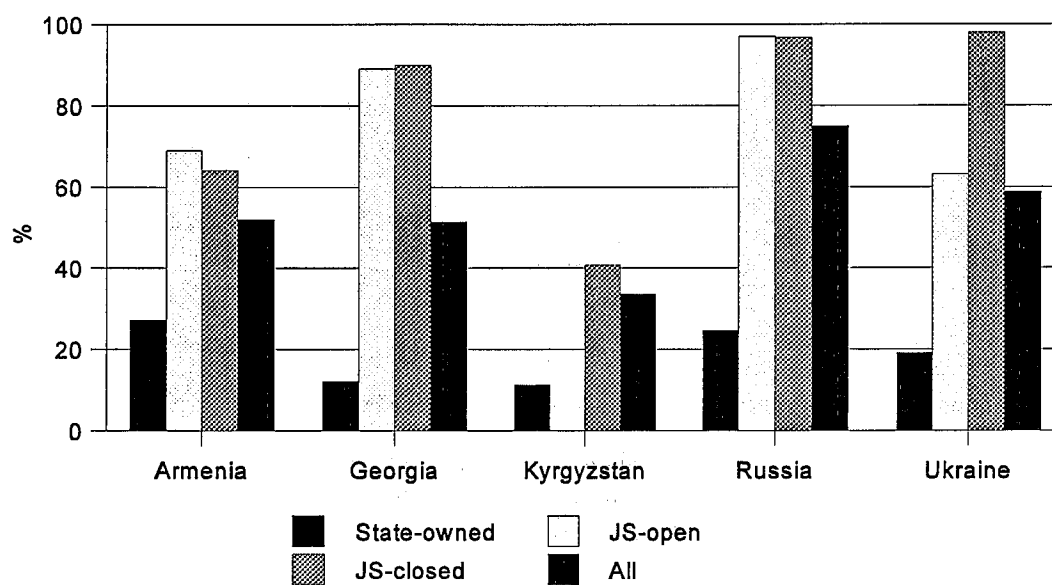
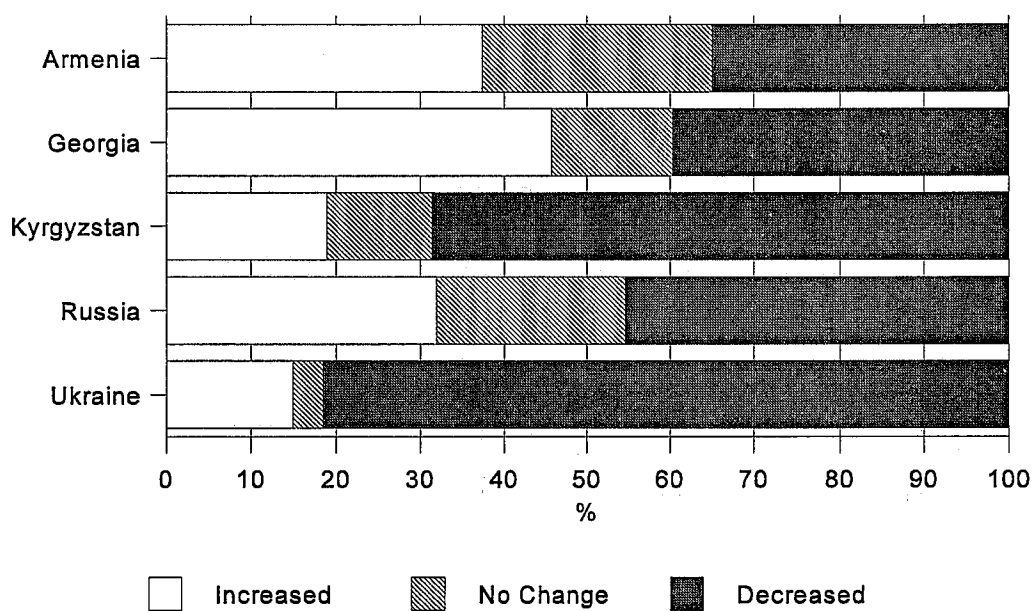
Figure 3-7. Senior manager selection by enterprise boards or employees**Figure 3-8. Distribution of establishments by sales performance over preceding year**

Figure 3-9. Share of state and private establishments reporting sales increase

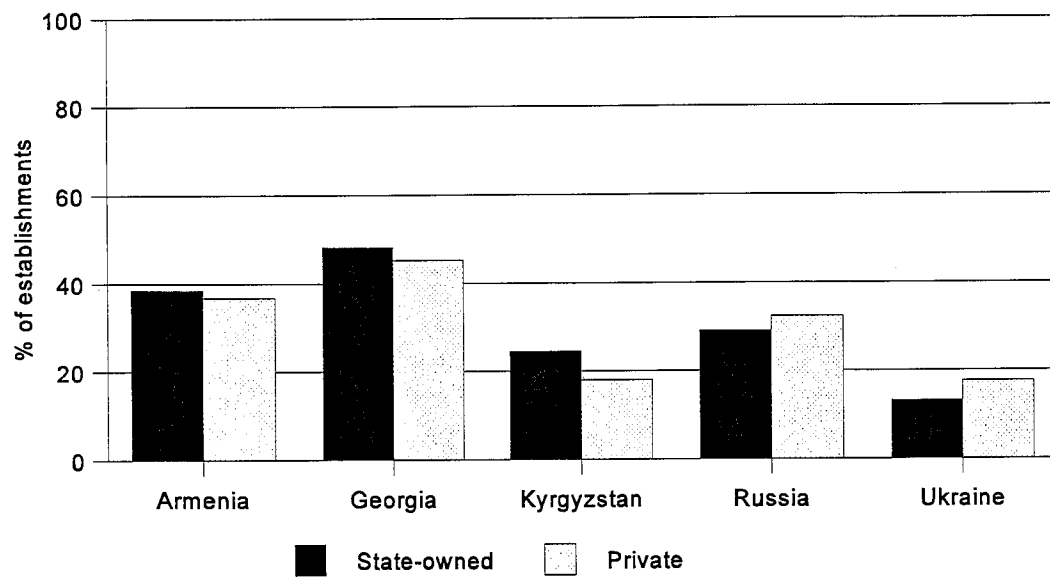


Figure 3-10. Incidence of bartering

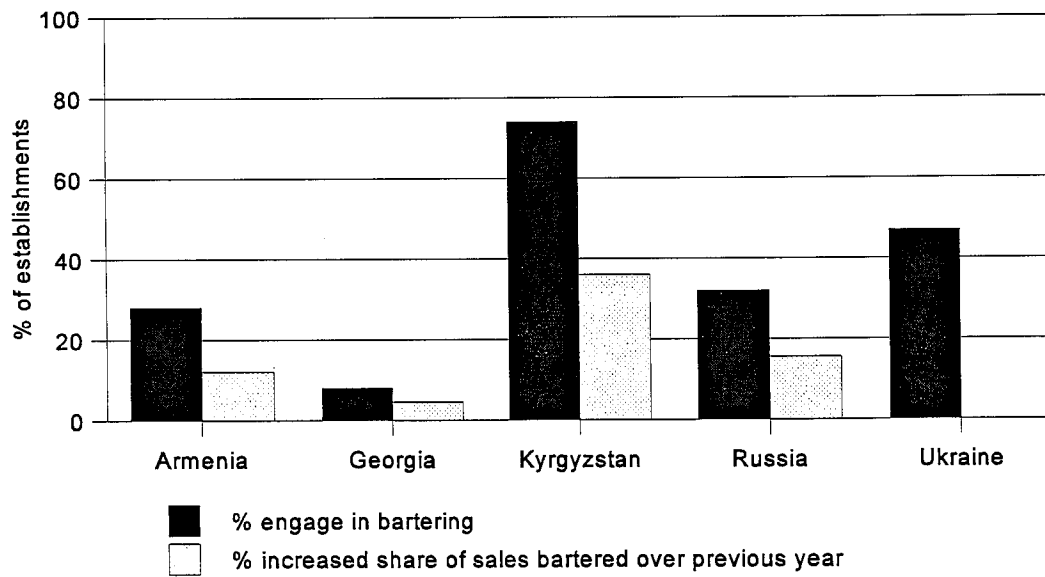


Figure 3-11. Average share of sales bartered, state and private establishments

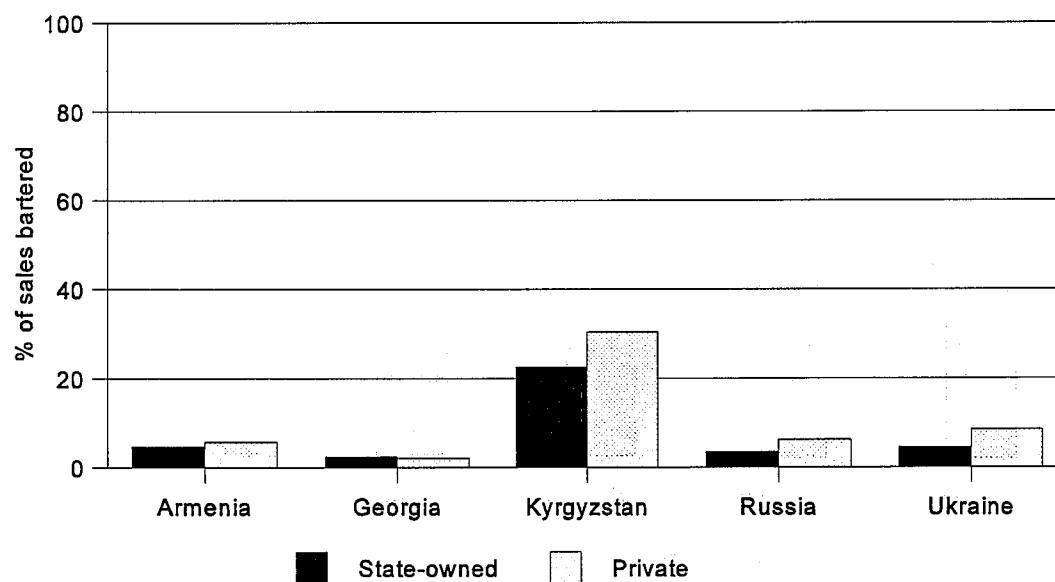


Figure 3-12. Average share of output exported, by property form

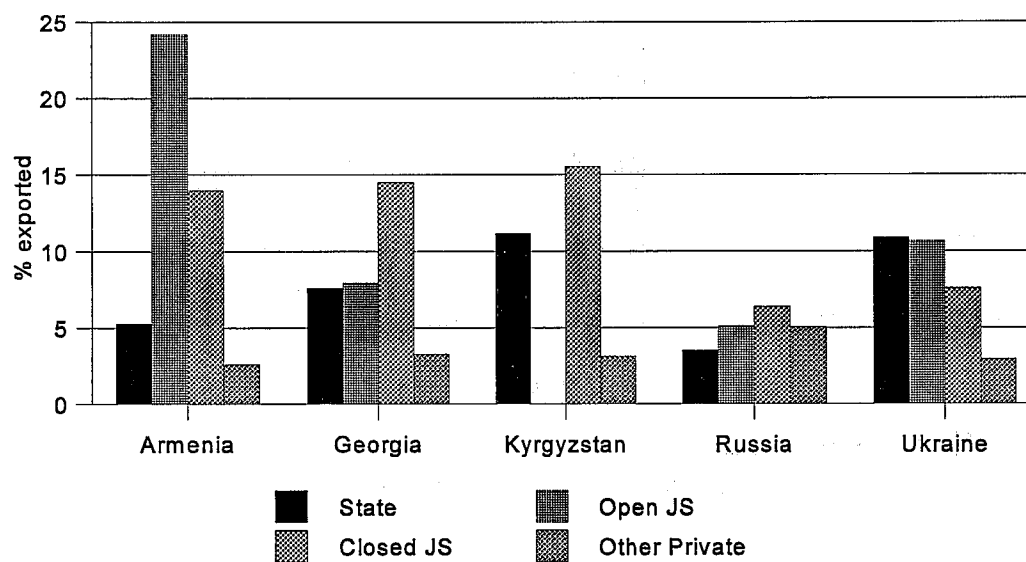


Figure 3-13. Average share of sales exported, by size of establishment

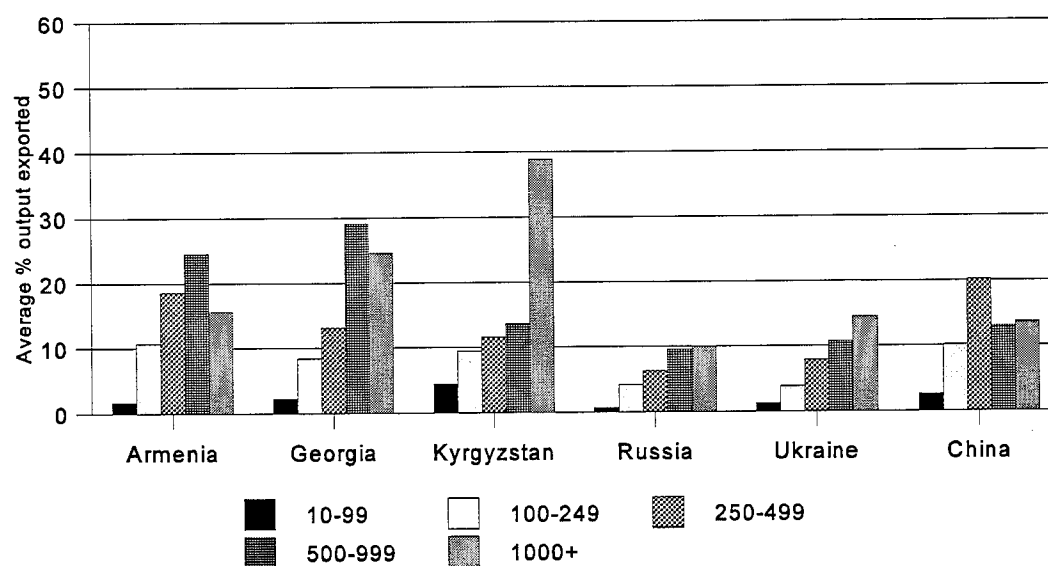


Figure 3-14. Distribution of establishments by capacity utilization rates

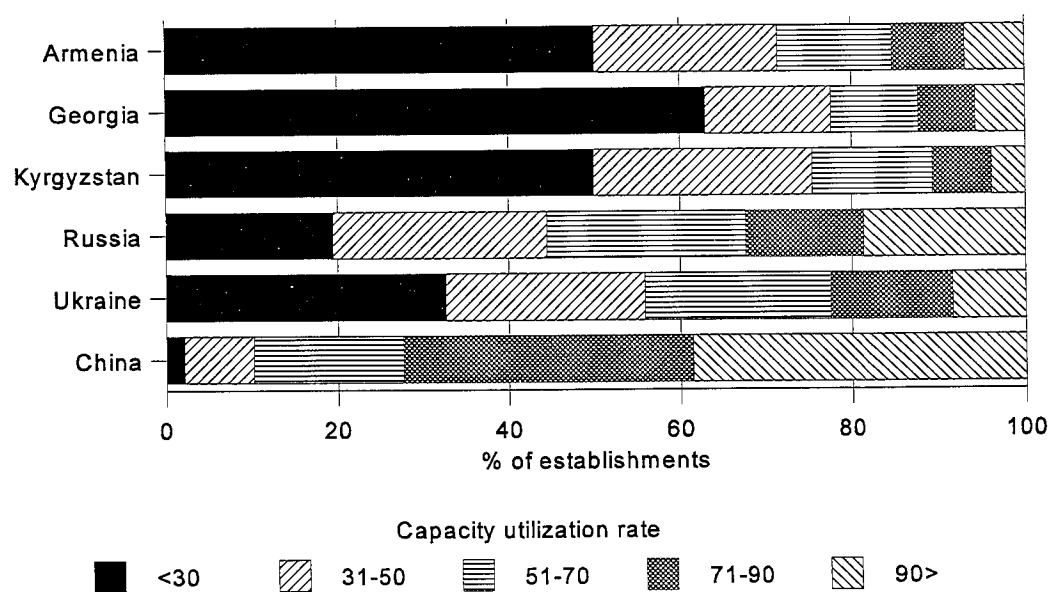
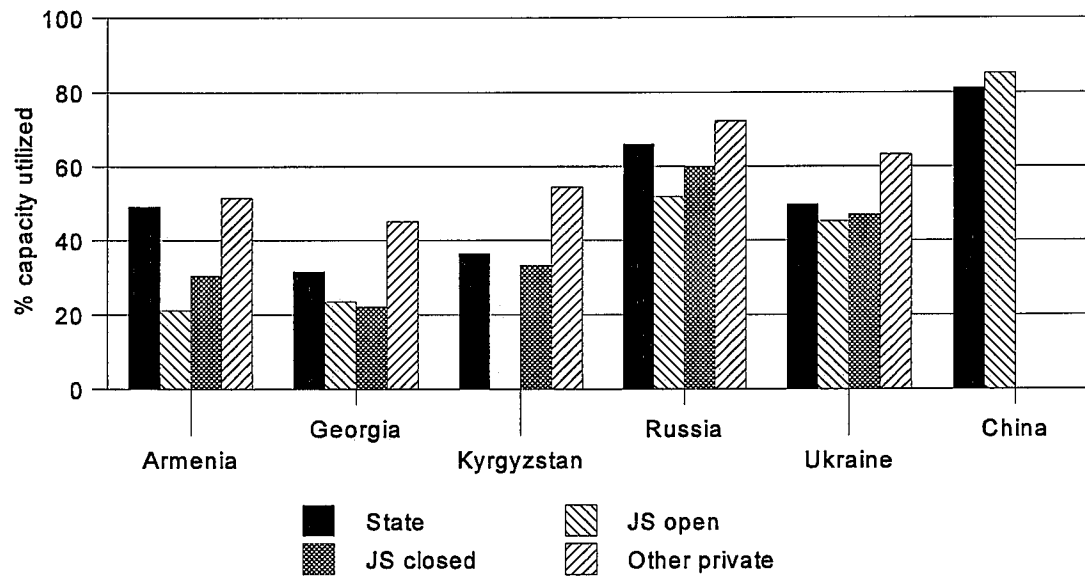


Figure 3-15. Average capacity utilization rates, by disaggregated property form



Note: For Kyrgyzstan, data refer to both open and closed joint stock. For China, data is for state and private establishments only.

4. Job loss in manufacturing

4.1 Overview of employment change

The surveys document a one-year job loss of about 10 per cent of the initial total employment covered in each survey. Job loss was proportionally highest in the Kyrgyz Republic, where manufacturers reported that employment dropped by nearly 15 per cent. The surveyed establishments in China also reported a small net loss (table 4-1).

Table 4-1. Employment change, most recent years surveyed

Country	Reference period	Number of establishments	Employment Change		
			Change in number of workers	Percentage change	Ratio
Armenia	June 1, 1994 to 1 June 1995	327	-11807	-10.76	0.892
Georgia	1 December 1995 to 1 December 1996	268	-7195	-11.43	0.886
Kyrgyzstan	31 December 1994 to 30 September 1995*	231	-15571	-14.78	0.852
Russia	1 June 1994 to 1 June 1995	466	-32274	-10.04	0.899
Ukraine	January 1994 to January 1995	566	-57070	-9.58	0.904
China	December 1993 to December 1994	291	-12481	-2.61	0.974
Note: Only establishments with data available for both years included. * Employment loss for the twelve-month period for Kyrgyzstan, to end 1995, was estimated at 16 per cent by assuming a constant quarterly rate of change. Number of workers for both years refer to the data sets used in this cross-country comparative report and do not correspond exactly to data in individual country reports.					

Manufacturing employment has traditionally been distributed fairly equally between men and women in the FSU countries. The survey evidence indicates that women's share of job loss has been proportional to their share of employment in Armenia, Russia and Ukraine but disproportionately higher in Georgia and the Kyrgyz Republic (figure 4-1). In both of these countries, women held about half of the manufacturing jobs in the initial year, but accounted for nearly two-thirds of the job loss.

Figure 4-1. Women's share of employment and of job loss (p. 44)

Three of the individual country reports could put this one-year employment change into a longer perspective by drawing on findings from earlier rounds of the establishment surveys. Their findings confirm that the single year job losses are not taken out of context:

- The previous surveys in *Russia* documented employment cuts by 8 per cent on average among surveyed establishments in 1993-94 (Standing, 1996).
- In the *Kyrgyz Republic*, one out of every two workers employed by the surveyed manufacturers in 1991 had lost their job by 1995 (Evans-Klock, 1998).
- Evidence from the first round of establishment surveys in *Ukraine* showed that total employment in the covered establishment fell by 8 per cent from 1993 to 1994 (Standing and Zsoldos, 1995).

That employment in the manufacturing sectors of these transition economies has fallen drastically is not a surprise. Given the precipitous fall in output, employment could not but be expected to decline dramatically. This section analyses the employment change data in order to examine two issues. First, *have any job-creating sectors yet emerged?* The detailed survey data can reveal whether job loss has been stemmed in urban areas, small establishments, or specific industries. Second, *is there evidence that employment performance varies by property form?* Privatized establishments were expected to shed redundant workers faster, become productive and be able to increase employment sooner than state-owned ones in the FSU states. The comparison between sectors in net employment change will be examined in this section, including through a regression model of employment change. The following section will take up the related question of retention of surplus workers.

4.2 Job loss by industry, size class and region

The establishment surveys portray only the demand side of the labour market; they do not provide information on whether workers displaced from the surveyed establishments found jobs elsewhere, continued looking for work, or moved into self-employment or the informal sector. However, the lack of job growth in any of the manufacturing sectors is a clear indication that most displaced workers were unlikely to have found replacement jobs in manufacturing. As shown in figure 4-2, no industry registered significant job creation. The food industry exhibited the best performance, with employment just holding constant in most countries, except large losses in Georgia.

Figure 4-2. Employment change, by industry (p. 44)

The findings on employment change by size of establishment yielded no convincing evidence of dynamism in these economies. Over the most recent year covered by the surveys, total employment fell by the lowest proportion in small establishments, those which had between 10 and 100 workers in the initial year covered, or increased slightly (Armenia and Russia). Small establishments increased employment by an impressive 20 per cent in China in 1994 (figure 4-3).

Figure 4-3. Employment change, by size of establishment (p. 45)

The good news is that, with the exceptions of Ukraine and China, the small enterprise sector accounted for a large share of the surveyed establishments, 30 per cent in the Russian and 50 per cent in the Armenian surveys. The bad news is that this sector employed a small share of the workforce, less than 5 per cent of the workers covered in these surveys.¹ The rate of job destruction in the largest establishments was over 10 per cent in each of the FSU countries, a sector which accounted for over 40 per cent of employment in each survey.

Enterprises in central urban areas likewise failed to show significant sign of a turn-around. Despite their advantageous access to transportation networks, financial institutions and large potential markets, job loss in the capital cities was not noticeably lower than in the smaller cities and rural areas included in the surveys (figure 4-4). Job loss outside of the capital cities in the Kyrgyz Republic and Ukraine was proportionally higher than in Bishkek and Kiev; but Moscow and Beijing lost jobs at higher rates than other areas.

Figure 4-4. Employment change, by central and non-central regions (p. 45)

Although the data analysed shows change over just the most recent period for which data was collected in each survey, there is a striking absence of areas which showed promise of job growth. The problems besetting manufacturers in these transition countries are not industry-specific. Regardless of the industry, region, or size of their employer, workers have found no safe refuge within these transition economies. This leaves the question of whether, within industries or regions, privatized establishments have better track records.

4.3 Employment performance in state and private establishments

Employment change in privatized and state-owned establishments will be compared in two ways. First, the percentage change of total employment in each category of property form will show whether workers in privatized establishments were as likely as those in state enterprises to lose their jobs. Second, average establishment performance will be compared across property forms and observed differences in average change in employment will be tested for statistical significance.

The evidence is not consistent across the surveys as to whether workers in privatized establishments were more likely to lose their jobs than those working in state-owned establishments. It was expected that privately-owned companies would shed redundant jobs faster than would state-owned enterprises during the initial adjustment stage of establishment restructuring, and that they would also adjust faster and spearhead job creation in the subsequent stage of economic recovery. The survey findings show that in only one of the FSU countries, the Kyrgyz Republic, was job loss slower in the privatized sector. In Armenia and Ukraine employment change was of nearly equal proportions in private and state sectors (figure 4-5). The experience in Russia and Georgia appears to be consistent with expectations that privatized establishments would shed jobs at a faster rate.

Figure 4-5. Employment change, by property form (p. 46)

¹ See figures 1-3 in Section One for the distribution of employment and establishments by size class in each survey.

In figure 4-6 the same indicator, percentage change in employment, is shown for specific types of privatized establishments. Rate of job loss appears to be higher in closed, as opposed to open, joint-stock companies. Closed joint-stock companies also registered steeper job loss than state-owned establishments, with the exception of the Kyrgyz Republic. These comparisons offer some evidence that contradicts the expectation that establishments with greater governance exercised by employees would be less likely to cut jobs. However, no comparison could be made between types of joint-stock companies in the Kyrgyz survey and in Georgia open joint-stock companies had a higher rate of job loss.² Distribution of employment and percentage change of employment in each group is shown in table 4-2.

Figure 4-6. Employment change, by disaggregated property forms (p. 46)

Table 4-2. Employment change in joint-stock companies

Country	Share of privatized establishments			Share of employment in privatized establishments			Change in employment, latest over previous year**		
	Open joint-stock	Closed joint-stock	Other Private	Open joint-stock	Closed joint-stock	Other Private	Open joint-stock	Closed joint-stock	Other Private
Armenia	15.7%	57.3%	27.0%	12.3%	51.9%	2.6%	-6.8%	-11.8%	-9.7%
Georgia	53.6%	4.5%	41.9%	64.9%	3.9%	5.9%	-14.3%	-9.1%	-9.6%
Kyrgyz*		88.8%	11.2%		71.0%	1.4%		-13.5%	10.1%
Russia	52.2%	23.6%	24.2%	61.6%	22.1%	4.9%	-10.7%	-12.0%	-1.7%
Ukraine	55.8%	34.0%	10.2%	36.7%	11.6%	0.7%	-8.5%	-12.6%	-9.0%

* No distinction between open or closed joint-stock companies was made in the survey because the principal privatization method was to closed joint-stock companies.

** Mid-year 1994 to mid-year 1995 for Armenia and Russia; January 1994 to January 1995 for Ukraine; December 1994 to September 1995 for Kyrgyz Republic; December 1995 to December 1996 for Georgia.

In China, both of the types of establishments set up to absorb redundant workers from state enterprises or rural migrants registered net gain of jobs in the 1993 to 1994 period. The village/town enterprises increased employment by about 6 per cent (figure 4-7). Although many joint ventures increased employment, overall employment fell slightly. The very few joint-stock establishments (just ten establishments) increased employment by 3 per cent.

Figure 4-7. Employment change in China, by property forms (p. 47)

² In Georgia, closed joint-stock companies comprised less than 5 per cent of privatized establishments, (3.5 per cent of surveyed establishments). This survey also had the highest proportion of "other" forms of privatized firms, most of which were limited liability companies.

The findings on overall employment change in the state and privatized sectors are strong indications of the precariousness of employment. However, a more direct comparison of employment performance by property form is whether private firms on average performed differently from state-owned establishments. As shown in figure 4-8, privatized establishments on average decreased employment by a smaller percentage in Russia and by a larger percentage in Georgia, than state enterprises. In China, the joint ventures and joint-stock companies increased employment by just over 5 per cent on average, compared to less than 1 per cent by state firms, including village/township enterprises and labour surplus enterprises. But in none of these countries was the average rate of job loss by privatized establishments significantly different from the average among state enterprises.³

Figure 4-8. Average percentage employment change, by property forms (p. 47)

Figure 4-9 looks more closely at average performance of privatized establishments. Among the FSU countries there was no significant difference in average rate of employment change between closed and open joint-stock companies. This is contrary to what may have been expected, that employees would be able to exert greater control in new property forms that favoured insiders (closed joint-stock companies) to deter downsizing.⁴ As is also shown, the small average employment growth shown in the previous figure for the state sector in China disappears when it is divided into components. The labour surplus enterprises increased employment on average by 5 per cent and the village/township enterprises increased employment by nearly 9 per cent, while state enterprises cut jobs by 3 per cent on average.

Figure 4-9. Average percentage change in employment, by disaggregated property form (p. 48)

4.4 Model of employment change

In the previous sections several characteristics apart from property form were discussed as potentially important in terms of establishment performance, in particular employee ownership, export performance, industrial sector, region, and initial size. The purpose of this section is to reassess the relationship between property form and employment change while simultaneously accounting for the effect of these other factors. Two models were estimated for each of the FSU countries (using ordinary least square regression techniques) to examine the relationship between property form and percentage employment change over the latest one-year period, holding constant other establishment characteristics. (The models were not estimated for China because some of this data was not available.) The first model compares performance of all privatized establishments to those of state-owned enterprises. The second model constrains the set of privatized establishments to those which had been privatized for at least two years, to gauge differences in employment performance after the lapse of sufficient

³ The difference between the two means (average employment change in private versus state-owned establishments) was not statistically significant in any of the six country samples.

⁴ Privately-owned companies appeared to have strong employment growth in Russia - 15 per cent on average. However, this reflects wide variance in employment performance among these establishments, as total employment by establishments in this group fell by 1 per cent. This group includes foreign joint ventures and family and individual-owned establishments.

time to carry out reforms. The models and results are presented in Appendix tables 5 and 6.

In four of the five countries, the models fail to show evidence of a significant relationship between private ownership and rate of employment change. In the models for Armenia, Georgia, Kyrgyz Republic and Ukraine, the estimated coefficient on the privatization variable fails the statistical test of significance, implying no substantial difference in the rate of employment change between privatized and state-owned establishments. The findings appear robust in that they do not change when employment performance of the state-owned establishments is compared to the smaller set of establishments that had been privatized for at least two years.

The important exception is Russia. As shown above for Russia (figure 4-8), the average change in employment among privatized establishments was -2.3 per cent, compared to -4.5 per cent among state enterprises, a small difference. However, when holding other factors constant, the better performance by privatized establishments, or their lower average workforce reduction, is no longer found to be negligible: In the model for Russia with the full complement of privatized establishments, the model results indicate that privatized establishments on average increased employment 13 per cent more than did state enterprises (or decreased employment 13 per cent less).⁶ In the comparison of state-owned establishments to the smaller set of longer-tenured privatized establishments, the difference in average performance remains about the same, but the statistical results are less robust (i.e. the probability that the indicated relationship is accidental rather than causal is higher and cannot be ruled out with a high degree of confidence).⁷

The results of the statistical analysis also indicate that several other factors affected employment performance, apart from property form:

- *Establishment size* was inversely related to rate of employment change. Relative to establishments with fewer than 100 workers initially, medium-sized and large establishments cut employment by larger percentages on average, in each country except Kyrgyzstan. Since large enterprises typically had proportionally higher over staffing, it is not surprising that size would be associated with faster job loss.
- *Management selection* by workers or enterprise boards, as opposed to appointment by government agencies, could be an indicator of tighter budget constraints and change in managerial motivation that would lead to improved productivity and profitability. Thus one could expect that non-state selection of top managers would be associated with better enterprise performance, and, in turn, better employment performance. The results of the models are mixed. Establishment selection of top managers was associated with better employment performance only in Armenia and Russia, and there only in the model with all privatized establishments included. In the model allowing longer adjustment period, management selection by enterprises themselves was associated with deeper employment cuts in Georgia, but was not related to employment changes elsewhere.

⁵ Similar models were estimated in several of the individual country reports: Standing (1996) on Russia; Windell, Anker and Sziraczki (1994) and Evans-Klock (1998) on the Kyrgyz Republic.

⁶ The estimated coefficient on the PRIVATE variable was +12.9, with a t-statistic of 1.77.

⁷ In the model with the reduced set of privatized establishments, those which had been privatized at least two years, the estimated coefficient on PRIVGE2Y is still +12.6 but with a t-statistic of 1.54, just under the usually accepted 10% probability threshold.

- It could be hypothesized that establishments which had been able to maintain access to *export markets* might have better employment performance regardless of ownership structure. Model results are consistent with this hypothesis in two of the five countries, Armenia and Russia, but the magnitude of the measured effect is extremely small.
- Establishments with a higher portion of *unskilled workers* might find it more difficult to adapt to rapid change and might decrease employment at a faster rate. However, this variable was not found to be associated with rate of employment change in any of the countries.
- The results of the models failed to provide evidence that location in the *capital city* was associated with better employment performance.
- Finally, because the distribution of establishments by *industry sector* is not the same across countries, a set of variables to account for different performance by type of activity was included. There was no consistent indication that employment performance varied by industry across countries. In Armenia and Ukraine, textiles, heavy manufacturing and a group comprised of building materials, wood and paper, and sundry industries did worse on average compared to the (omitted) food industry. There were no significant differences among industries in Georgia, the Kyrgyz Republic, and Russia.

These models indicate that there has been little noticeable difference in the rate at which privatized and state-owned establishments have shed jobs. Overall, the models fail to explain adequately the rate of job cuts (as evidenced in the extremely low R-square statistics), but confirm that privatization and the emergence of non-state forms of property ownership have not been associated with faster job cuts nor yet with employment growth. Only in Russia did privately-owned establishments appear to have a slightly better performance, and even that was in the slower pace of cutting jobs, not yet a better performance measured in terms of creating new ones. Similar models will be used in the next section to examine whether privatized establishments have been less likely to retain workers in excess of the number needed to produce current levels of output.

Summary of findings

- The survey findings leave no doubt as to the massive restructuring of the workforce that has been undertaken by enterprises in the FSU countries. Employment losses were widespread, across nearly all industries, regions and establishment size classes in each of the FSU countries surveyed.
- The relative size of downsizing appears to bear little relation to property form - with directors of government-owned enterprises and managers of joint-stock companies reducing employment at similar rates.
- In the FSU states, open and closed joint-stock companies have not exhibited different patterns of enterprise size adjustment. In China, all types of property forms outside of state enterprises increased employment, but those with less state governance had stronger employment performance.

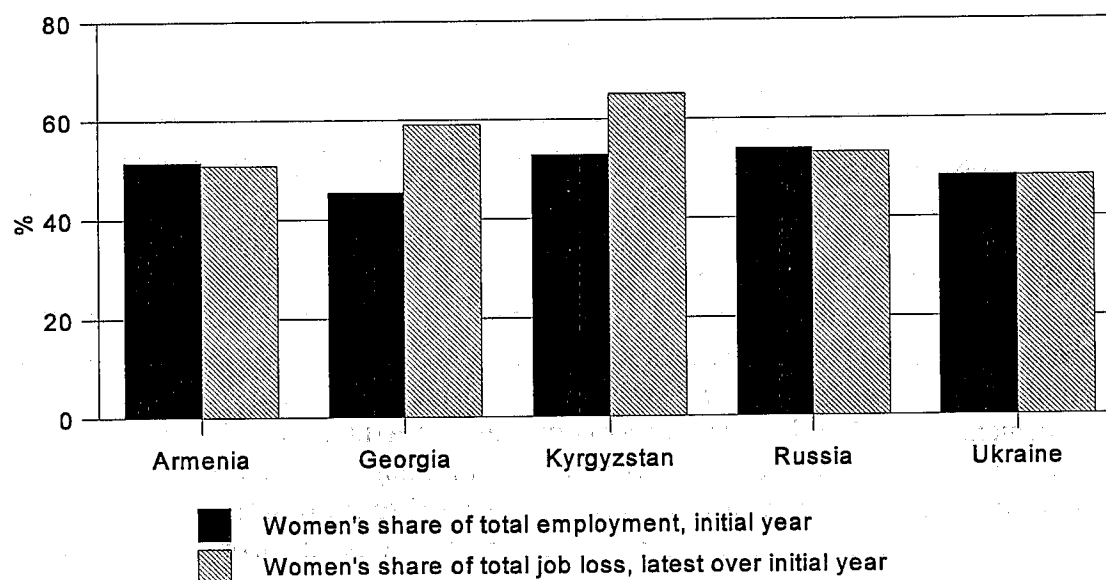


Figure 4-2. Employment change, by industry

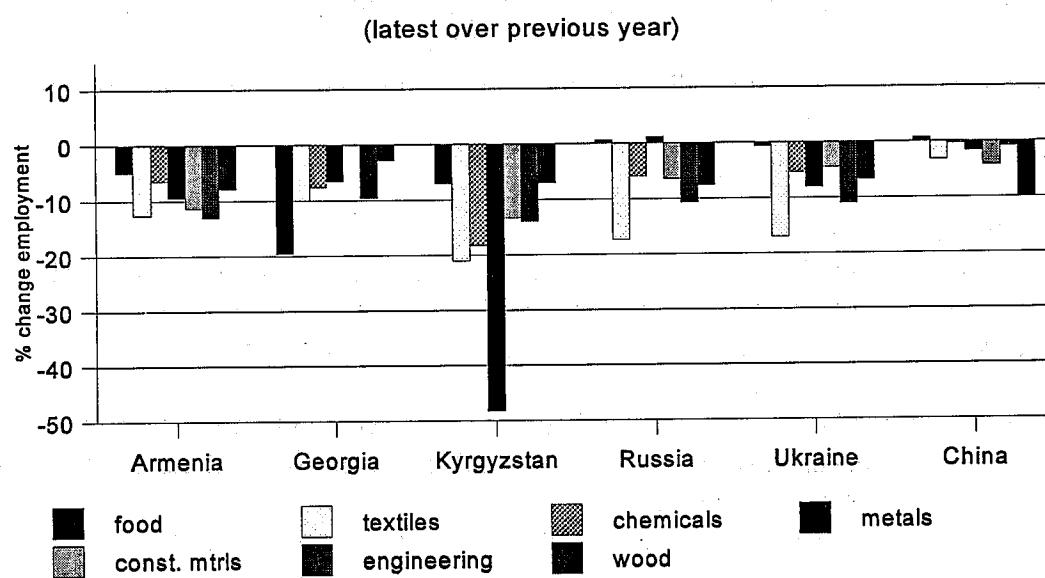
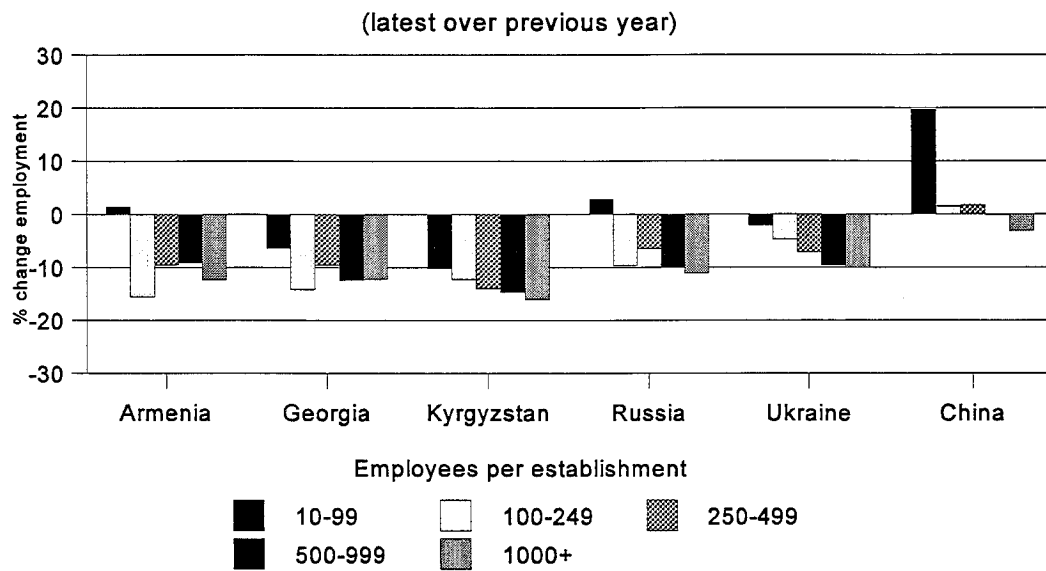


Figure 4-3. Employment change, by size of establishment

Note: Size classes were defined according to employment in initial year. Employment change computed for the same set of establishments regardless of size class in the second year.

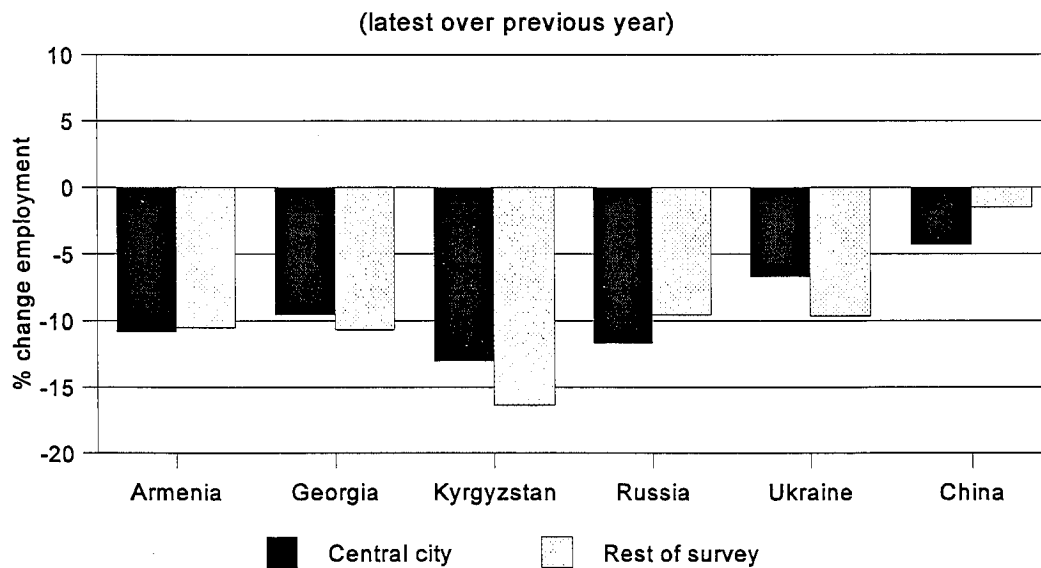
Figure 4-4. Employment change, central and non-central regions

Figure 4-5. Employment change, by property form

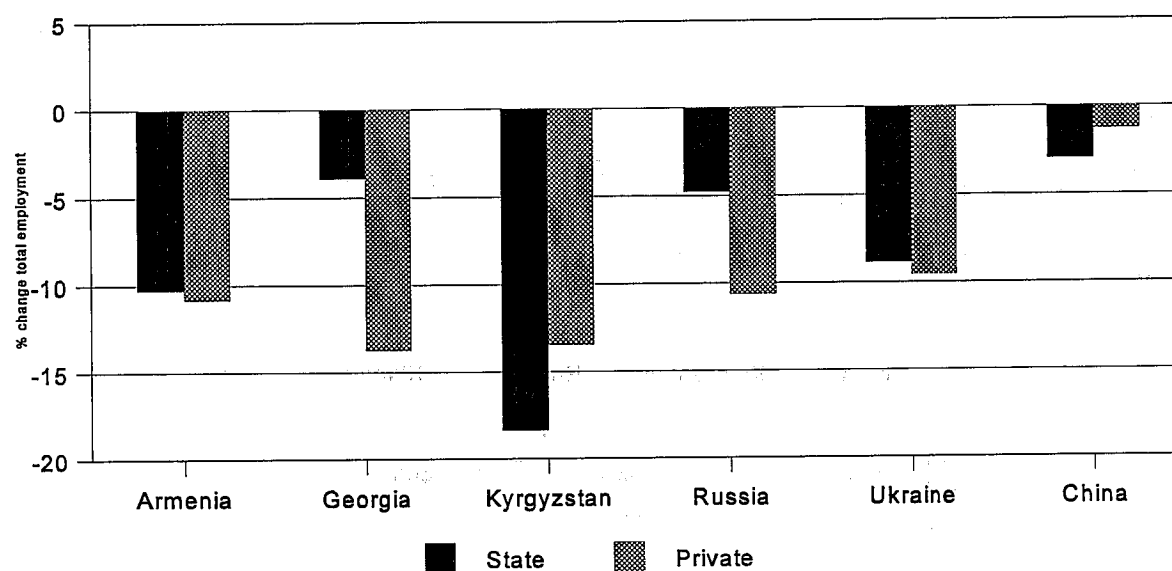


Figure 4-6. Employment change, by disaggregated property form

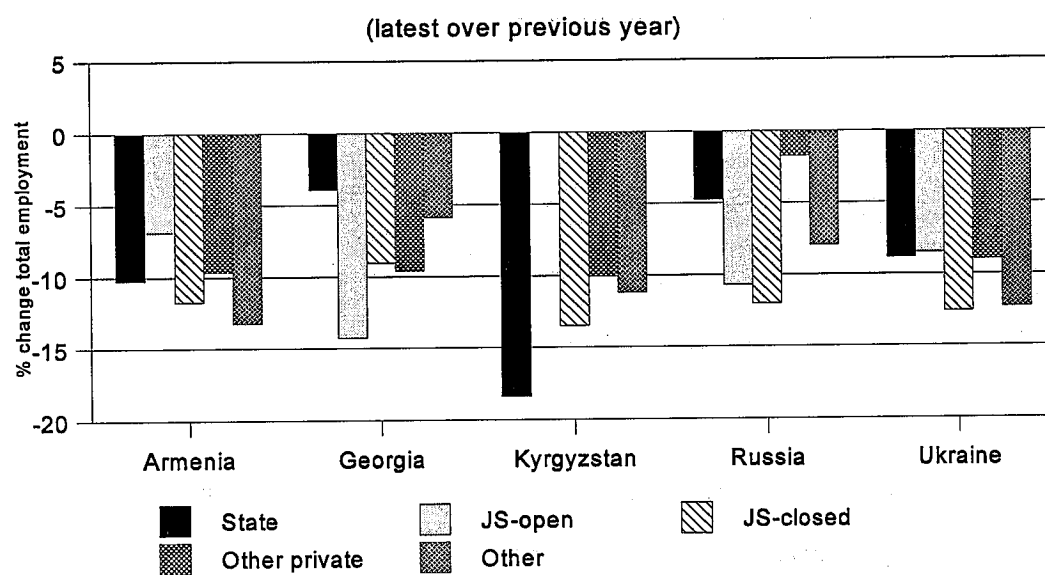


Figure 4-7. Employment change in China by property form

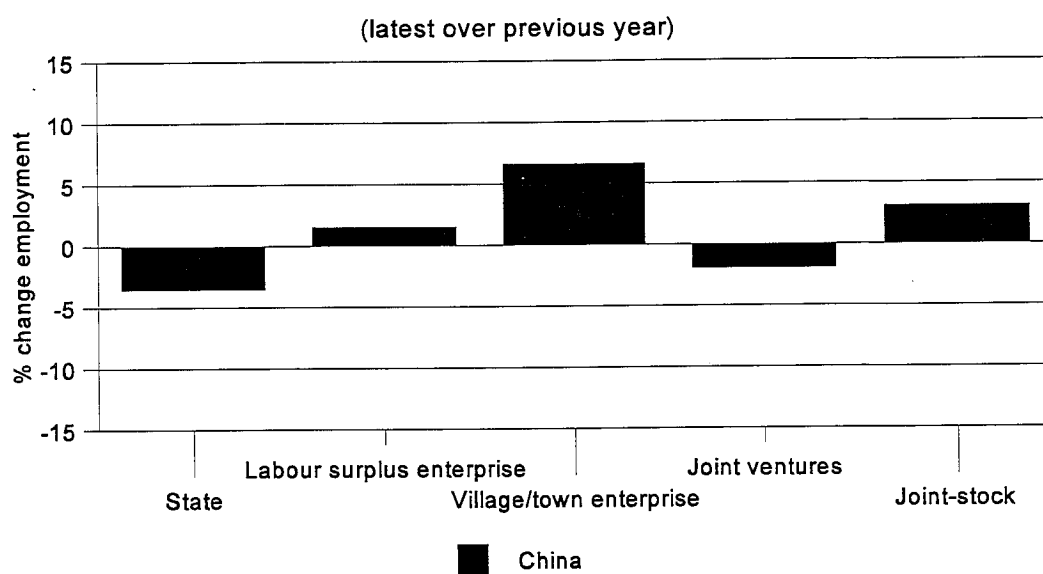


Figure 4-8. Average percentage change in employment, by property form

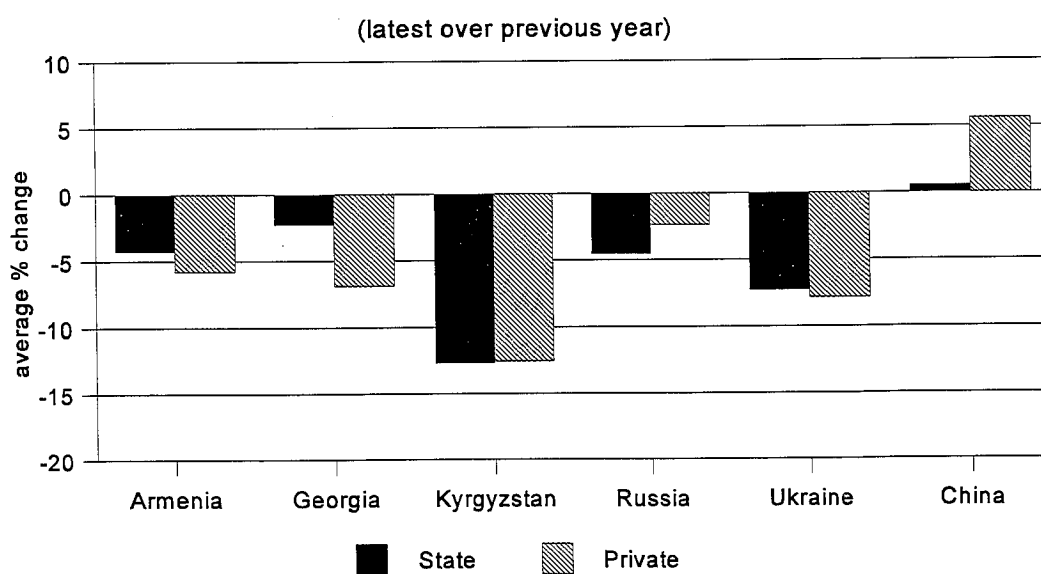
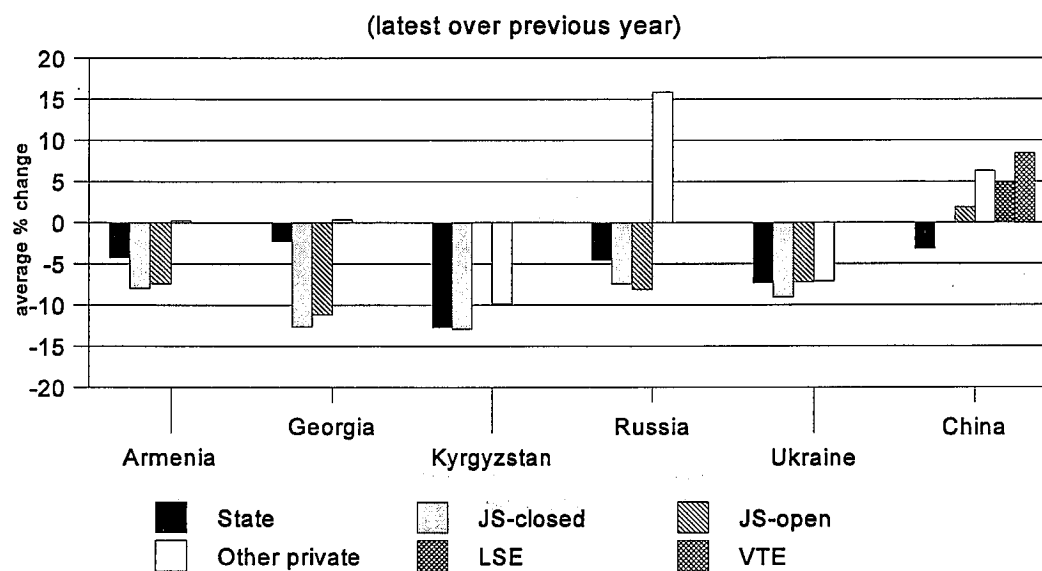


Figure 4-9. Average change in employment, by disaggregated property form



5. Hidden unemployment

Privatization has helped to expose the extent of surplus labour in state enterprises. Under the previous soft budget constraints, low levels of labour productivity could be tolerated because “bigger was better” in the sense of maintaining access to state resources and prestige, as well as serving societies’ goals of full employment. What used to be an enterprise asset, a large workforce for its own sake, has turned into a millstone around enterprises’ efforts to become more productive and profitable and a threat to the livelihoods of large portions of their workers.

Assessing the extent of underutilized labour within enterprises is important for two reasons.

- From the perspective of the firm, improving productivity requires reducing the work force to levels at which each worker can contribute productively. *Thus an important indicator of whether manufacturers are responding to “market” forces is whether they have reduced levels of surplus labour.*
- From the perspective of society, however, underutilised labour within establishments is one component of “hidden” unemployment. *The magnitude of un- or underutilised labour within the firm is important to take into account in estimating the number of replacement jobs needed as large state enterprises are privatized and restructure their workforce.*

Each of the country surveys tried to identify and measure the extent of surplus labour in manufacturing establishments. Survey questionnaires gathered data on *managers’ perceptions of surplus labour* and on various practices they employed to decrease the costs of retaining surplus workers, such as putting workers on *administrative leaves*, *reduced work schedules*, or *extended maternity leaves*. This section examines this evidence to show whether, despite the sharp fall in employment documented in the preceding section, establishments continued to be over-staffed and what measures they have taken to deal with the problem of labour surplus. It also provides some statistical analysis to contrast behaviour by privatized and state-owned enterprises.

5.1 Managers’ perceptions of labour surplus

Managers were asked if they could produce the same level of output with fewer workers. The portion of managers replying “yes” ranged from a low of one-third in the Kyrgyz Republic to a high of two-thirds in China (table 5-1). They were also asked what percentage of their workforce was surplus, i.e. what share of workers was not needed to maintain production at current levels. As a share of total employees covered by the survey, surplus labour was highest in Armenia, where nearly a quarter of all workers were “redundant” by this definition and could be considered to be in concealed unemployment. The share of employees “not needed” was about 20 per cent in Georgia, 15 per cent in China, and the lowest, 8 per cent in the Kyrgyz Republic.

Table 5-1. Perceived labour surplus

Country	Percent of establishments able to produce same output with fewer workers	Percent of all employees perceived to be surplus*
Armenia	44.7	23.55
Georgia	43.0	19.03
Kyrgyzstan	35.3	7.97
Russia	36.0	9.59
Ukraine	37.3	10.50
China	65.4	15.41

* Total number of workers reported as surplus divided by total employment in each survey, including employees in those establishments reporting having no surplus workers.

These numbers are startling: *nearly twenty per cent of workers in the surveyed establishments in Georgia were not needed for current production levels, even though these establishments had cut employment by 11 per cent in the preceding year. In Russia, the surveyed manufacturers cut employment by 10 per cent but could have let another 10 per cent go without decreasing production.* While Kyrgyz manufacturers reported the lowest share of surplus workers, 8 per cent, they had cut employment by the largest margin in the preceding year, 15 per cent (figure 5-1).

Figure 5-1. Employment decreases and remaining surplus labour (p. 65)

The juxtaposition shown, of change in employment and of persisting surplus labour, suggests that among FSU countries downsizing may be most difficult for Armenian and Georgian establishments, where the share of surplus labour was highest and margins over the share of workers already displaced largest. The comparison in China is even more pronounced, with more than three times as many workers considered surplus than had left employers in that year. While the picture appears more balanced in Russia and Ukraine, the data indicate that twice as many workers could have been displaced.

The high incidence of surplus labour found among Chinese manufacturers is somewhat surprising given the overall high rate of industrial growth. Paradoxically, however, the share of enterprises with perceived labour surplus in the active workforce was much higher even than in the selected transition economies of the former Soviet Union. Hence, a transition economy may have positive industrial growth rates and a substantial labour surplus within manufacturing enterprises at the same time. Likewise, among the FSU countries Georgia had positive growth rates in 1995, albeit lower than in China and for the first year in the preceding half decade, but also had one of the highest rates of labour surplus in the region.

The first conclusion to be drawn from the evidence on surplus labour is that the fall in employment had not bottomed out in any of these surveys of manufacturers. Many enterprises remain over staffed and, barring significantly higher growth rates, a tenth to a fourth of

formally employed workers in the surveyed establishments in each country will remain unemployed within enterprises or be displaced.

It also implies that modest economic growth is unlikely to create jobs for the displaced workers, or the openly unemployed. An increase in output will translate first into more productive employment for a greater percentage of workers already employed. Faster or sustained growth over a longer period will be needed to create job opportunities in the manufacturing sector for workers already displaced.

5.1.1 Surplus labour in private and state enterprises

The survey findings do not provide evidence that privatized establishments outpaced state enterprises in reducing the share of their surplus workers. On the contrary, in each of the five FSU countries a higher percentage of privatized establishments than of state enterprises reported having surplus workers; while in China nearly three fourths of the state enterprises reported having surplus workers, compared to half of the private establishments.¹ Likewise, the share of workers considered redundant by managers was higher among private-owned, with the exception of the Kyrgyz Republic. In China, 17 per cent of all workers in state enterprises were considered redundant, compared to 6 per cent of workers in the joint ventures and joint-stock companies comprising the private sector in the China survey (table 5-2).

Table 5-2. Perceived labour surplus, by property form

Country	Percent of establishments able to produce same output with fewer workers		Percent of all employees perceived to be surplus#	
	State	Private	State	Private
Armenia	41.4	53.4*	15.3	27.9
Georgia	39.6	47.6	15.5	20.5
Kyrgyzstan	30.9	40.1	9.4	7.5
Russia	28.6	38.0	5.9	9.2
Ukraine	35.5	44.3*	8.6	11.7
China	71.6	49.2***	17.2	6.1

Total number of workers reported as surplus divided by total employment in each sector, state or private, including employment in establishments that reported having no surplus workers.

* The differences between the share of private establishments reporting surplus worker and the share of state enterprises is statistically significant the .05 level in Armenia and Ukraine, and at the .01 level in China.

Similar conclusions can be drawn from comparing the average performance of state and private establishments (figure 5-2). *The average share of workers considered redundant was higher among privatized establishments than among state enterprises in each country except*

¹ The difference between the proportion of private establishments and the proportion of state enterprises that reported having more workers than they needed was statistically significant in Armenia and Ukraine at the .05 level and in China at the .01 level.

*China and the Kyrgyz Republic.*² This finding, that in four of the five FSU countries privatized establishments had at least the same (Russia) or higher tendency than state enterprises to retain surplus workers, is contrary to expectations. Given that change in property form away from state control was supposed to lead directors to minimize costs, privatized establishments were expected to move faster than state enterprises in reducing excess supply of labour within the firm.

Figure 5-2. Average share of workers considered surplus, by property form (p. 65)

Similarly, the survey findings do not provide evidence that employee ownership was associated with greater reluctance to shed surplus workers. Average rates of surplus workers were quite similar between open and closed joint-stock companies. As shown in figure 5-3, closed joint-stock companies in Russia and Ukraine reported, on average, the same portion of surplus workers as state enterprises. In Armenia, the open joint-stock companies had a higher average share of workers considered redundant. (Only in Georgia was the share of surplus workers higher in closed joint-stock companies, but this average is taken over only the ten closed joint-stock companies included in the survey.)

Figure 5-3. Average share of workers considered surplus by joint-stock companies (p. 66)

The survey evidence indicates that size restructuring is not a marginal problem for those establishments that still have surplus workers. Among establishments reporting an excess number of workers, the average share of workers considered surplus ranged from a low of 20 per cent in Russia and Ukraine to 38 per cent in Georgia (figure 5-4).

Figure 5-4. Establishments with surplus labour: average share of workers redundant (p. 66)

These same comparisons are made for the categories of property forms in the China survey in figure 5-5. In those establishments set up expressly to absorb workers displaced from state enterprises, 20 per cent of the workforce on average was considered redundant. The rate was barely lower among the state enterprises themselves, 18 per cent. The joint-stock companies (only ten in the sample) reported that 15 per cent of their workers on average were not needed for current production levels. Joint ventures with foreign investors had the lowest share of redundancy, across any category of property form in any of the surveyed countries, about one out of twenty workers was not employed productively. These results reflect the particular purpose and forms of the different types of enterprises: State enterprises continue to fulfil social responsibility to provide livelihoods to more persons than they can use, labour service enterprises absorb some of these redundancies but on average are not more productive, but foreign-owned establishments, with less regulated internal labour demand, hire up to levels consistent with production levels.

² Differences between state and privatized establishments in the average share of their workers considered surplus were statistically significant at the .01 level for Armenia and China, the .05 level for Georgia and the .1 level for Ukraine.

Figure 5-5. Average share of surplus workers, China (p. 67)

5.1.2 Model of surplus labour retention

A regression model was specified to examine the relationship between property form and excess labour within establishments. In particular, it examines the hypothesis that privatized establishments are less likely to retain surplus workers, holding constant other establishment characteristics that might account for variation in the extent of their labour surplus. These other variables are the same ones used in the model of employment change in the previous section: size, region and industry of the establishment; method of selecting senior management, share of output exported, and share of workers in unskilled occupations. The principal relationship explored is between privatization and percentage of employees considered surplus (the dependent variable). The ownership type variables have also been defined as above: "PRIVATE" includes joint-stock companies, individual or family-owned plants, partnerships, etc., while "PRIVGE2Y" restricts the set of privatized establishments to those which had been privatized for at least two years. The full results are provided in Appendix table 6. (As before, the models are estimated only for the FSU countries.)

*In four of the five countries, the results of the regression models show that privatized establishments did not, on average, retain a lower share of surplus workers than did state enterprises, as the hypothesis would lead us to expect. The results are the same for the specifications estimated that restricted privatized establishments to those that had been privatized for at least two years.*³ In Armenia, the results show that privatized establishments tended to have higher shares of redundant workers than state enterprises, even when holding the other factors constant. However, the results of the Armenia model estimated with the restricted set of privatized establishments, just 21 responding firms had been privatized for at least two years, showed that these establishments retained a lower portion of surplus workers in their workforces—ten percentage points lower on average.⁴ This is the only case in which the surveys findings from the individual country models are consistent with the expectation that privatized companies would adjust the size of their workforce faster than would state enterprises.

In order to enlarge the sample size, the data was combined from all five countries and both models (employment change and surplus labour) were re-estimated. There are over 1000 observations in the smaller of these combined-country models (those using the restricted set of privatized establishments). In order to hold constant macroeconomic and other national factors which varied between countries, a set of variables was added to the model identifying the country of each establishment.⁵ The full results are presented in Appendix table 7: the results of the employment change model are in columns 1 and 2, and the results of the surplus

³ The t-statistics for the estimated coefficients on the variables PRIVATE and PRIVGE2Y (privatized for at least two years) are below the threshold of statistical significance, implying that the estimated coefficients cannot be considered different from zero and that there was no measurable impact of change in property form on share of surplus workers retained by the establishments.

⁴ In the model estimated with the complete set of 160 privatized establishments findings countered expectations: the estimated coefficient on the variable PRIVATE was positive and significant at the .01 level, implying that privatized establishments tended to retain larger shares of surplus workers than did state enterprises. The estimated coefficient on the variable PRIVGE2Y was -10.5 and statistically significant, at the .05 level, implying lower share of surplus workers than held on average by state enterprises.

⁵ Russia was the omitted case, thus results for the four country variables can be interpreted as performance on average relative to performance by Russian establishments.

labour model in columns 3 and 4. The second column in each pair is for the restricted set of private firms, those that had at least two years within which to begin the restructuring process.

In the combined-country model, neither of the variables identifying establishments as private-owned appear to be related to average percentage change in employment. In the surplus labour model, privatized establishments appear to retain slightly larger shares of surplus labour on average compared to state enterprises⁶. This finding is opposite to what would be consistent with the hypothesis that state enterprises would more actively resist necessary downsizing. This surprising result may be due to combining recently privatized establishments with those that have had some time to begin to restructure, however, because in the second model with privatized establishments limited to those which had changed property form at least two years prior, no difference between private and state enterprises is apparent in the tendency to retain surplus workers.

Thus the most that can be said from the statistical analysis is that there is no evidence to support the hypothesis that privatized firms adjusted workforce size faster than did state enterprises, on average. And there is some evidence that they were more likely to retain redundant workers, even when accounting for differences between establishments in the degree of employee governance, export markets, and workers' qualifications.

The results of the regression models also indicate that establishments that were more successful in export markets exhibited better employment performance in terms of rate of employment change, but there was no relationship shown between surplus worker retention and method of selecting senior managers, distribution of workers between skilled and unskilled, or location in capital cities:

- *Higher shares of sales from export* were associated with higher employment growth (a slower employment loss) and lower share of surplus workers in the combined-country models.⁷ This finding was not apparent in the surplus labour models run separately for each country (but was found in the Russia and Armenia country models on employment change, as noted in Section 4 above).
- Only in the Georgia country model was there evidence that establishments with stronger employee influence over decision-making would be less likely to release redundant workers.⁸ No relationship was found between *management selection method* and surplus workers in the other countries, nor in the combined country model.⁹

⁶ The estimated coefficient on the PRIVATE variable was positive and significant at the .05 level. The coefficients on PRIVGE2Y could not be considered as different from zero (t-statistic of .04), implying no discernable difference in their behaviour, on average, from that of state enterprises.

⁷ The estimated coefficient for percentage of sales from exports was positive and significant in both models of employment change (at the .01 level for all privatized establishments, and at the .05 level for longer-tenured privatized establishments). The coefficient on the same variable in the labour surplus model was positive and significant (at the .05 level) only in the model with the restricted set of privatized establishments. All of these coefficients were estimated at less than 1 per cent.

⁸ In Georgia, selection of top managers by establishments was associated with faster employment growth (or slower loss) than establishments with managers appointed by government agencies. The estimated coefficient on non-governmental selection was positive and significant in both models for Georgia (at the .01 level for the large set of private establishments and at the .05 level for the set restricted to longer-tenured privatized establishments).

⁹ An early regression model used percentage of shares owned by employees, instead of selection method of top manager, as an explanatory variable to capture the relationship between property form and retaining surplus workers. It was not found to have a significant impact on degree of retention of surplus workers, and was dropped from the final specification because data was not available for one of the FSU countries.

- In Ukraine it appeared that the extent of retaining surplus workers might be related to the *qualification level* of the workforce, where a higher share of workers in unskilled, or unqualified, occupations was associated with a one percentage point higher rate of surplus labour.¹⁰ No relationship was found between occupational structure and surplus worker retention in the other country models nor in the combined country models.
- In only the Kyrgyz model was there evidence that establishments in the *capital cities*¹¹ were less likely to retain surplus workers than were establishments located elsewhere.
- In the combined country model, results were consistent in showing that *larger establishments* faced greater size restructuring ahead than did smaller establishments. Relative to establishments with fewer than 100 employees, large size was associated with steeper job loss and higher shares of surplus workers.
- Among *industries*, establishments in the textile sector (including apparel and footwear) appeared to have the most difficulties in terms of both job loss and surplus workers. In the combined country model, results indicate that textile firms had worse employment performance (relative to those in the food sector, which was used as the base of comparison across industries) and significantly higher share of surplus workers.¹²
- In most cases, the model results confirm that employment restructuring problems were more severe in the smaller Republics. Establishments in Armenia and Georgia appeared to retain larger shares of surplus labour on average, compared to Russian establishments, for example. In all of these countries, employment loss was more severe than in Russia.

To conclude this section estimating the magnitude of surplus labour retention, *the comparisons drawn from the survey findings suggest that in the tumultuous period of transition, privatized establishments had not been more successful in completing the size restructuring of their enterprises than had state-owned enterprises.* Nor were systematic differences found between the major types of privatized establishments: both open and closed joint-stock companies continued to hoard labour; or, stated another way, were reluctant to release workers for whom they had insufficient work.

5.1.3 Why firms retain surplus workers

Although retaining some margin of surplus labour may be economical, enabling managers to respond to a sudden increase in demand, fill in for workers temporarily absent, or rotate workers through training programmes, the magnitude of redundancies suggests that these explanations could not account for the number of workers considered surplus. In Russia, half of the managers indicated this type of rationale for retaining more workers than currently needed: Thirty per cent of the Russian managers reported that they retained surplus workers because they expected to increase production, and another 18 per cent said they did

¹⁰ The coefficient on the variable measuring the percentage of the workforce in unskilled occupations was positive and significant at the .05 level in both of the Ukraine models for surplus workers.

¹¹ In the Kyrgyz model, the estimated coefficient on the variable for capital city location was -6, significant at the .05 level. In Georgia and Ukraine there was weak evidence that establishments in capital cities were more likely to retain surplus workers.

¹² The estimated coefficients on the variable identifying textile manufacturers were negative and significant at the .01 level in the employment change models and positive and significant at the .05 level in the surplus labour model.

so in order to retain skilled workers (figure 5-6). Likewise one out of ten of the Ukrainian respondents cited irregular supply of raw materials as their main reason. However, *between one third and one half of the managers cited concern for employees if they lost their job as the primary reason for not releasing them in three of the FSU countries* (data was not collected in the Kyrgyz survey). In Armenia, 52 per cent of managers cited no alternative job opportunities in the region as their main reason to keep surplus workers. About 15 per cent of the Ukrainian and Georgian managers also gave that reason, but another 20 per cent and 29 per cent, respectively, cited lack of social protection for unemployed workers as their main motive.

Figure 5-6. Main reason for not releasing surplus workers (p. 67)

Another oft-cited motive was preservation of the work collective, chosen by nearly half of the Georgian managers, as well as by 15 per cent of the Armenian and 12 per cent of the Russian managers. This motive seems to go beyond efforts to respond quickly to increased demand or to retain skilled workers, since these reasons were given separately. Rather it seems to indicate continued social responsibility for maintaining a group of workers with a particular skill mix and experience operating as a team within the work place. An additional indication of social responsibility as an explanatory factor was the 8 per cent of managers in Armenia and 7 per cent in Russia that said they could not release workers with disabilities especially those that had become disabled on the job. This was, and evidently continues to be, the preferred means that society takes to provide for workers with disabilities, that their income and work status (wages, pension) are "carried" by employers rather than spread throughout society at large through targeted "welfare" programmes or disability benefits.

The extent to which social responsibility motivates retaining surplus workers did not differ substantially between state and privately-owned establishments, nor between closed and open joint-stock companies. For example, in Armenia and Russia, only 2 per cent of the closed joint-stock companies cited shareholders' vetoes as the main reason for retaining extra workers (not mentioned at all in Ukraine and Georgia). This finding does not support the idea that the main explanation for retention of surplus workers is reluctance by workers to displace themselves. Similarly, apart from retaining disabled workers, government constraints on releasing workers appears to be a relatively insignificant factor. Inability to pay statutory severance payments was cited by just 2 per cent of employers in the Russia and Armenia surveys and 3 per cent in the Ukraine survey as the main reason for not releasing workers.

This topic was dealt with somewhat differently in the China survey, as establishments are more constrained in releasing workers. Managers were asked to identify their main problem in coping with surplus workers. The responses are shown in figure 5-7, and the percentages again have been calculated from among those establishments that reported having surplus workers. Lack of financial support from government agencies was the most often-cited problem, by about one fourth of the state enterprises and the labour service enterprises. The most common problem among the joint ventures (the most clearly privatized type of establishments in the China survey) was the poor quality of the workers - suggesting that employing these persons productively within the plant was difficult.

Figure 5-7. Main problem coping with surplus workers, China (p. 68)

Economic rationales for retaining surplus workers (in order to be able to respond quickly to increased demand for output or to keep skilled workers) accounted for at most half of the responses in Russia, two-fifths in Ukraine, and one fifth in Armenia and Ukraine. *A majority of employers in Armenia, Georgia and Ukraine, and about half in Russia, cited social responsibility to their workers as the main reason for not releasing them.*

5.1.4 Corroborating data

All of the information on surplus workers presented thus far has been taken from what managers themselves reported as “the share of workers not needed to maintain current levels of output.” Some of the other survey questions also provided useful information on the subject of excess labour within establishments, and corroborate the “perceptions” of surplus labour reported by managers: comparison of perceived labour surplus with reported capacity utilization and share of workers affected by production stoppages.

Figure 5-8 compares share of workers considered redundant by levels of physical capacity utilization. Those establishments reporting lowest utilization rates of plant and equipment had the highest share of workers labelled surplus. The striking exception is China, where over 20 per cent of workers were considered surplus, on average, in plants using up to 70 per cent of plant capacity. This would seem to indicate that labour demand is primarily dictated by forces outside the firm, to a much larger degree even than among FSU countries. Establishments in the Kyrgyz Republic also reported very similar rates of surplus labour across different levels of physical capacity utilization, except that surplus labour rates were doubled, on average, among establishments with lowest levels of capacity utilization (less than 30 per cent).

Figure 5-8. Share of workers considered surplus, by levels of capacity utilization (p. 68)

The report on the fifth round of the Russian establishment survey documented the extent of production shutdowns and estimated that nearly 5 per cent of total working time had been lost in full production stoppages (Standing, 1996). Information on workers affected by production stoppages due to lack of work or other similar economic reasons was also collected for Armenia and Georgia. Managers were asked how many weeks of full or partial stoppages they had experienced in the preceding year. “Partial stoppages” refers to closing part of the production facilities and “full stoppage” to closure of the whole plant, for some period of time, but not permanently. Employees affected by such shutdowns would still be considered employed, i.e. not separated from their employers, but had little or no work for part of the preceding year.

Of the three countries, Georgia had the highest share of work weeks lost to full or partial production stoppages. But fewer workers on average were affected by the partial stoppages than in the other countries (table 5-3). In Russia and Armenia, a third of the total workforce covered in the survey had been affected by at least partial plant shutdowns during the previous year.

Table 5-3. Average number of weeks lost to production stoppages

Country	Average number of weeks of full stoppages#	Average number of weeks of partial stoppages#	Average percentage of workers affected if partially stopped#
Armenia	6.44	5.11	38.71%
Georgia	7.34	5.28	16.48%
Russia	0.92	1.59	37.61%

Averages are across all establishments in the survey, including those which reported no stoppages.
Note: There is no relevant data for Kyrgyzstan, Ukraine or China.

There is no consistent pattern between state and private establishments. In Armenia, privatized establishments had a higher tendency to shut down their operations; in Georgia state enterprises lost a higher share of weeks to shutdowns on average; while in Russia there was no difference between the two groups (table 5-4).

Table 5-4. Average number of weeks lost to production stoppages, by property form

Country	Average number of weeks of full stoppages#		Average number of weeks of partial stoppages#		Average percentage of workers affected if partially stopped#	
	State	Private	State	Private	State	Private
Armenia	4.60	7.69***	3.42	5.61**	38.02%	38.80%
Georgia	11.57	6.29***	9.02	4.35***	20.16%	15.52%
Russia	0.51	0.94	1.82	1.44	32.45%	37.99%

Averages are across all establishments in the survey, including those which reported no stoppages.

Note: Significance levels for tests of difference between the means for private and state enterprises: ****, .01 level;

**, .05 level.

5.2 Management practices to deal with surplus workers

In addition to measuring the extent of surplus labour, the survey questionnaires asked a series of questions designed to reveal how managers dealt with this problem. The responses can be considered as measures to decrease the costs of surplus workers in ways other than releasing them, such as placing workers on extended leave, reduced work schedules, or extended maternity leaves. One reason establishments retain surplus workers may well be the relative ease of reducing the costs of employing extra workers by resorting to these practices. In effect, these practices are means of sharing too little work among too many workers. Another common practice, delaying payments to workers, could be considered a response to surplus workers (too many workers relative to cash earned) but could also be due to a variety of other factors and is discussed in Section 6 among other labour market issues.

5.2.1 Administrative leaves

One alternative to releasing redundant workers is to place them on administrative leave, meaning that they remain formally employed with the establishment but do not report to work.

Administrative leaves can be unpaid, or partially or even fully paid. In market economies this practice would be equivalent to placing workers on "lay-off", except that collective bargaining or national regulations would govern payments, recall terms, or unemployment benefits. In the context of the FSU countries, administrative leaves are fairly costless to employers, reducing wage bills without the burden of severance payments, while providing an easy way to increase labour should conditions warrant. The disadvantage to workers is (at best) reduced income, but with the advantage, over displacement, of retaining rights to certain services or benefits provided by their employers. The most important of these rights may be adding work months to pension eligibility.

The share of establishments that reported putting some of their workforce on leave ranged from a low of one-third in Russia to a high of four-fifths in the Kyrgyz Republic (table 5-5). In China, two thirds of the establishments had placed workers on leave, but the practice affected a very low portion of the total workforce captured in the survey, less than 5 per cent. By contrast, one out of three workers in Georgia and in the Kyrgyz Republic had experienced some period of leave in the preceding year. In the Kyrgyz survey additional details were collected on the average duration of leave in each establishment, which was used to estimate that the total time lost to administrative leaves was equivalent to 11,650 jobs, or 13 per cent of the total workforce employed by the surveyed establishments in 1995 (Evans-Klock, 1997).

Table 5-5. Reduced work time, incidence and share of workers affected

Country	Administrative leaves		Reduced work schedules	
	Percent of establishments placing workers on leave	Percent of employees placed on leave*	Percent of establishments placing workers on reduced schedules	Percent of employees placed on reduced schedules*
Armenia	40.2	18.5	24.6	8.7
Georgia	43.0	37.5	10.1	5.3
Kyrgyzstan	79.7	37.4	28.0	28.8
Russia	30.1	13.0	19.3	16.8
Ukraine	43.8	15.6	32.5	12.3
China	63.1	4.8		

Note: * Percentage of all workers in surveys placed on leave or reduced working time during some period in the preceding year. Data on work time not collected for China.

As shown in Figure 5-9, the share of privatized establishments that had placed workers on leave was significantly higher than the share of state establishments that had done so in Armenia and Ukraine, and significantly lower in China.¹³ In the other three countries, there was no discernible difference.

Figure 5-9. Incidence of administrative leave, by property form (p. 69)

Although administrative leaves are a means to reduce the costs of surplus labour, it was not a substitute for cutting employment. *Establishments which had put workers on leave had steeper employment cuts on average than those which had not, in every country surveyed* (figure 5-10). The differentials were largest in Armenia, Georgia, and Russia. For example, in Georgia, establishments that had put workers on leave had cut employment on average by 11 per cent, compared to a 2 per cent average employment cut by those that had not. In China, it appeared that only those establishments that had been forced to cut employment had also resorted to administrative leaves; those reporting no workers on administrative leaves had increased employment on average by nearly 10 per cent.¹⁴

Figure 5-10. Average employment change, by whether used administrative leaves (p. 69)

5.2.2 Reduced work schedules

An alternative method of reducing labour costs of surplus workers is to cut their working time and thus wages earned. The surveys asked whether some workers had been placed on reduced work schedules, either fewer hours per day or fewer days per week than normal, at the request of management, not as a result of workers' preferences. This method of "spreading the work" may be preferable to workers, as compared to unpaid leave, as it maintains some income in addition to employment status. However, as also shown in table 5-5, reducing work schedules was less popular than administrative leaves as a method of managing surplus workers. Ten per cent of the Georgian establishments had placed some workers on reduced work schedules, compared to 43 per cent that had placed some workers on leave. Less than 30 per cent of the Kyrgyz manufacturers had cut hours, compared to nearly 80 per cent that had put workers on leave. The share of the total workforce that had been placed on reduced schedules was also usually smaller, ranged from only 5 per cent in Georgia, to 17 per cent in Russia, to 29 per cent in the Kyrgyz Republic.

There was no clear pattern between privatized and state enterprises in using this form of flexible labour demand management (figure 5-11). In Armenia and Ukraine a significantly higher proportion of private enterprises than state enterprises placed workers on reduced schedules (30 per cent compared to 18 per cent in Armenia, 36 per cent compared to 28 per cent in Ukraine). Georgia had the lowest share of establishments using reduced work time, but state enterprises were twice as likely as private establishments to use this management practice (16 per cent compared to 8 per cent).¹⁵

¹³ The null hypothesis that the frequency of putting workers on leave is the same among privatized and state establishments can be rejected with 99 per cent confidence in these three countries.

¹⁴ The difference in average employment change between the two groups, those that had versus those that had not put workers on leave, was statistically significant at the .01 level in each country except Kyrgyzstan.

¹⁵ The frequency of placing workers on reduced schedules was statistically different between state and private establishments in Armenia at the .01 level and in Georgia and Ukraine at the .1 level.

Figure 5-11. Incidence of reduced work schedules, by property form (p. 70)

As shown, reducing work hours was a less common practice than administrative leaves, but a majority of those establishments that reduced hours had also put workers on leave. Basically all the Kyrgyz manufacturers that reported reduced work schedules also had used administrative leaves (95 per cent). In Ukraine and Georgia about four of five establishments with reduced hours also had used administrative leaves; in Russia and Armenia the share was about 57 per cent. Thus in most cases, reducing work time coincided with placing workers on leave. Also, in every survey, *establishments which had reduced their work schedules also had higher average employment cuts*. The average rates of job loss were twice as high among establishments reporting reduced schedules in Armenia, Ukraine, and Georgia; the differentials were even higher in Russia.¹⁶

5.2.3 Maternity leaves

Prolonged maternity leaves are another feature of industrial employment in transition FSU economies that should be interpreted in part as a method of managing surplus labour. One cannot interpret this wholly as hidden unemployment, yet it has been a convenient widely used mechanism for dealing with a surplus labour crisis. Managers encourage women to prolong maternity leave because of a shortage of work. They reap similar advantages as from administrative leaves: reducing labour costs without paying severance fees or having to hire new workers later.¹⁷ Women may retain access to some benefits and the possibility of returning to work. In these countries where fertility rates have been low and populations decreasing, contrary to what is happening in many other parts of the world, the very high numbers of women workers on maternity leave do not indicate higher fertility but high surplus labour, and a method for managing the problem that may well discriminate against women workers.

As shown in table 5-6, maternity leaves are unusually high in all of the FSU countries. In the Kyrgyz survey, for every three employed women, one was listed as on maternity leave. Their number represented roughly one seventh of total employment. The number of women on maternity leave was equivalent to 17 per cent of the number of women employed in the surveyed establishments in Armenia; 15 per cent in Ukraine. The ratios were lower in Georgia and Russia, 10 per cent and 7 per cent respectively, but still far above fertility rates. Women on maternity leave represented between five and ten per cent of the total surveyed workforce in these countries. In China, maternity leave rates were extremely low, just over 1 per cent.

¹⁶ Differences in average employment change between establishments that had put workers on reduced schedules and those that had not was statistically significant in all countries except Georgia.

¹⁷ Although the survey questions did not distinguish paid from unpaid maternity leaves, it is most likely that benefits were not paid during extended leaves.

Table 5-6. Women placed on maternity leave

Country	Women on maternity leave*	
	As % of total female workers	As % of total employment in survey
Armenia	17.19	8.83
Georgia	9.64	4.38
Kyrgyzstan	30.79	16.27
Russia	7.05	3.80
Ukraine	14.68	7.09
China	1.27	0.53

* Number of women on maternity leave divided by total number of employment women and by total employment, respectively. Women on maternity leave were not included in establishments' employment counts, except in China.

Women on maternity leave as a share of total number of women employed in each category of property ownership is shown in figure 5-12. Again, the reliance by Kyrgyz manufacturers on this form of reducing labour is notable. For every two women employed by a state-owned establishment, one other is on maternity leave. Among private enterprises, the ratio is about one maternity leave for every four employed women. In the other countries, maternity leave rates are similar across types of establishments.

Figure 5-12. Share of women employees on maternity leave, by property form (p. 70)

Many, and most likely most, of the women listed as on maternity leave could more properly be classified as either having left the labour force (at least temporarily) or in disguised unemployment. In the absence of a labour market survey, we cannot know how long women have been on maternity leave, whether they would return to work if their employer had work for them to do, and what benefits they continue to receive from enterprises due to their maternity status. What is clear is that exaggerated maternity leaves, actively encouraging women to remain at home for a longer time period, reduces the costs of surplus labour for establishments. For example, in the Kyrgyz and Russia reports, maternity rates were found to be highest in industries with higher proportions of women workers. In one rural region in the Kyrgyz Republic where manufacturing was concentrated in the textile industry, for every five women employed, four were officially on maternity leave (Evans-Klock, 1998).

The fact that women remain officially on maternity leave also demonstrates their inability to find better jobs elsewhere. Data was not collected on the distribution of administrative leaves and reduced hours between male and female employees, so we cannot determine whether men had disproportionate shares of these other forms of reduced work and earnings. We can be sure, however, that extended maternity leaves should be interpreted as an additional burden borne by women workers as employers try to cope with the problem of insufficient work within their establishments.

5.2.4 Special case of China

The country report on China summarized recent changes in government policy towards the problem of surplus workers (Lim, Sziraczki and Xiaojian, 1996). Most of the responsibility for surplus workers has resided with enterprises, and most of the priority has been placed on concern for social stability. For example, the report summarizes the measures that the Government recommended that enterprises consider taking to deal with surplus labour (taken from the "Provisions of Settlement of Surplus Labour," issued by the State Council in 1993). Enterprises were encouraged to create new jobs in ancillary services or within the enterprise, to set up new companies to absorb their surplus workers, to re-train workers, to encourage early retirement or voluntary quits, or to hold workers on a reduced-pay status while new jobs could be created or workers sought new employment elsewhere.

Redeploying workers released from state-owned enterprises has become ever more critical as the government exposes more of the Chinese economy to competitive forces, promotes foreign investment and attempts to improve product quality for export markets. In 1995 the government indicated it would take a more active role and provide more assistance to enterprises. These measures have included improving the functioning of the labour market to help employers and job-seekers find each other, decreasing regulatory requirements on establishments (for example, no longer compelling them to provide life-long employment), and allowing firms to release, or lay off, workers. The labour service enterprises and village or town enterprises have been devised and established with the specific objective of creating alternative employment. Commencing widespread establishment restructuring during a period of strong economic growth has made this more pro-active response feasible.

The country report summarized responses identifying the main method of dealing with labour surplus. The most popular responses were redeploying workers within the establishment, putting workers on some form of leave, and early retirement. Assisting workers to set up their own businesses or providing training for workers were less popular, while reducing hours worked was not chosen at all as the principal adjustment means (Lim, Sziraczki and Xiaojian, 1996).

Summary of survey findings

- A surplus of workers was reported by at least one third of the establishments in each of the FSU countries. From one tenth to one quarter of the workers employed by the surveyed manufacturers were considered redundant, and thus in a vulnerable employment situation.
- Thus far into the transition period, privatized establishments had not been more successful in completing the size restructuring of their enterprises than had state-owned enterprises. Nor were systematic differences found between the major types of privatized establishments: both open and closed joint-stock companies continued to hoard labour; or, stated another way, were reluctant to release workers for whom they had insufficient work.
- The share of establishments that reported putting some of their workforce on leave ranged from one-third in Russia to four-fifths in the Kyrgyz Republic. The share of establishments that reported putting some workers on reduced work schedules ranged from 10 per cent in Georgia to 33 per cent in Ukraine.
- In general, privatized firms were not less likely than state enterprises to retain surplus workers (even when accounting for other differences such as industry, region, and skill

levels). Instead, they also adopted a variety of measures to reduce the costs of employing workers who could not contribute to earnings, waiting for improved economic conditions or for government policies to release them from the burden of providing some income or social services for too many employees.

- A majority of employers in Armenia, Georgia and Ukraine, and about half in Russia, cited social responsibility to their workers as the main reason for not releasing surplus workers.
- Without substantial and sustained economic growth, job loss in manufacturing could be expected to continue, and the early years of economic growth would result first in more productive use of the underutilised labour of employed workers before it would create job opportunities for displaced workers.

Figure 5-1. Employment decrease and remaining surplus labour

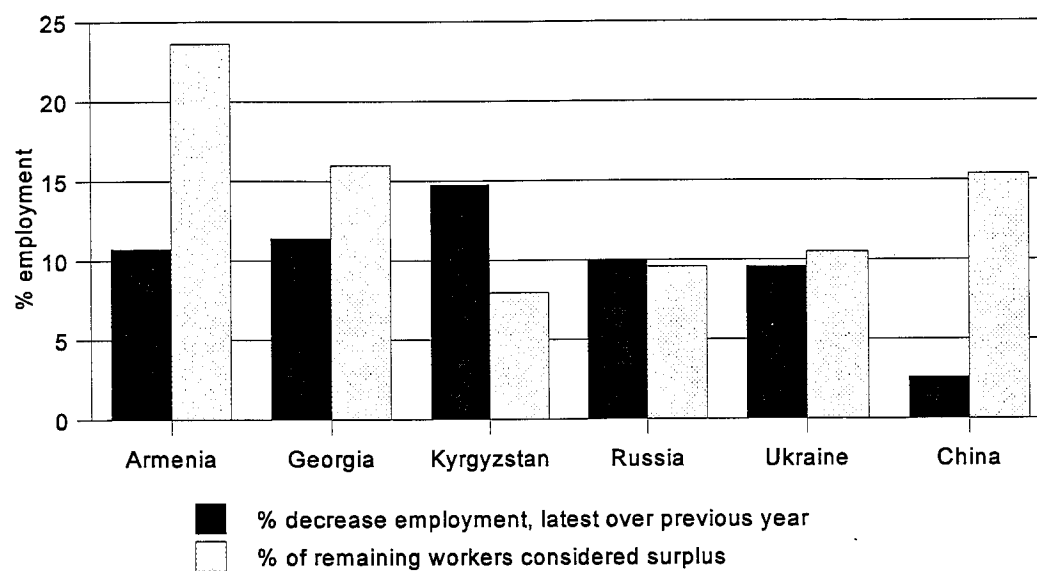
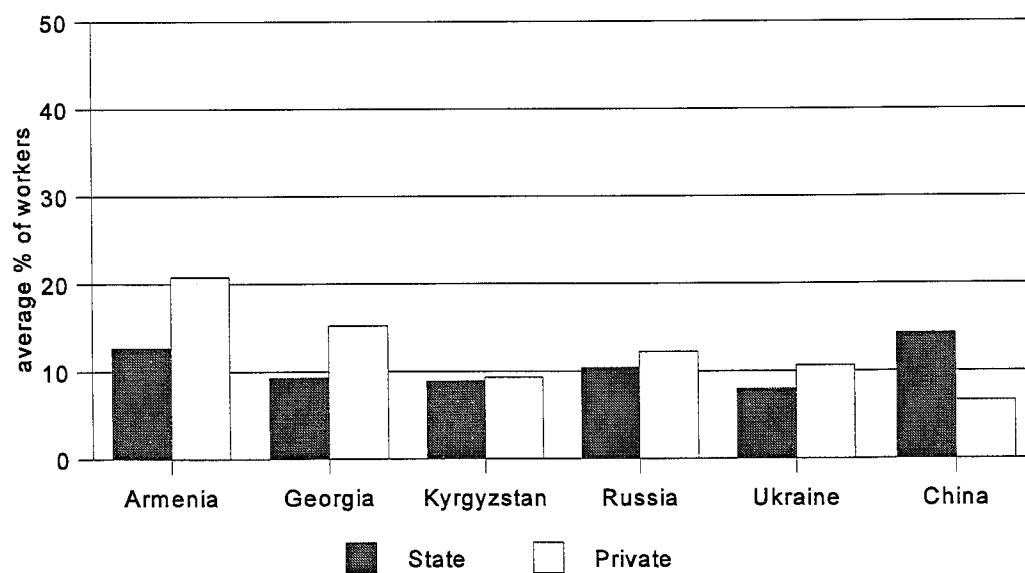
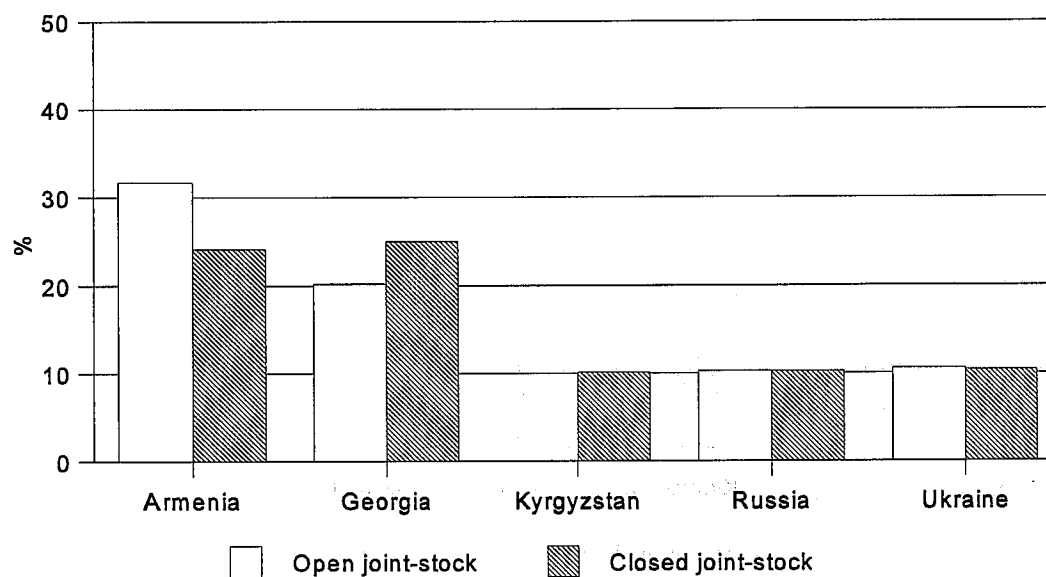


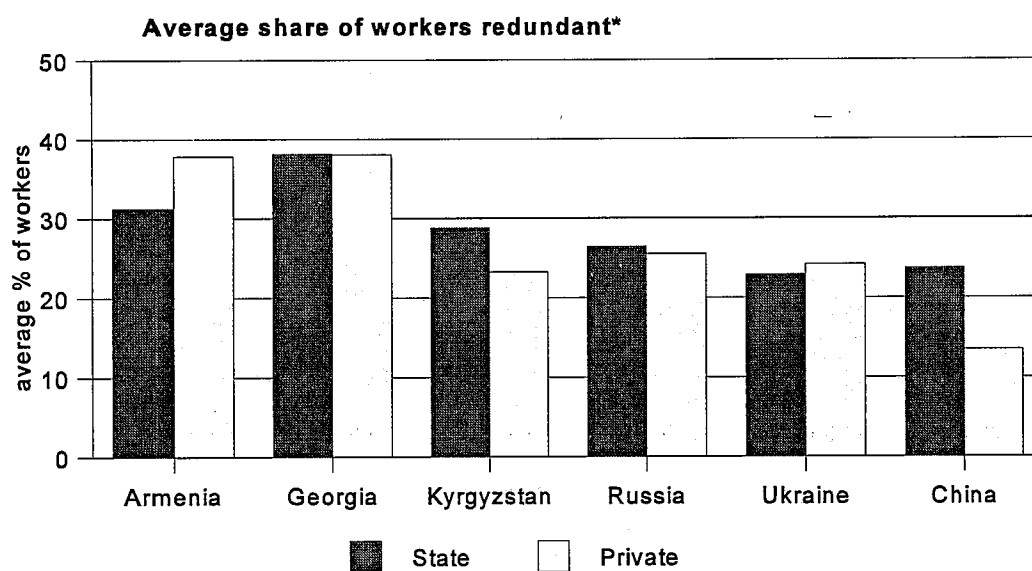
Figure 5-2. Average share of workers surplus, by property form*



* Averages computed over entire set of establishments in each sector, including those which reported having no surplus workers.

Figure 5-3. Average share of workers considered surplus, by joint stock companies*

* Average computed over all establishments, including those which reported having no surplus workers.

Figure 5-4. Establishments with surplus labour: Average share of workers redundant*

* Averages computed only over establishments which reported surplus workers > 0.

Figure 5-5. Average share of surplus workers, China

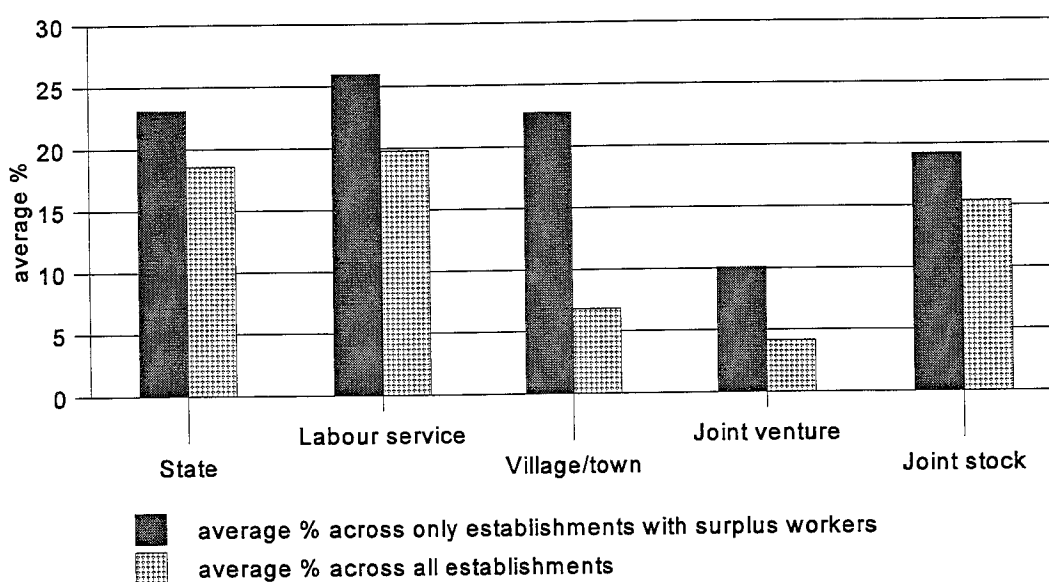
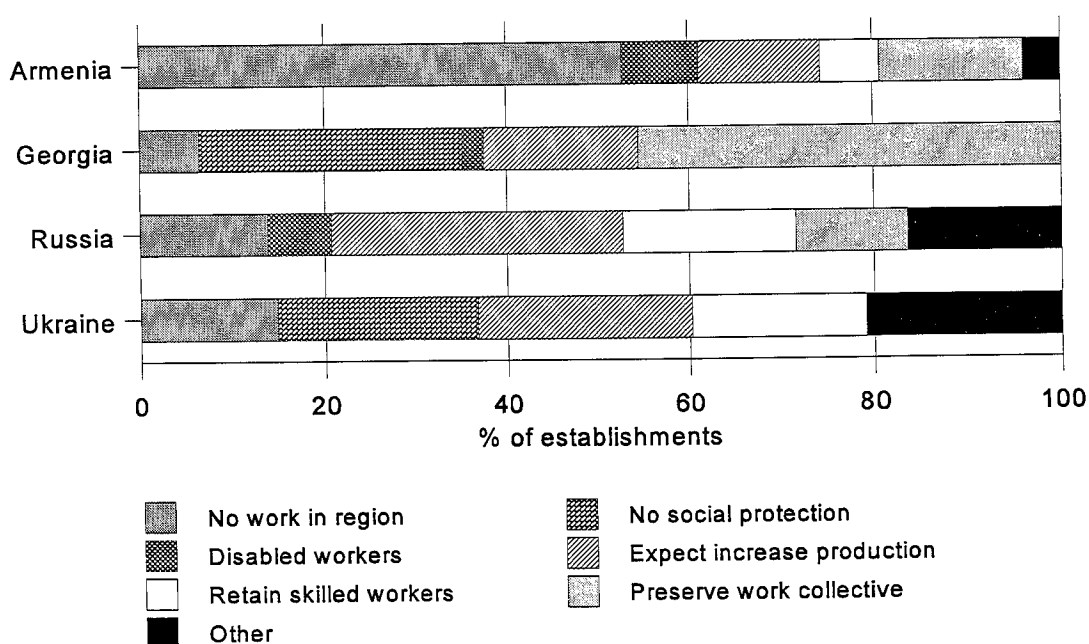
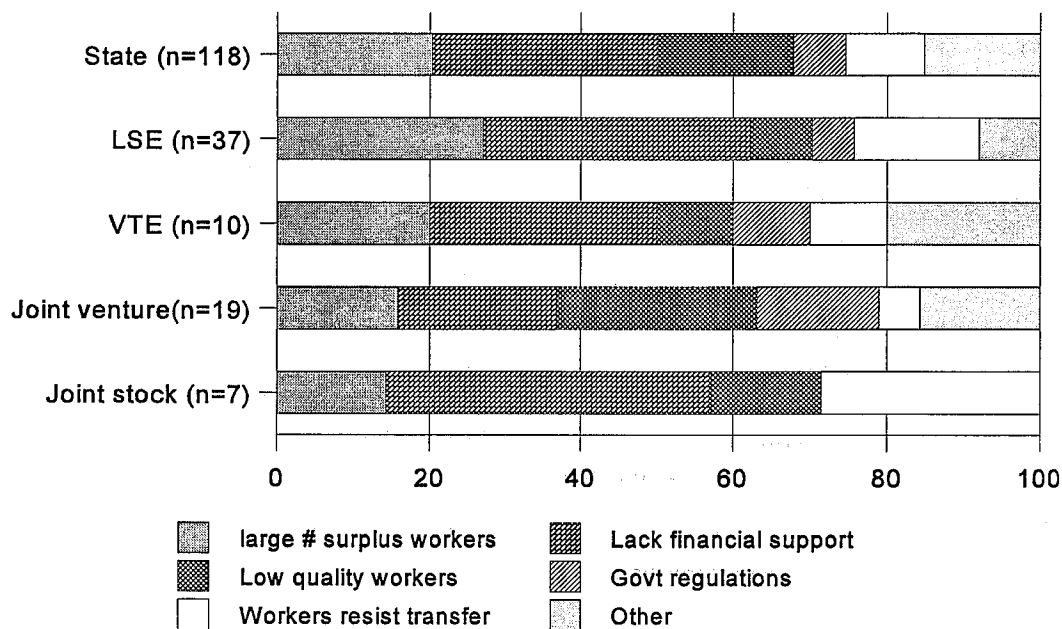


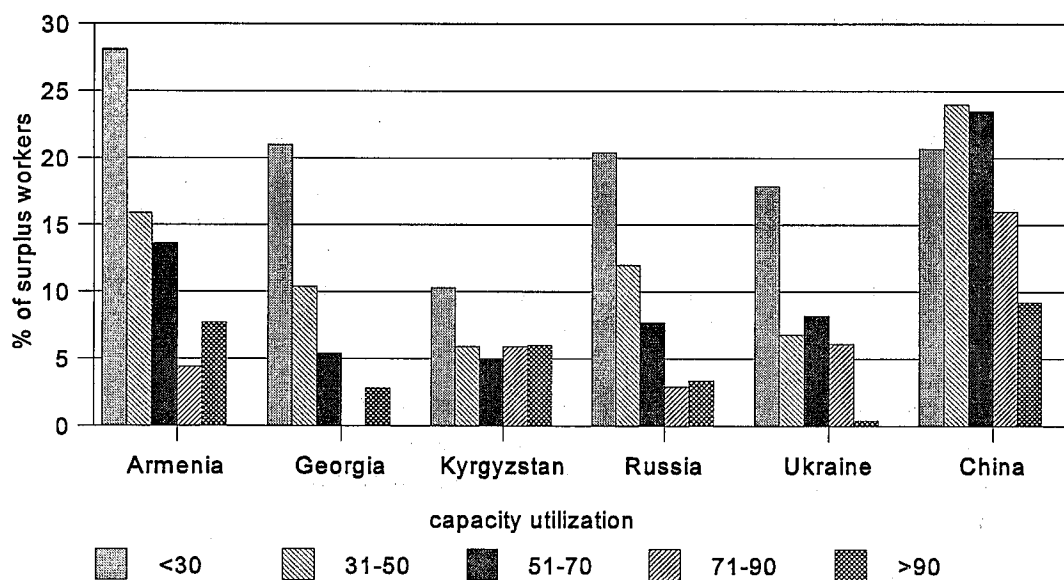
Figure 5-6. Main reason for not releasing surplus workers*



* Distribution of responses by establishments that reported having surplus workers. Data not available for Kyrgyz Republic.

Figure 5-7. Main problem coping with surplus workers, China

Note: LSE is labour service enterprises; VTE is village or town enterprises.

Figure 5-8. Share of workers surplus, by levels of physical capacity utilization

Note: Of the 17 Georgian establishments in the 71-90% utilization category, only 1 reported having surplus workers (30 per cent).

Figure 5-9. Incidence of administrative leave, by property form

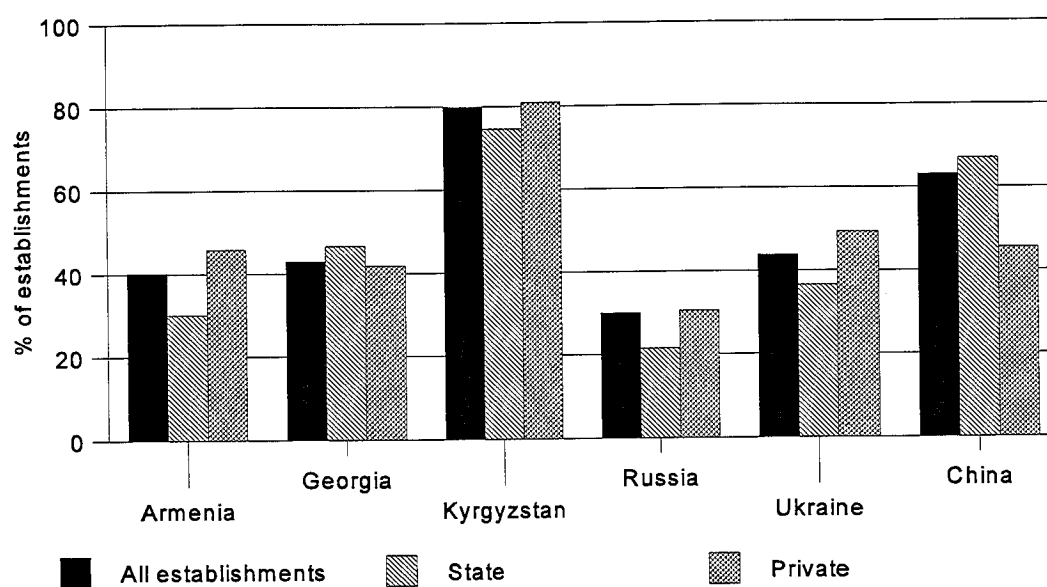


Figure 5-10. Average employment change, by whether used administrative leaves

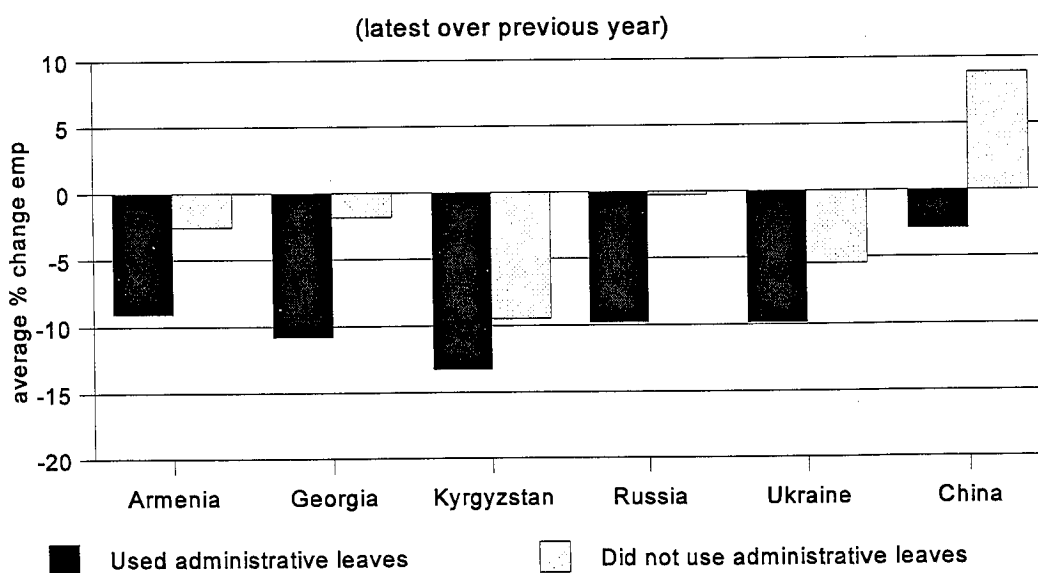
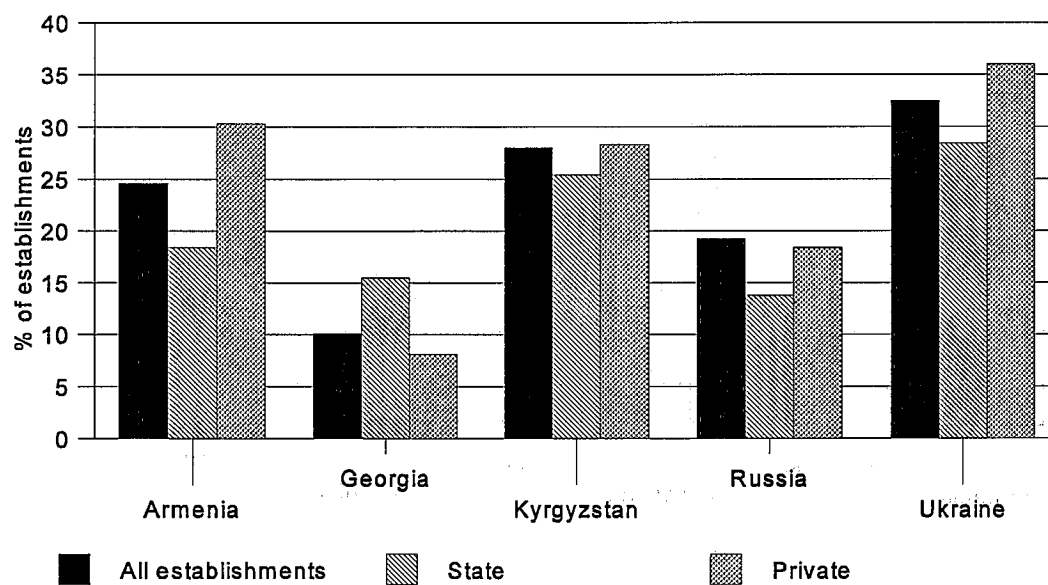
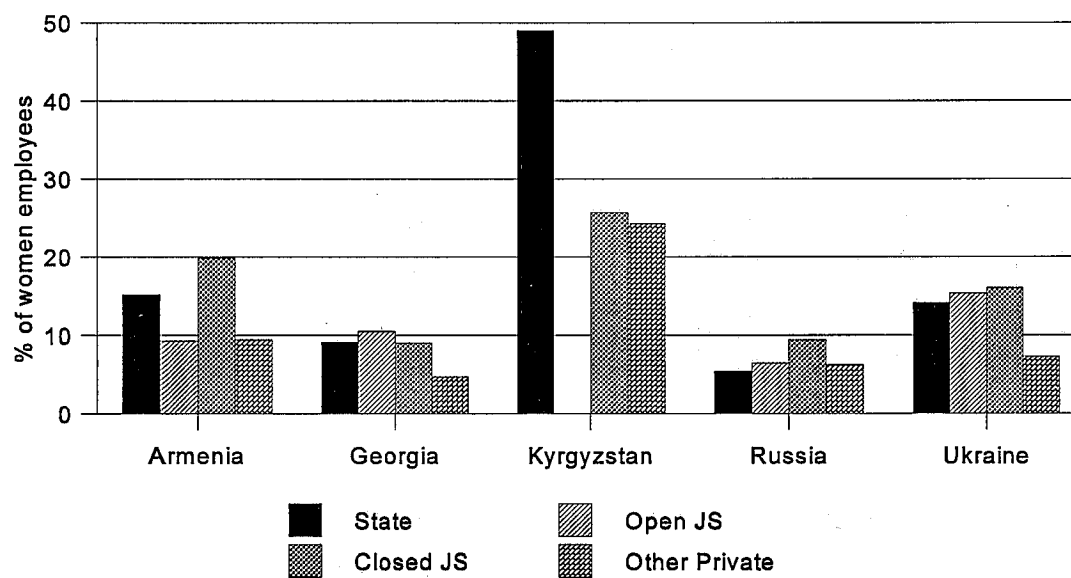


Figure 5-11. Incidence of reduced work schedules, by property form**Figure 5-12. Share of women employees on maternity leave, by property form**

6. Labour market development

Centrally planned economies were organized as full employment societies. Unemployment had been unknown throughout the Soviet Union since before the second World War. Being out of work was even considered a "parasitic walk of life," and could be punishable by law. At regular intervals the State Planning Committee allocated labour by sector and industry branch, down to the individual enterprise, as well as set remuneration levels and social security benefits. The result for workers was job security, which brought with it income security, access to education and training, social services, a pension and other benefits. However, the system also resulted in production rigidity and inefficiency. Enterprises were not free to determine employment levels, a constraint that was tolerable since they also had guaranteed "markets" for allocated levels of output.

Because life-long employment within a single state enterprise was the norm, governments had little experience in devising and implementing labour market policies to speed re-deployment of workers between jobs. The magnitude of the workforce size reductions which have accompanied the transformation of state-directed enterprises requires the establishment of a different sort of labour allocation and safety net system. It must be designed to protect workers between jobs from falling into long-term unemployment and poverty and to prepare them for different jobs.

This section examines evidence gathered by the surveys on the demand side of the labour market, including information on how employers recruit and retrench workers, how terms of employment have adjusted to the new conditions of economic uncertainty, and how wages are determined. These indications of emerging labour markets provide some indication of what measures may be needed to improve the ability of labour markets to perform new tasks in the decentralized economies. The first part summarizes respondents' labour market activities, looking at how privatized establishments recruited and retrenched workers and whether they turned to the national employment services for help with either task. The second part describes how wages are determined, comparing the influence of "market" forces, individual and team performance, and regulations. The third part assesses the impact of restructuring and labour market practices on wage payments and social service provision. Section 7 continues the discussion on labour markets by examining changes in the occupational structure of employment and the implications for worker training.

6.1 Labour market activity

The surveys show that despite the 10 to 15 per cent net downsizing over the previous year, a surprisingly large share of respondents had also hired some workers. Nearly 90 per cent of the establishments in Russia reported hiring some workers, as did about two-thirds of the establishments in Armenia and Georgia (figure 6-1). However, newly hired workers represented at most 6 per cent of the surveyed workforce, in Russia and Georgia, and fell to less than one per cent in Ukraine. Similarly small magnitudes were reported for current openings: the vacancy rate was as high as 2 per cent only in Ukraine, and hovered around 1 per cent in the other surveys. (See Appendix table 9.)

Figure 6-1 Share of establishments reporting vacancies and recruitment (p. 85)

Exits far surpassed hires as a share of current workforce levels in all countries (figure 6-2). The ratio of job-leavers to recruits was highest in the Kyrgyz Republic and in Ukraine, where the surveyed establishments had hired hardly any workers. Over the same time period, the number of exits, workers that had separated from their employers for whatever reason, was equivalent to 28 per cent of the remaining workforce in the Kyrgyz Republic, 10 per cent or more in each of the other FSU countries, and 8 per cent in China. (See Appendix table 9 for data used in figure 6-2.)

Figure 6-2 Hires and exits as percentages of current employment (p. 85)

In this context “exits” refers to all manners of job separations: retirement, retrenchment, voluntary quits, and discharges for unsatisfactory performance on the job. The restructuring period began with employment institutions and regulations that made it difficult for workers to separate from employers, even when they had been placed on unpaid leaves or reduced work schedules. Regulations restricted workers’ ability to move to other districts in search of employment, employment services could not provide adequate job-search assistance, formal separation from employers could entail loss of job-related subsidized housing, unemployment benefits were either nonexistent or below minimum needs, lack of training and retraining programmes outside of employment made it difficult for displaced workers to qualify for new types of work, and small-credit institutions to provide startup capital for small business creation did not exist. Although many of those counted as “quit voluntarily” may have been given incentive to leave by being placed on reduced work schedules or unpaid leaves, the group of job-leavers classified by employers as “retrenched” or “released” is the clearest measure of downsizing by establishments for economic reasons.

6.1.1 Retrenchment: Extent and practices

The distribution of job leavers by method of leaving their employer could be calculated for four of the surveyed countries. Workers released by their employers for economic reasons as a percentage of all job-leavers was highest in Georgia, where retrenched workers accounted for one fourth of all job leavers, and was lowest in Russia, where they accounted for about 8 per cent (figure 6-3). Privatized establishments reported a higher share of retrenchment among job leavers. The differential was highest in Ukraine, where retrenchments accounted for 13 per cent of job leavers in state enterprises compared to 22 per cent in privatized establishments.

Figure 6-3 Retrenched workers as a percentage of job leavers, by property form (p. 86)

Across the two rounds of the Kyrgyz surveys, the share of workers released out of all job-leavers doubled from 7 per cent in 1993 to 14 per cent in 1995. The share of job-leavers “dismissed” (for poor work performance, absenteeism, breach of work rules, etc.) tripled, from 7 to 21 per cent. The distribution of job-leavers by reason was very similar across size classes of establishments and industries (Evans-Klock, 1998). The report based on the China survey also documented greater initiative by managers and workers. Although retrenchment for economic reasons could not be singled out (as it was combined with other rationales

permitting employers to release workers such as their unsuitability for the job or discipline problems), dismissals and quits accounted for a larger share of job exits in the town/village enterprises and in the private sector than in the state enterprises (Lim, et al., 1996).

The evidence was mixed in terms of whether privatized establishments were more likely than state enterprises to release workers. In Georgia, 21 per cent of private establishments had released workers compared to 7 per cent of state enterprises. In Russia, the margin was only slightly smaller, 36 per cent of privatized establishments had retrenched employees compared to 17 per cent of state enterprises (table 6-1). However there was no significant difference in the likelihood of making retrenchments between the two groups in Ukraine and the Kyrgyz Republic. The low rate of retrenchment is also shown in table 6-1: In Russia, less than 1 per cent of the workforce in either the privatized or state sector had been formally released by employers over the previous year. The retrenchment rate was as high as 4 per cent only in Kyrgyz state enterprises.

Table 6-1 Retrenchment in state-owned and privatized establishments

Country	State-owned establishments			Privatized establishments		
	Share of establishments that retrenched workers	Retrenched workers as per cent of total job-leavers	Retrenched workers as per cent of total work force#	Share of establishments that retrenched workers	Retrenched workers as per cent of total job-leavers	Retrenched workers as per cent of total work force#
Georgia	6.9%	20.8%	1.6%	20.7%***	27.1%	3.7%
Kyrgyzstan	42.3%	16.3%	4.1%	40.1%	13.6%	3.1%
Russia	16.9%	6.0%	0.6%	35.8%***	8.4%	0.7%
Ukraine	58.5%	13.5%	1.2%	59.6%	22.2%	2.1%

*** The difference in the share of establishments that retrenched workers between privatized and state establishments is statistically significant at the 1 per cent level.

Per cent of total employment in survey, including in establishments that did not retrench workers.

Workers formally released by their employers are entitled to a severance payment from their former employers, usually equivalent to three months wages (see text box). This is a legal entitlement for displaced workers, but not for workers placed on unpaid leave, an alternative method of adjusting workforce size. Although most employers cited concern for workers' well-being and hopes that the full workforce could be employed productively in the future as their principal reason for retaining surplus

Severance payments

Armenia Retrenched workers receive 75% of their former wage for eight weeks.

Kyrgyz Severance payment equal to the former wage is to be paid for three months, provided the worker registers with the Employment Service within ten days of retrenchment. Eligibility does not depend on reason for job loss.

Russia Retrenched workers are eligible to receive 100% of their former wage for three months from their former employer, after which they are to register with the Employment Service to receive unemployment benefits.

Ukraine Besides severance payments, displaced workers may be entitled to retraining benefits and dependents' allowances, also from their employers.

workers, severance payment requirements do make permanent separations a more costly way of reducing the workforce. The severance payments are of enormous social concern. In the absence of government-provided unemployment benefits, even the temporary income provided by lump sum severance payments may be vital to keep families out of poverty, following job loss.

If adequate unemployment benefits were available, resisting formal departures (through extended leaves, for example) in order to avoid severance payments only increases the share of restructuring costs borne by individual workers. In their absence, maintaining formal employment relationships may enable surplus workers to retain their rights to some enterprise-based services, add working time to their pension eligibility, and keep their place in the queue for future work. On the other hand, resisting formal separations when downsizing is unavoidable postpones restructuring and recovery for the enterprise.

China was the first of the centrally-planned economies to introduce an unemployment insurance scheme. The programme was designed to relieve state enterprises of the principal burden of redeploying workers, as well as to provide a safety net for workers that would enable them to be more mobile and more accepting of the policy to promote state enterprise restructuring. The scheme is administered locally along national guidelines. The FSU countries have also instituted state-administered unemployment benefits, but these programmes have been underfunded due to government budget deficits and have generally been inadequate in terms of level of support and coverage, as shown in the following box summaries (information collected in field interviews and from background studies).

<i>Unemployment benefits: levels and eligibility</i>	
<i>Kyrgyz</i>	Retrenched workers eligible to receive 50% of their previous wage for 26 weeks, unless this is lower than minimum or higher than national average wage, plus increment for dependents.
<i>Russia</i>	Eligibility begins three months after job loss. Payment is 75% of wage for 3 months, declining subsequently through the first year. Those still unemployed may receive same minimum wage payment as other unemployed.
<i>Ukraine</i>	Half of previous wage for maximum of 12 months, additional family social assistance, at 50% of minimum wage, if meet means test.
<i>China</i>	Unemployment benefits for up to 2 years after job loss, if had worked at least 5 years, equivalent to 60-75% of basic wage and reduced to 50% in the second year.

<i>Unemployment benefits: values and coverage</i>	
<i>Georgia</i>	Average monthly benefit was equivalent to US\$6-7, or about 20 cents a day.
<i>Kyrgyz</i>	Unemployment benefit was 75 soms per month (about US\$7) in summer 1996, less than the cost of bread to feed a family of four but which the government had been unable to pay outside Bishkek through most of that year.
<i>Russia</i>	Average benefit was equivalent to 42% of subsistence level.
<i>Ukraine</i>	Average benefit was equivalent to 13% of minimum consumption budget and was distributed to less than 60% of those eligible.

6.1.2 Employment services

Apart from their role in determining eligibility and distributing benefits, the public employment services (PES) serve as a clearinghouse of information to help match job applicants to employers' vacancies and thus promote labour mobility between firms. The surveys collected information on the extent to which employers made use of the public employment services by informing released workers that they should register there, by posting their vacancies with the PES, and by recruiting through them.

The reliability of unemployment statistics and thus estimates of the need for unemployment assistance depend on displaced and unemployed persons registering with the PES. Only in two of the five FSU countries did even half of the employers that had retrenched workers encourage released workers to register with the employment service (Russia and the Kyrgyz Republic). Notification rates were lower in Georgia, where only one out of five managers that had released workers notified them to register (figure 6-4).

Figure 6-4 Use of the Public Employment Services, FSU countries (p. 86)

As also shown in figure 6-4, Russian and Kyrgyz managers were more likely to advise released employees to register with the PES than they were to either post their own vacancies or to recruit from the PES. Still, more than half of employers with vacancies had posted the m at the PES, as had about half of the employers looking for applicants in Armenia and just over a fourth of those in Georgia. There was no significant difference between private and state enterprises in the likelihood of their reporting vacancies or encouraging released workers to register with the PES.

As shown above (figure 6-1), a majority of respondents in each country (except Kyrgyz manufacturers) had hired at least one employee in the previous six to twelve months. Among these establishments, the variation in the proportion that recruited through the public employment service varied greatly between countries but only marginally between privatized and state-owned enterprises within countries. For example, about 40 per cent of the Russian establishments that had hired workers had turned to the employment service to help fill vacancies, with the share rising to 50 per cent of the open joint-stock companies (figure 6-5). Only a very few of the Georgian respondents that had hired workers had turned to the employment service, as had about one out of ten of the Armenian respondents. In the Kyrgyz survey, however, state-owned establishments were more likely than privatized establishments to use the employment service.

Figure 6-5 Recruitment through public employment services, by property form (p. 87)

China's public employment services appeared to be the most useful in serving the needs of non-state establishments, with nearly 60 per cent of the joint-stock and joint venture establishments reporting having recruited through the official employment services. However, in general, managers in China have had less freedom to select and recruit workers. For example, some 40 per cent of new recruits had been assigned to state enterprises by local authorities and another 23 per cent had been transferred from other enterprises. Just over half of the recruits in the labour surplus enterprises were, not surprisingly, surplus workers that had been transferred to them from parent state enterprises. Managers in the village/township enterprises enjoyed much more autonomy in selecting workers (Lim, et al., 1996; p. 24).

The poor performance of governments in the FSU to provide services to unemployed workers through these public employment agencies results in low reporting rates, in turn reducing their utility to employers. For example, just 13 per cent of the entire sample of Kyrgyz employers surveyed reported that they would turn to the employment service for assistance were they to recruit new workers. Some 70 per cent said recruits could be found

from among general applicants or those responding to specific advertisements. The limited interaction between employers and the PES in terms of hiring may continue as long as employers can easily increase labour by calling back workers placed on leave or short work schedules. However, as long as only a small portion of released workers register, unemployment rates will be underestimated, leading to inadequate budget funds devoted to unemployment insurance and other emergency social services for displaced workers. The cycle continues as inadequate benefits further discourages workers from registering.

6.1.3 Employment terms

Another indicator of the emergence of market forces in labour distribution is the extent of non-permanent types of employment arrangements. The measure of flexible employment terms for which data was collected in each of the surveys was whether the establishment hired any workers on a part-time basis (as distinguished from the practice of placing full-time workers on part-time schedules as a means of managing labour surplus.) The survey findings show that part-time employment arrangements have become quite common in these transition economies (figure 6-6). The practice was most popular in Ukraine, where more than half of the survey respondents employed part-time workers, followed by Russia and Armenia (with about 40 per cent) and the Kyrgyz Republic (about one quarter).

Figure 6-6 Employment of workers on part-time basis, by property form (p. 87)

However, as also shown above, the likelihood of establishments using part-time employment contracts varied more by country than by type of establishment. Frequency of part-time contracts (not to be confused with workers placed on reduced working hours as discussed above) were markedly similar across private and state-owned enterprises in Russia and Ukraine (uniformly high) and Georgia (uniformly low). In China, where privately-owned or managed enterprises out-performed state enterprises, part-time work arrangements were found more frequently among the lagging state enterprises. The findings were reversed in Armenia, where 45 per cent of privately-owned enterprises but 37 per cent of state enterprises reported part-time work contracts.¹

Among employers already using part-time employment arrangements, only in the Kyrgyz survey did a majority indicate that the share of workers on part-time arrangements had increased over the previous year (figure 6-7). At least half of the employers with part-time employees in each of the other countries said that part-time employees' share of the work force had not changed.

Figure 6-7 Change in the share of part-time workers over previous year (p. 88)

On the one hand, the limited emergence of part-time employment arrangements could provide evidence that the quality of employment was not deteriorating for those workers that

¹ The differences in the likelihood of employing part-time workers between private and state enterprises were statistically significant (at the .01 level) in Armenia and China. Data on other forms of flexible employment arrangements, such as short-term employment contracts and shared jobs, was not collected uniformly across surveys.

had retained their jobs. However, in the context of continuing labour surplus within firms, these findings could also indicate a lack of flexibility in adjusting the work force to the amount of work available in ways that might be more acceptable to workers than unpaid leave, involuntarily reduced work schedules, or retrenchment.

6.2 Wage determination

Under the command economy, wages were determined largely by the State, with relatively little influence of plant or individual performance, and relative uniformity across industrial sectors and regions. The wage tariff system was a complex set of wage differentials, determined by the central government and based on a statutory minimum wage. As part of the privatization process, employers had more flexibility in determining not only wage rates but the criteria upon which they would be decided. In addition, they were pushed to break away from the wage tariff system by inflation and rapidly rising costs of living which had not been adequately compensated in the minimum wage levels and official wage schedules:

- In 1995, fewer than half of the state enterprises and only one quarter of the private firms in *Russia* were using the state tariff wage system. Where used, the official wage tariff rate was supplemented because the occupation and other differentials had been set on the base of the minimum wage which had been held down far below subsistence levels of income (Standing, 1996).
- Only one third of the *Armenian* respondents reported using the state tariff wage system in 1995. Among private firms, the rate was about 11 per cent. As in Russia, the tariff system was used less frequently by smaller firms (Samorodov and Zsoldos, 1995).
- An even smaller portion of firms surveyed in *Georgia* used the state wage setting mechanisms, about 20 per cent of all establishments and about 9 per cent of private establishments (Samorodov and Zsoldos, 1998).
- In *Ukraine* the nominal minimum wage lost meaning as a wage setting mechanism. The minimum wage constituted 7.8 per cent of the average wage in January 1994, compared to 53 per cent in 1991 (ILO-CEET, 1995).

One measure of responsiveness to market pressure is the extent to which wage levels reflect individual and plant performance. Comparisons are difficult to draw from the surveys because the wage-setting information was collected in two different ways. In some countries, the questionnaire asked respondents to identify the main determinant of wages for production workers (Armenia, Georgia and Russia) while in others, respondents were asked the determinants for only the performance-based portion of average wages (Kyrgyz Republic, Ukraine and China).

Figure 6-8 shows the share of establishments which reported that individual performance was the main criteria in setting wages for production workers. The left-side panel shows that from 16 per cent of the Georgian respondents to 26 per cent of the Armenian respondents cited individual performance as the main wage determinant. Similarly, individual performance was cited as the main determinant in performance-based pay (as opposed to plant or unit performance) by 10 per cent of the Kyrgyz respondents and 25 per cent of the Chinese respondents (right-side panel). However, allowing respondents to select a combination of wage determinants shows that actually a larger share of managers took individual performance into account, along with plant or unit performance, in setting wages: 40 per cent or more of

the Russian and Armenian respondents identified individual performance as one key determinant in wage determination.

Figure 6-8 Individual performance in wage determination (p. 88)

Figure 6-9 shows a similar comparison for state and privatized establishments within countries, again with the caveat that the comparisons made are more similar between Armenia, Georgia and Russia and between the Kyrgyz Republic, Ukraine and China. The performance of the plant was the key determinant of workers' wages. However, in Armenia, respondents were equally likely to consider individual performance as a main factor. Rating of factors was markedly consistent between privatized and state enterprises. However in three of the countries, Georgia, Kyrgyzstan and China, a larger share of the privatized establishments based wage rates on individual performance, with the differential being largest in China.

Figure 6-9 Pay determination criteria, by property form (p. 89)

Bonus payments were also common among the surveyed establishments. At least 40 per cent of the establishments reported having bonus payment systems, except in Georgia where they were relatively uncommon (figure 6-10). Within countries, there was not a marked increase in the likelihood of distributing bonuses by the privatized firms.

Figure 6-10 Incidence of bonus payments, by property form (p. 90)

Although the distribution of establishments that pay bonuses cannot be broken down by profitability levels of the establishment, the figures seem high considering the poor overall performance of most establishments. The explanation may be that rather than represent extra earnings in reward for good performance, the bonuses are a management practice to try to boost workers' earnings when wages are particularly low. Some support for this interpretation is provided by the high share of wages represented by these bonuses. As shown in figure 6-11, among firms that paid bonuses, these payments represented from one fifth to over one half of the average wage. Again, there were no marked differences between privatized and state establishments. The fact that bonuses were not of relatively greater importance among the privatized establishments, where profit and productivity incentives might be assumed to be greater, lends credence to the interpretation that these payments may be driven more by income support concerns than as rewards for productivity or firm profitability.

Figure 6-11 Bonus payments as percentage of wage earnings, average by property form (p. 90)

6.3 Changes in wage payments and social service provisions

The manufacturers surveys not only documented the job loss and precariousness of employment for surplus workers, but also documented the *precariousness of earnings* for those fully employed. Most of the country surveys collected data on non-monetary or in-kind

wages, wage arrears accumulated by employers, and changes in social services provided to employees.

6.3.1 Wages and payment arrears

Wage practices in Russia were interpreted as showing extreme flexibility (Standing, 1996). While establishments retained workers in excess of the number that could be deployed productively, wages adjusted downwards in real terms and were tolerated at basically zero: failure of employers to pay their workers. Wage arrears were tolerated -- by legal authorities, by unions, individual employees -- because the probability of being paid in future by the same employer was higher than the probability of finding paid employment elsewhere, because side-jobs, moonlighting, small service provision activities were relied on by workers to supplement job earnings, and because it was generally accepted that employers could not pay wages if the enterprises themselves were not earning cash.²

Half or more of the establishments in each of the FSU surveys reported having difficulty paying wages, defined as one or more periods of wage arrears in the previous year (figure 6-12). The portion of respondents reporting wage difficulties ranged from a low of 47 per cent in Russia to a high of 70 per cent in the Kyrgyz Republic. Thus, *half or more of the survey respondents in each country owed workers back wages*. There was no clear indication from the cross-survey comparison whether privatized establishments resorted to wage arrears oftener than did state enterprises. In Russia, a higher portion of the state enterprises reported difficulties meeting their payroll (59 per cent compared to 46 per cent of privatized establishments). In Armenia, privatized establishments were more likely to report this problem (58 per cent compared to 44 per cent of state enterprises).³

Figure 6-12 Share of establishments reporting wage arrears, by property type (p. 91)

For the workers affected, the period of not receiving wages could be substantial. Among establishments that reported periods of not paying wages, the average duration was ten weeks in Armenia and twelve weeks in the Kyrgyz Republic (figure 6-13). In most of the countries, the average duration of unpaid wages was longer among state enterprises than among privatized ones.⁴

Figure 6-13 Average duration of wage arrears, by property type (p. 91)

² Most governments had instituted or strengthened laws requiring employers to pay workers in the years following the surveys. Beyond highly publicized instances of union protests against non-payment of wages, usually by government agencies, no information is available about enforcement of these laws, nor about their interpretation in the face of bankruptcy of firms with wage arrears.

³ The differences between the shares of privatized and state enterprises reporting wage difficulties were statistically significant only in Armenia (.01 level) and Russia (.05 level).

⁴ The differences in the average duration of wage arrears between state enterprises and privatized establishments were statistically significant in Georgia and Ukraine (at the .05 level).

Wage arrears can be interpreted in many ways - employers taking advantage of workers, weakness of national institutions to impose penalties on employers for failing to pay workers, weakness of unions vis-à-vis management. Wage arrears joins

unpaid leaves and reduced working time as one more means of cutting the costs of retaining surplus workers. They may, in fact, be due more to liquidity problems and supply and market network disruptions, than to employers' capriciousness. There are limited survey findings to support this interpretation: Over 60 per cent of the employers in each survey that had put some workers on extended leave also reported some period of wage arrears.

Some employers also resorted to making *payments in-kind* to their workers. This option may be attractive to employers when they can find no buyers for their products, or no buyers with cash, but give part of production to workers in lieu of monetary wages rather than releasing workers or declaring bankruptcy. Employees, in turn, become the sales personnel or distributors, trying to sell or barter what they have produced in exchange for the consumer goods they need. As shown in table 6-2, this practice was common only in Armenia (data was not collected in the Kyrgyz and China surveys). Nearly one out of five survey respondents reported having given workers part of their wages "in-kind." Among these establishments, in-kind payments were equivalent on average to 16 per cent of total establishment output. The practice was used relatively rarely elsewhere, by fewer than 10 per cent of establishments. There were no significant differences between the share of privatized and state enterprises that followed this practice.

Kyrgyz Ninety per cent of the survey respondents that reported wage arrears said the problem was due to their inability to sell products or to the inability of their customers to pay cash (Evans-Klock, 1998).

Table 6-2 Output distributed to workers as remuneration, by property form

Country	All establishments		State-owned		Private-owned	
	Per cent responding Yes	Of these, average per cent of output distributed to workers	Per cent responding Yes	Of these, average per cent of output distributed to workers	Per cent responding Yes	Of these, average per cent of output distributed to workers
Armenia	18.0	16.2	23.0	18.7	19.5	15.3
Georgia	8.5	11.9	0.1	29.0	9.5	9.5
Russia	7.6	11.5	4.6	18.0	8.1	11.8
Ukraine	8.5	5.9	5.5	6.4	9.9	6.6

6.3.2 Provision of social services

Wages were kept low in part because of the widespread provision of social services by employers -- traditionally considered an important function of enterprises under central planning. Enterprises provided an all-embracing system of social protection, including subsidized housing, garden plots, subsidized meals in company cafeterias, kindergartens, vouchers for buying durable goods, family allowances, vacation facilities, as well as more traditional employment-related benefits such as health insurance and pensions.

Enterprises' "earnings" provided by state agencies were calculated to cover such provisions, and substituted therefore for other public means of providing social services. In the command economies, enterprise-based social service provision may have been efficient: Unemployment was unknown, so universal coverage was assured; state enterprises were large, so economies of scale in terms of facility usage and staff could be gained. In the transition period, however, firms have been encouraged to shed service facilities as non income-earning activities which can be ill-afforded in turning each plant into a profit-oriented enterprise.

Movement in this direction, however, has been obstructed by the lack of alternative *public* provision of basic services. Local government agencies have lacked the means to collect taxes and fund services. Furthermore, low earnings stymie the emergence of *private* providers due to lack of effective demand - workers' ability as well as willingness to buy. *Failure to build alternative mechanisms of providing social services has had two very significant effects: The well being of workers and their families is jeopardized and the functioning of the labour market is crippled as workers try to maintain ties to employers still able to provide some social services but no work.*

As shown in figure 6-14, the share of establishments providing social services varies greatly across countries and according to type of service measured. Most noticeable is that employer provision of the full range of social services remains the norm for the Chinese establishments. Employers in Armenia and Georgia were least likely to provide a wide range of services.

Figure 6-14 Provision of social services, by property form (p. 92)

It was expected that privatized establishments would shed social service functions more quickly than would state enterprises. First, a re-definition of enterprise responsibility would motivate them to cut costs by reducing benefits and services. Second, if large establishments were broken up through privatization into smaller units, the economies of scale would be lost, making it more expensive for employers to provide the same range or quality of services. Across the countries there is mixed evidence on whether social service provision has dropped off more significantly among the privatized establishments. In China, the Kyrgyz Republic and Russia, provision of social services was often higher among the privatized establishments; in Armenia, Georgia and Ukraine there was usually no difference in the frequency of provision by privatized and state enterprises:

- In the *Kyrgyz* survey the provision of each of the principal types of social services was higher among joint-stock companies than among state enterprises. For example, 37 per cent of the joint-stock companies provided housing to their workers, compared to 27 per cent of state enterprises. The contrast was even more striking for medical care: 30 per cent of the joint-stock firms provided clinics compared to 17 per cent of the state enterprises. The privatized establishments were also more likely to provide child care facilities and farm plots and to subsidize workers' transportation costs (Evans-Klock, 1998).
- In *China* there were no significant differences between the state sector and the non-state sector in terms of the "social burden." The joint ventures and joint stock companies appeared to have conformed to the practice in China of offering workers a wide range

of benefits, and in fact had the highest frequency of provision of housing and medical care. Although there is some question as to whether provision of such services was mandated by local governments, the survey did not support the contention that workers hesitated to take jobs in the non-state urban sector because private firms did not provide housing. However, the village/town enterprises generally provided the lowest level of social benefits, for mainly rural workers. The labour service enterprises provided fewer services than did their state-enterprise parents, which may have continued to provide some services to their employees (Lim, et al., 1996).

- Enterprise-based social services were substantially less common in Armenia and Georgia. In Georgia not a single major category of social services was provided by as many as one out of ten of the employers surveyed. In Armenia, health service, which encompasses both health insurance and clinics, was the most often provided service, but by a meagre 14 per cent of respondents.
- Extending loans to employees was the most frequently provided social service in the four FSU countries where it was included on the provided list of social services on the survey questionnaire. This may indicate acknowledgement that wage income is insufficient, or that employers are constrained in the wage they offer workers and yet have funds available to lend. It also indicates the lack of alternative institutions to provide consumer loans. A third possibility is that the loans are used to finance spin-off businesses, redeploying personnel into self-employment and in whose small businesses parent employers retain a financial stake.

There was more variation in providing social services by size of establishment than by type of property form. In the Kyrgyz Republic, for example, almost 90 per cent of establishments with more than 1000 employees provided housing to their workers, compared to 50 per cent of medium-sized establishments and under 10 per cent of those with fewer than 100 employees. Clinics were provided by three out of four of the largest establishments, but by only one out of five of those with fewer than 250 employees and by none of those with fewer than 100 employees.

From the perspective of either wellbeing or labour market functioning, provision of *subsidized housing* is of special importance. The linkage between housing and employment may go far to explain why workers maintain formal ties to employers when placed on unpaid leave or despite non-payment of wages. As shown above (figure 6-14), the share of respondents that gave workers housing subsidies or provided enterprise-owned housing varied widely: from ten per cent or fewer establishments in Georgia and Armenia, to 16 to 20 per cent in Ukraine, and 30 per cent in the Kyrgyz Republic. In Armenia and Georgia, establishments were more likely to provide their own housing to workers than to give them housing subsidies (about 2 per cent of respondents in each survey), whereas in Russia, establishments were more likely to provide subsidies than to own workers' apartments (8 per cent).

Linking housing to employment is most pronounced in China, where nearly 70 per cent of the survey respondents provided housing to their workers. "Housing has been a critical element of workers' compensation in China. Although capital investment by enterprises in housing has, no doubt, helped to improve housing conditions of urban families, this practice tends to limit labour mobility. Workers are reluctant to leave their jobs because alternative housing is difficult to obtain. In addition, the building and maintenance of apartments represent

substantial financial burdens on companies" (Lim, et al., 1996, p. 30).

Although the surveys in some countries found a surprisingly high rate of social service provision by establishments, provision of social services by enterprises had declined between survey rounds:

- The fifth round of the enterprise surveys in *Russia* documented a decline in the share of firms offering social services to their workers. Particularly widespread erosion had occurred in the provision of subsidized meals, financial assistance for retirees, and subsidised kindergartens. Although social benefits were important supplements to low wages, the probability of workers receiving specific benefits tended to be greater in the firms paying above-average wages (Standing, 1996).
- Among *Kyrgyz* employers, on-site social service facilities had decreased the most, such as subsidized cafeterias, clinics and child care. Housing continued to be the most frequently provided benefit, by 30 per cent of all respondents in 1995, down only slightly from 1993.

However, the decline in provision of social services was not uniform. A surprisingly large, although minority, share of both privatized and state-owned establishments reported that they had increased provision of some essential social services. The country reports interpreted this counter tendency to employers' attempts to supplement falling real value of wages, to favour non-monetary forms of remuneration to avoid high tax rates on money wages (Standing and Zsoldos, 1995), and to the absence of alternate sources of social services due to either the lack of development of private markets (housing, medical insurance) or to the failure of government agencies to take over enterprise facilities (clinics, kindergartens).

- The *Chinese* enterprises were more likely to expect to increase provision of social services than to decrease them. Almost 30 per cent of the respondents said they planned to increase housing facilities for their workers in the upcoming year, as compared to less than 4 per cent that planned a decrease.
- Nearly half of the *Russian* respondents had added some benefits over the previous year (45 per cent), the most popular being medical insurance or medical services and subsidised food. The share of privatized establishments that had increased social services was significantly smaller, 28 per cent.
- In *Ukraine*, only paid vacations and financial assistance for retirement were provided by a larger share of firms in 1995 as compared to 1994. The increased popularity of these employment benefits reflected the growing need to reduce employment. Not counting employment (as opposed to social) benefits, only 40 of the 565 respondents had added any type of social benefit.
- In *Armenia*, 24 per cent of the privatized establishments had increased provision of some type of social service, compared to 15 per cent of the state enterprises. The most popular service to add was subsidized food and "financial assistance," clear indications of workers' need driving provision of basic services. Only 5 per cent of the respondents had dropped any social service.

Information collected in some of the surveys lends credence to the rationale that enterprises maintained or even increased social services because local government agencies

were unable, or unwilling, to take them over.⁵ As shown in figure 6-15, in only Russia did as many as one out of ten respondents report that they had transferred social service facilities to local authorities. In Armenia and Georgia fewer than one out of 25 establishments had done so. There was no uniform pattern between state-owned and privatized establishments: In Georgia and Ukraine a larger portion of state enterprises had transferred social service facilities to local authorities, while in Russia privatized establishments were more likely to have done so, and in Armenia there was no difference.

Figure 6-15 Transfer of social service facilities to local authorities, by property form (p. 93)

Summary Findings

- Enterprise size restructuring would be aided by better unemployment support, both services to displaced workers seeking new jobs and temporary income support. Successful restructuring implies more than adjusting work force levels at the enterprise level, it also requires the development of labour markets through which laid off workers can search for new jobs and businesses can signal their need for worker skills and qualities.
- Labour market flexibility on the part of workers and employers requires new forms of providing housing, medical care, pensions and other essential social services. As long as state agencies are not able to undertake these responsibilities, workers will resist leaving employers and enterprises will continue to struggle with the labour surplus problem inherited from the previous command economy.
- Social protection has been placed in jeopardy by the way in which restructuring has taken place. Displaced workers have lost more than their immediate livelihood, but also guaranteed health care, child care for working parents, holiday facilities, and even their homes.
- Half or more of the survey respondents in each country reported that they owed workers back wages. A less "flexible" wage policy is needed, including enforced mandates for enterprises to pay wages, and to decrease "paying" workers with their own products, and a meaningful wage floor or minimum wage. New institutions may be needed to help otherwise viable establishments, strapped for cash because of overall liquidity problems and inter-enterprise indebtedness in the economy, meet their payrolls.

⁵ See Commander and Jackman (1997) study of social service provision in Russia, which explains the complexity of problems in divesting social services and housing provision from commercial enterprises in the absence of market reforms (particularly in housing) and new local government finance systems.

Figure 6-1. Share of establishments reporting vacancies and recruitment

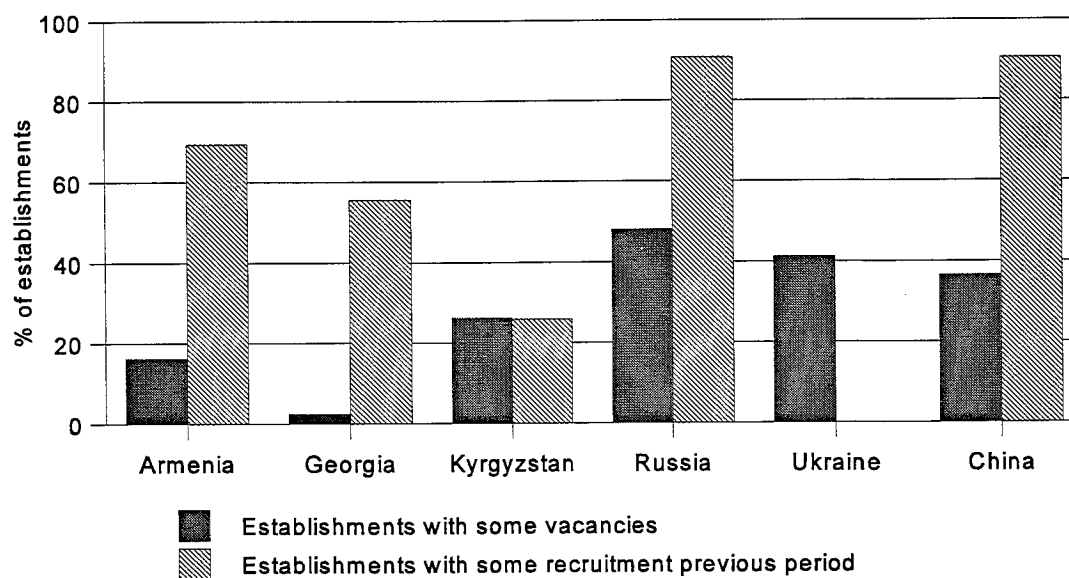


Figure 6-2. Hires and exits as per cent of current employment

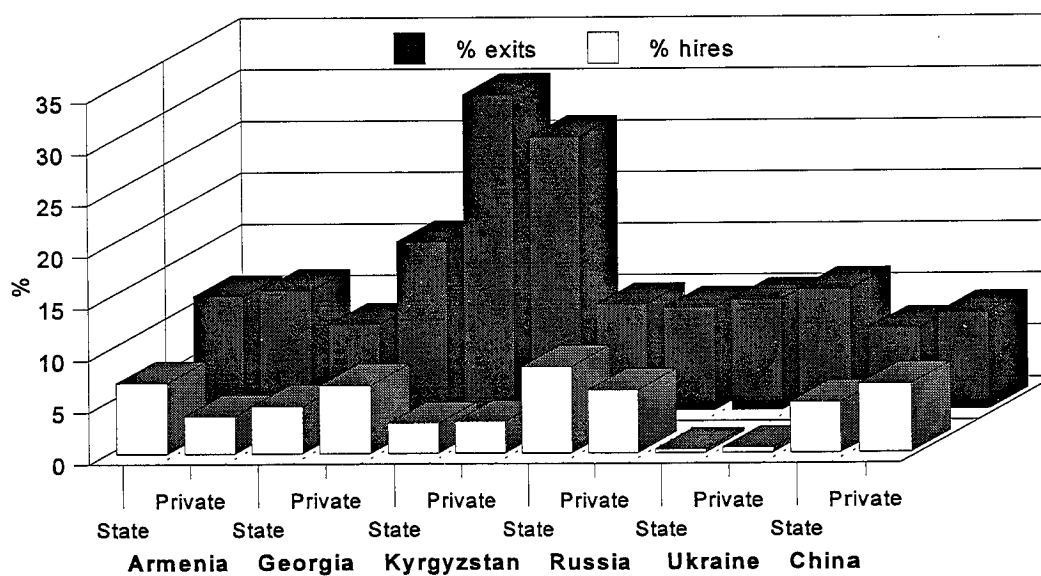
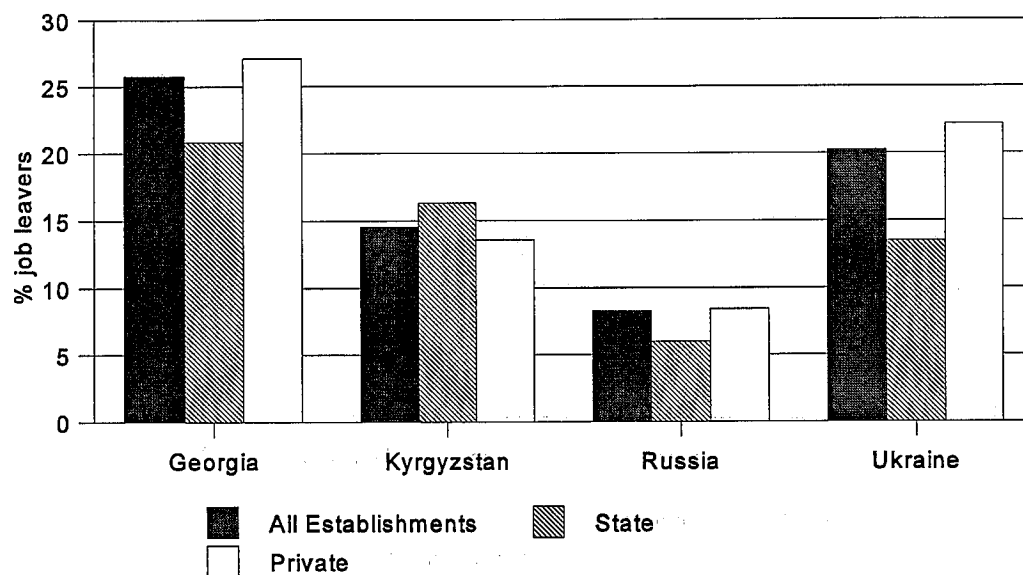
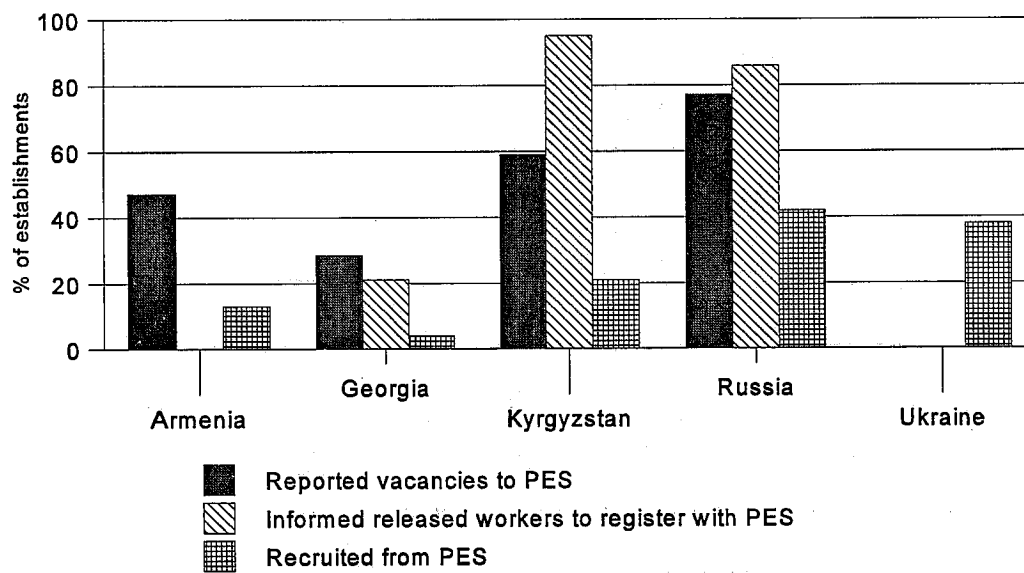
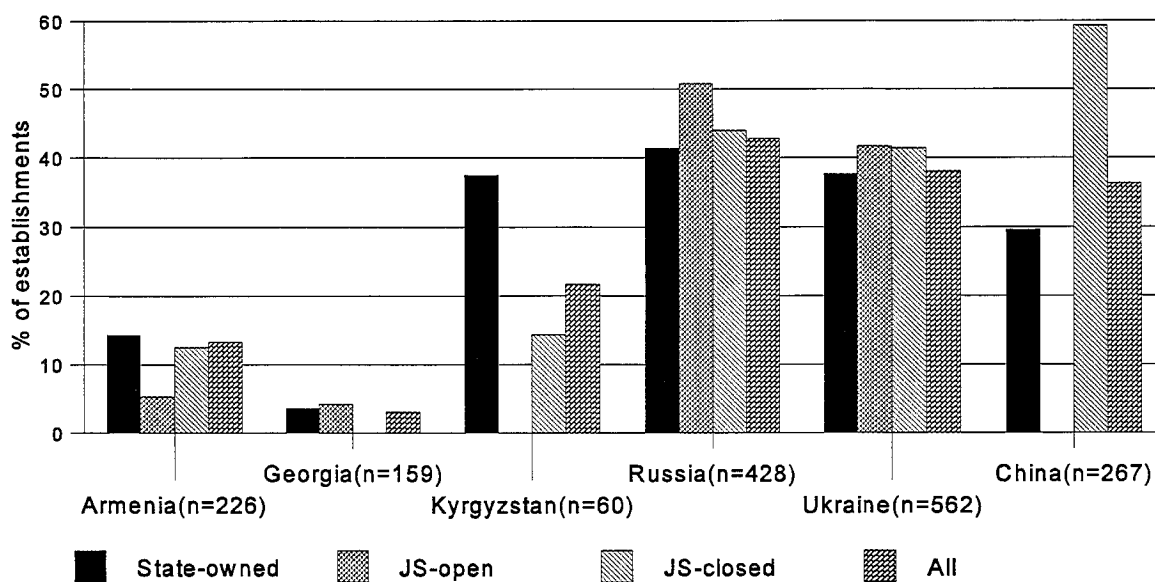


Figure 6-3. Retrenched workers as percentage of job leavers, by property form**Figure 6-4. Use of the public employment services, FSU countries***

* Reported shares are of establishments which had vacancies, retrenchments, or new hires, respectively, not out of the entire set of respondents. Data was incomplete for Armenia and Ukraine.

Figure 6-5. Recruitment through public employment services, by property form*



* Except for Ukraine, share is computed of establishments that had recruited some workers. This information was not available for Ukraine.

Figure 6-6. Employment of workers on part-time basis, by property form

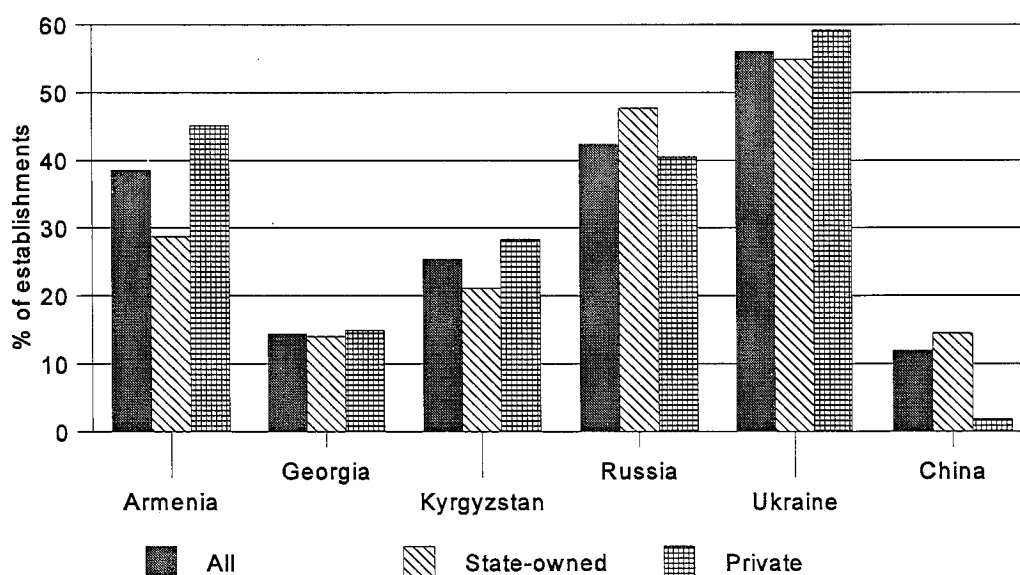


Figure 6-7. Change in the share of part-time workers over previous year

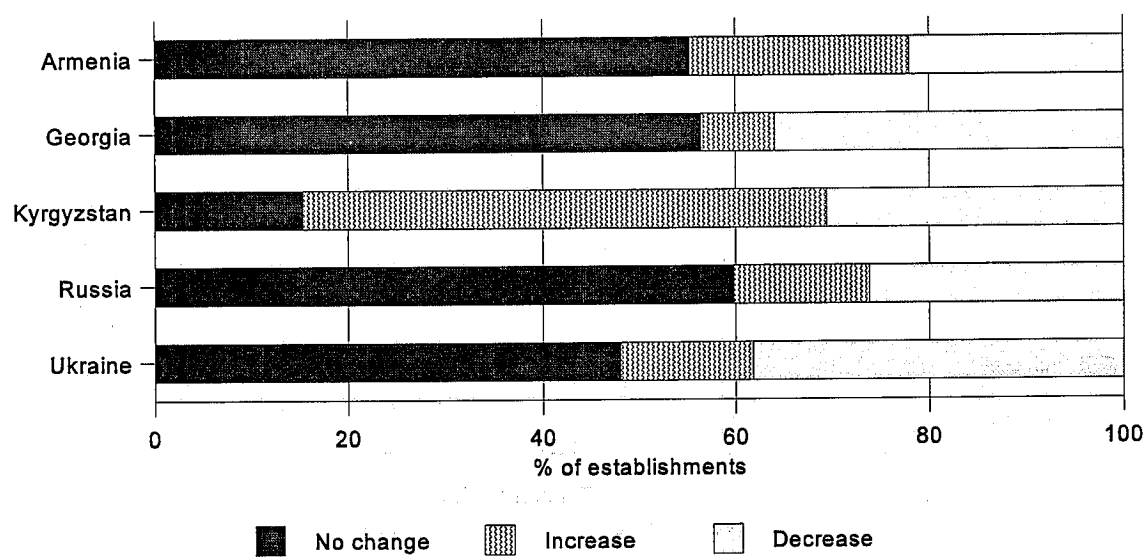
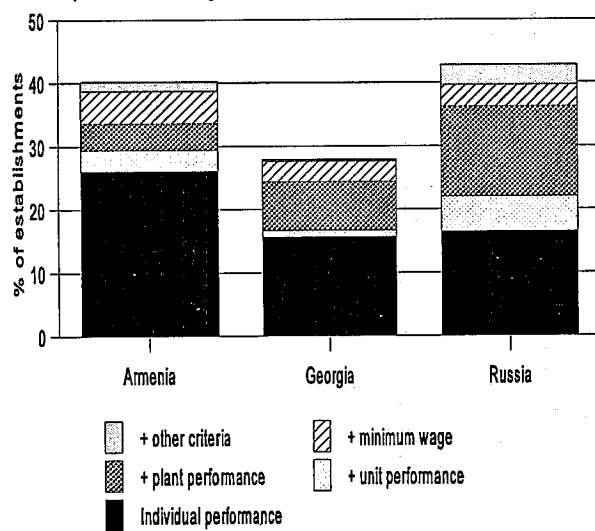


Figure 6-8. Individual performance in wage determination

Individual performance in wage determination



Individual performance in performance-based earnings

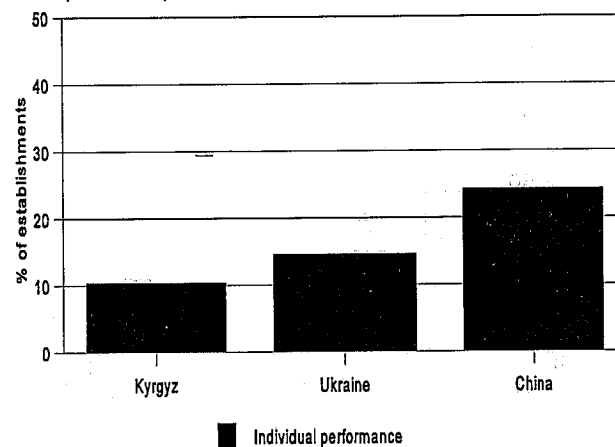
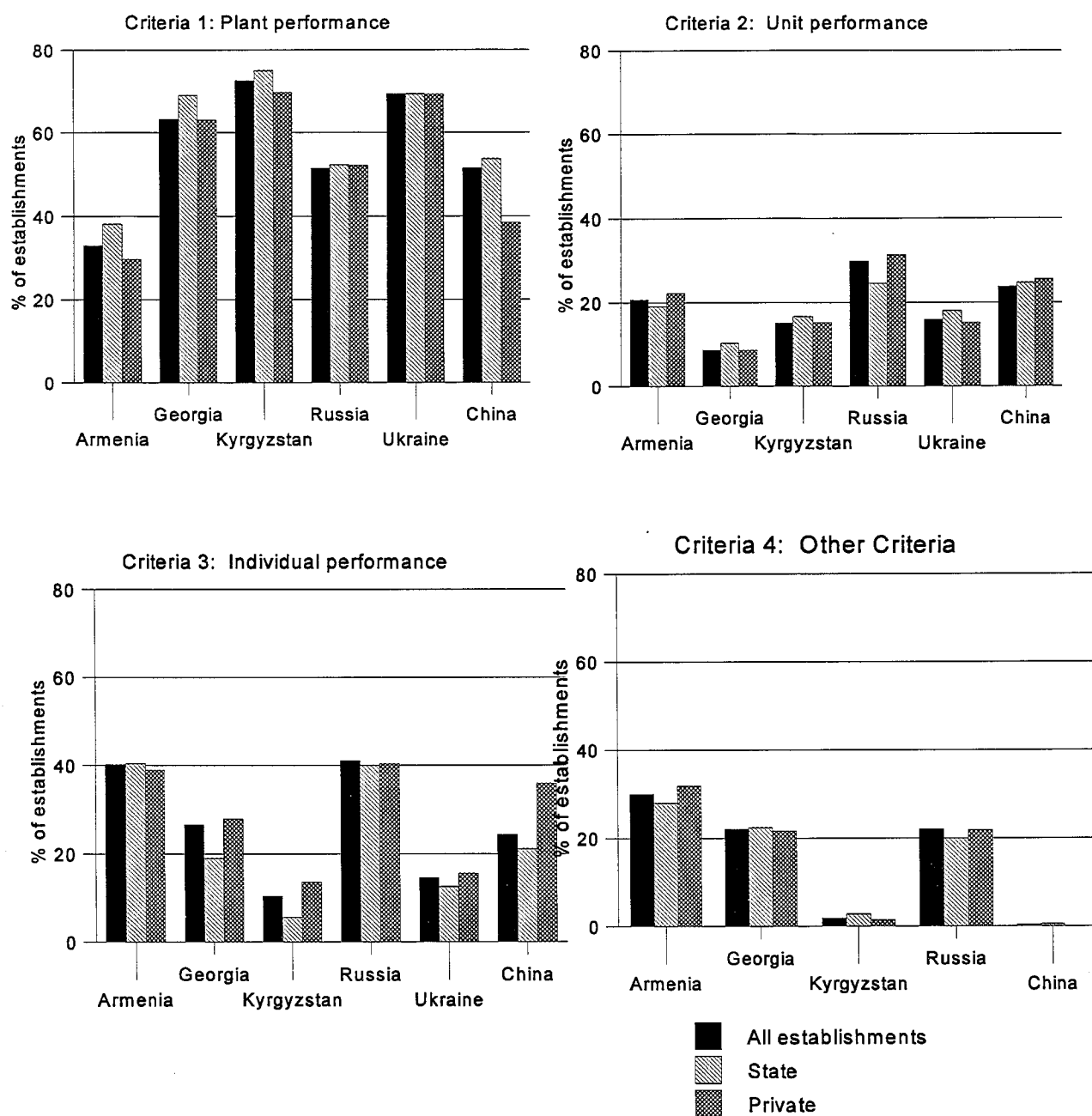


Fig. 6-9 Pay determination criteria, by property form



Note: Pay criteria is for production worker wages in Armenia, Georgia and Russia and for the performance-based portion of wages in the Kyrgyz Republic, Ukraine and China surveys. Establishment shares sum to more than 100% in Armenia, Georgia and Russia because respondents could select more than one response.

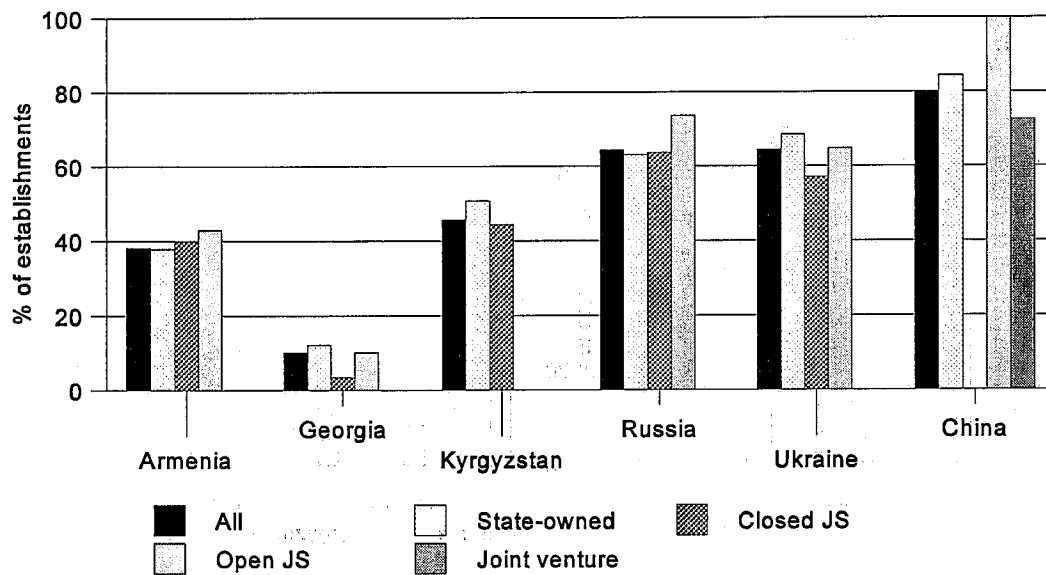
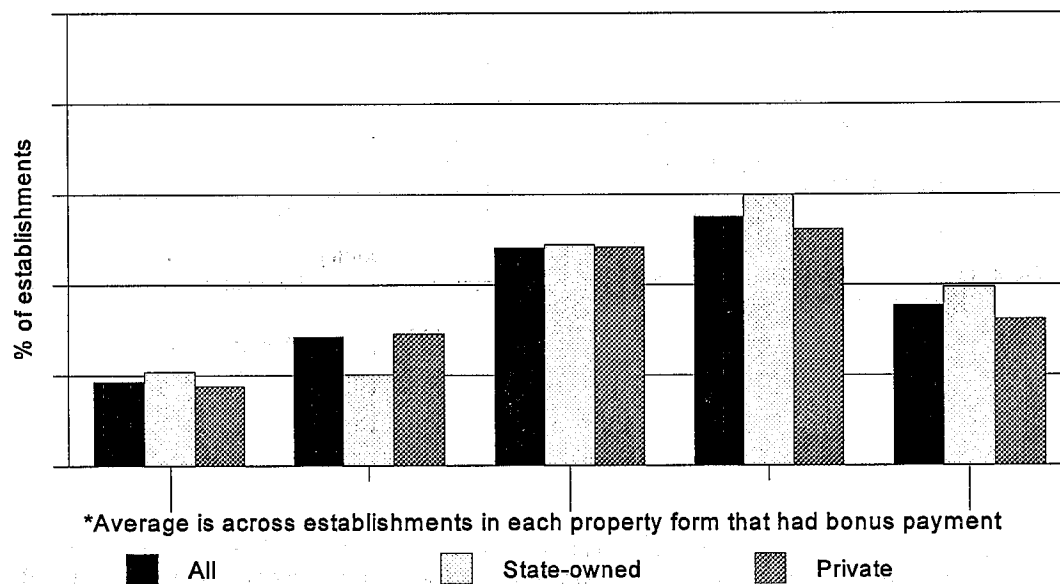
Figure 6-10. Incidence of bonus payments, by property form**Figure 6-11. Bonus payments as percentage of wage earnings, average by property form***

Figure 6-12. Share of establishments reporting wage arrears, by property type

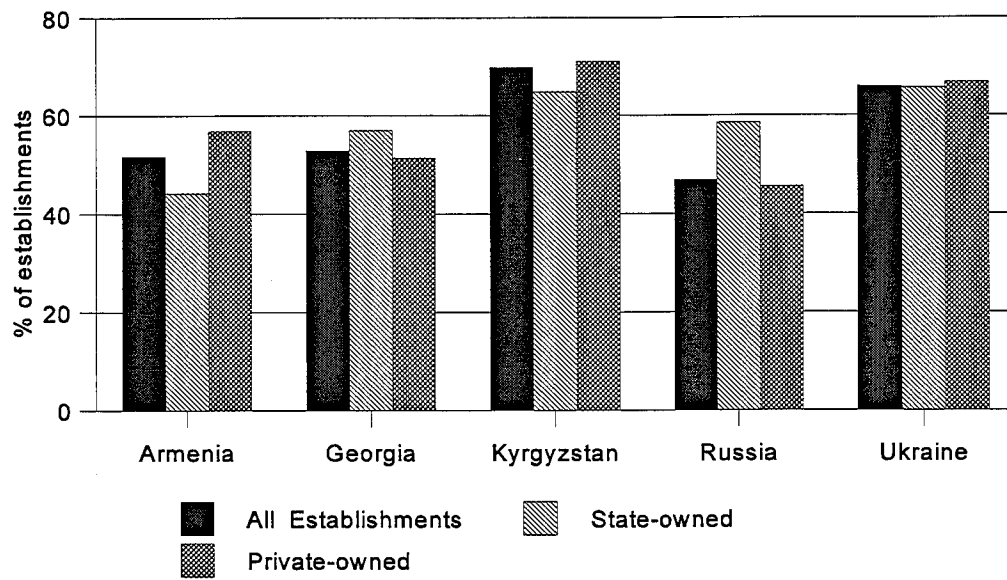
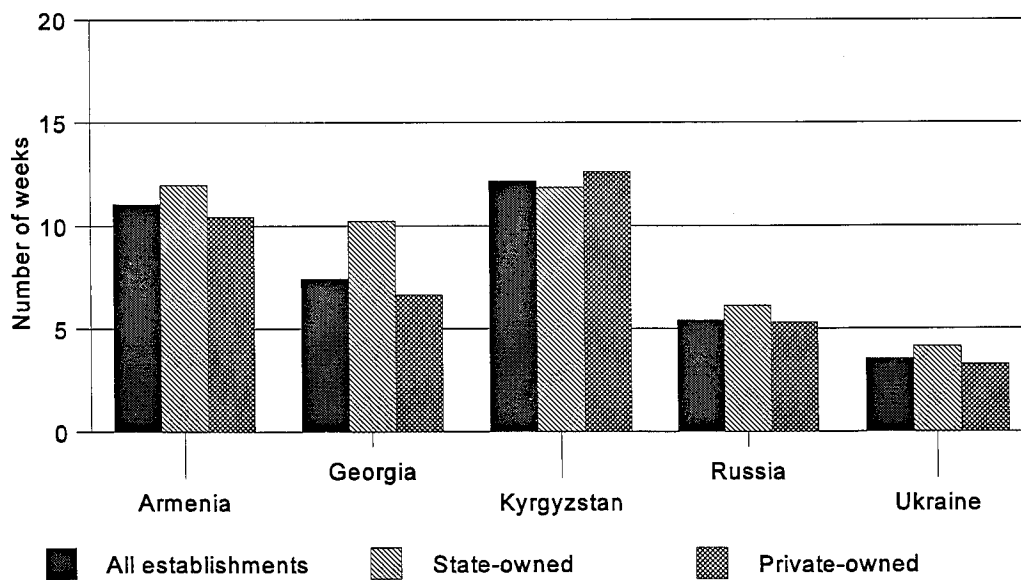


Figure 6-13. Average duration of wage arrears, by property type*



* Averages computed across establishments reporting periods of wage arrears.

Figure 6-14. Provision of social services, by property form

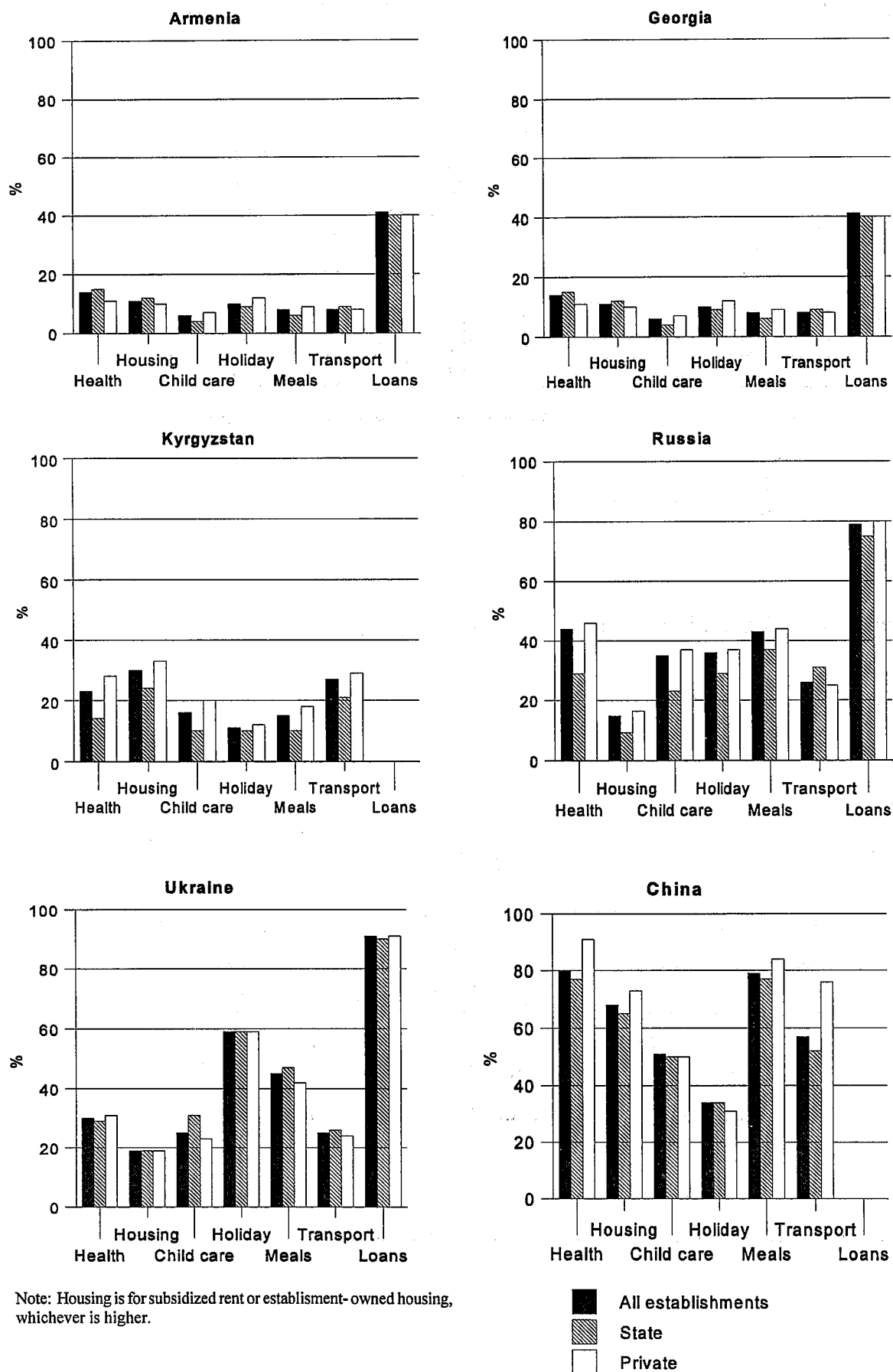
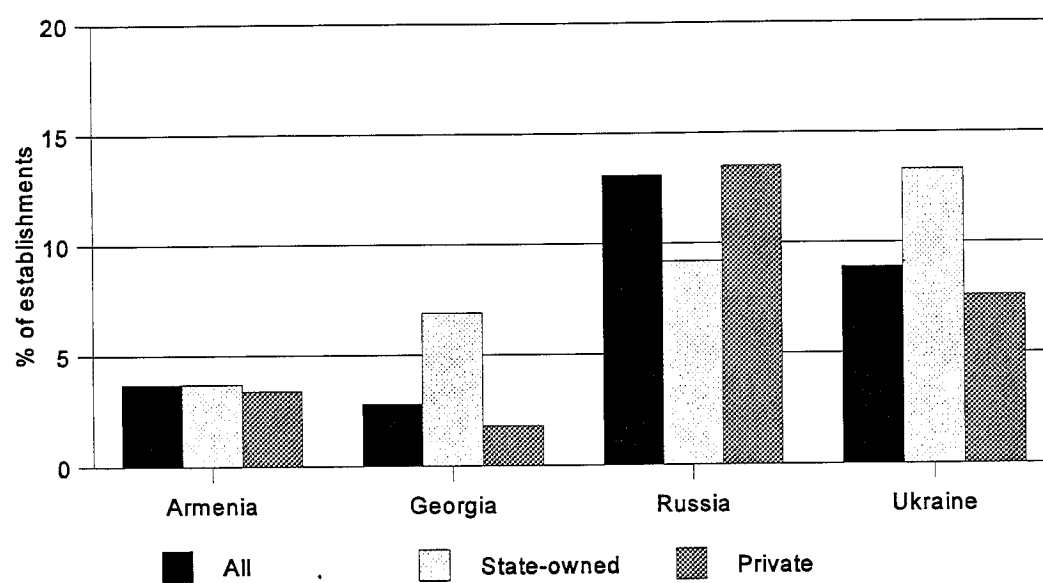


Figure 6-15. Transfer of social service facilities to local authorities, by property form



7. Human resources development

This section continues the discussion of labour market development by assessing changes in the occupational structure of employment. It examines the evidence on whether job loss has been constrained primarily to less-skilled occupations or whether managerial and professional occupations have been as severely affected. Second, it looks at the implications of these changes on the need for training and re-training workers, and assesses how investment in human capital has changed during enterprise restructuring and privatization. Finally, it uses occupational wage differentials to assess whether wage rates had begun to take on the role of signalling shifts in labour demand among skill levels or occupations and of giving workers incentive to invest in their own education and training.

7.1 Changes in occupational mix of employment

The surveyed establishments benefitted from a highly skilled workforce. Skilled production workers accounted for two-thirds or more of total employment covered by the surveys in each of the FSU countries (table 7-1). Unskilled workers made up a relatively small portion of the workforce, from 9 per cent in Ukraine to 15 per cent in the Kyrgyz Republic. In each country, technicians and professional workers, classified as "specialists," accounted for about one tenth of the workforce. The share of skilled workers in the Chinese establishments was lower but still high: 40 per cent of employees were skilled production workers, 29 per cent were unskilled, and 8 per cent were specialists.

Table 7-1 **Distribution of employees by occupation**

Country	Share of workers by occupational group (in per cent)					Total
	Managers	Specialists	General service	Skilled	Unskilled	
Georgia	10.7	11.7	4.6	61.2	11.7	100
Kyrgyzstan	6.6	9.1	2.4	67.3	14.7	100
Russia	8.1	11.8	2.4	65.2	12.5	100
Ukraine	8.2	10.7	2.0	70.1	9.0	100
China	10.7	8.4	7.4	40.3	29.0	95.8

Note: *Total not equal to 100 because 'others' has been excluded from the table.
Armenia is excluded due to incomplete data by occupation.

The distribution of production workers between skilled and unskilled had not yet diverged between state enterprises and privatized establishments in most of the FSU countries. It could be expected that privatized establishments would shed lower skilled, and thus less productive, workers at a faster rate than would state enterprises. However, the average share of unskilled workers in

China Differences in the skill composition of the work force may help explain the productivity differentials across types of enterprises. More than three-quarters of the work force in the village/township enterprises were skilled production workers, as compared to about 40 per cent in the state-owned enterprises. (Lim, et al., 1996).

privatized establishments was not noticeably lower than in state enterprises, except in the Kyrgyz Republic (figure 7-1). In Georgia, privatized establishments had higher shares of unskilled workers on average than did state enterprises, while in the other countries, privatized establishments had only a slightly lower share of unskilled workers.¹

Figure 7-1 Average share of workforce in unskilled occupations, by property form (p. 103)

The rate of employment change was fairly constant across occupations in some countries (Ukraine and Kyrgyz Republic) and markedly uneven in others (Russia and Georgia). In Ukraine, the range of job loss across occupations was very narrow, from 6 per cent of managers to 10 per cent of skilled workers (figure 7-2). In Russia, by contrast, employment change ranged from a slight gain by managers to an 18 per cent loss by general service staff. Somewhat surprisingly, in most countries the rates of job loss for skilled and for unskilled workers were similar; but again the exception was Russia where, even more surprisingly, the job loss rate for skilled workers (13 per cent) was twice the rate experienced by unskilled workers (6 per cent).

Figure 7-2 Employment change, by occupation (p. 103)

Occupations' share of employment and of job loss are juxtaposed in figure 7-3. In most countries, occupations' share of job loss were roughly equal to their share of employment. For example, in the Kyrgyz survey, skilled workers accounted for 67 per cent of employment and 69 per cent of job loss; unskilled workers accounted for 15 per cent of both employment and job loss. There were a few notable exceptions to this balance. In Russia, skilled workers lost a disproportionate share of jobs: in 1994 skilled workers accounted for 65 per cent of employment in the surveyed establishments but accounted for nearly 90 per cent of the total job loss over the following year. Clearly, skilled workers have not been sheltered from the size restructuring of establishments; although there seems to be some evidence that managers experienced disproportionately low displacement rates.

Figure 7-3 Distribution of employment and job loss by occupation (p. 104)

Managers were asked about their expectations for changes in the occupational structure of their workplaces in the near future. Respondents in the FSU countries seemed less certain about upcoming changes than did their counterparts in China. Some two thirds of the Chinese enterprise directors expected changes in the occupation distribution of their workforce, while less than one third of the managers in each of the FSU countries anticipated such changes (table 7-2). The share of managers that said that they did not know whether the occupational mix of their workforce would be substantially altered was high in Ukraine (18 per cent) and the Kyrgyz Republic (12 per cent). Reluctance to answer may indicate their general uncertainty about business expectations, but may also imply that these business directors were not yet "managing" their human resources to the extent that they could anticipate or plan for

¹The average share of workers in unskilled occupations was 20 per cent in state enterprises and 15.5 per cent in privatized establishments in the Kyrgyz survey, a difference that was statistically significant at the .05 level. Differences in the share of unskilled workers between open and closed joint-stock companies were not statistically significant in any of the countries.

changes.

Table 7-2. Expected changes in occupational structure of employment

Country	Percent of establishments that expected change	Percent of establishments that expected no change	Did not know or did not answer	Number
Armenia	28.2	70.3	1.5	330
Georgia	19.7	75.0	5.3	284
Kyrgyzstan	23.3	64.2	12.5	231
Russia	23.7	72.9	3.4	469
Ukraine	28.7	53.4	17.9	543
China	67.8	30.1	2.1	292

Survey respondents were asked which occupations they expected would increase or decrease in the next year.² Even though these answers indicate expectations for the upcoming year, information which may not be as reliable as changes documented over the previous year, their responses indicate that work skills would provide some advantage to workers and job applicants when labour demand picked up. Given the depressed economic conditions, naturally relatively few establishments could expect to increase employment in any category, but the question was designed to elicit expectations about the mix of occupations within the establishment.

With the exception of Ukraine, *managers in the FSU countries consistently selected skilled workers as the occupation category most likely to increase* in absolute size, selected by 15 per cent or more of the Russian, Armenian and Georgian managers, or in relative size, selected by 8 per cent of the Kyrgyz managers (figure 7-4). The finding that skilled workers would be the first category of worker to be hired by the Russian enterprises seems to contradict the data presented above showing that the job loss rate by skilled workers was nearly twice the rate for unskilled workers. The apparent inconsistency could indicate that the skill composition of the workforce no longer meets the skills needed by many of the surveyed firms.

Figure 7-4 Occupations expected to increase (p. 105)

The finding that skilled workers would be at some advantage as compared to unskilled ones in competing for future jobs is surprising only in that the advantage does not appear larger. To a great extent this can be attributed to the relatively small portion of survey

²The questions on occupational mix were asked in a variety of ways. In Armenia, Georgia and Russia, managers were asked to choose which occupation was most likely to increase or decrease. In Ukraine, managers were asked to give their expectation for each occupation individually- was it expected to increase or decrease. In the Kyrgyz survey, managers were asked which occupation would increase or decrease in relative size, compared to other occupations regardless of absolute growth or decline. Answers to these three methods of eliciting information reveal which occupations may be favoured or at risk within countries, but numerical values are not comparable across countries.

respondents that expected any change at all in occupation mix. For example, only 15 per cent of all the Russian managers surveyed expected to increase the number of skilled workers, but *out of the one in five managers that expected any increases, 76 per cent anticipated increasing skilled workers. In the Kyrgyz Republic, 86 per cent of those expecting any change in occupational mix thought skilled production workers would increase relative to other occupations.*

Managers of privatized and state enterprises shared very similar expectations of change in occupation mix. Privatized establishments were no more likely than were state enterprises to expect to increase demand for skilled workers or managers, although they were somewhat more likely to expect to increase employment in professional categories. However, the large majority of privatized establishments, like state enterprises, indicated that no significant alteration in occupation mix was expected. (See Appendix table 8 for breakout of data by private and state enterprises).

7.2 Training needs and practices

Investment in human capital is often waived in short-run survival strategies, or regarded as a non-essential activity during periods of high unemployment and relative ease of hiring workers with specific skills or experience. The case of these transition economies, however, does not exactly meet these expectations. While the survey findings in some of the countries confirm that training activities were provided by relatively few firms, and while none of the surveys provided evidence of training activities gaining in importance, worker training has remained a surprisingly prevalent activity for establishments in most of the countries surveyed.

As shown in table 7-3, there was a large difference across countries in the incidence of training provided by establishments, but hardly any difference between state and privatized establishments within countries. For example, in Ukraine, nine out of ten establishments reported providing some initial training or retraining to workers, but just one out of twelve establishments in the Kyrgyz Republic provided any training to their workers. In three of the countries, China, Russia and Ukraine, more than three-fourths of the surveyed establishments reported providing training to new recruits or retraining to improve the productivity of their current employees. Incidence of training activities was nearly identical between private and state enterprises in each country.

Table 7-3 Incidence of training activities, by property form

Country	Establishments offering either initial training or retraining			
	No. of establishments	% of all establishments	% of state-owned establishments	% of privatized establishments
Armenia	153	46.0	50.0	43.8
Georgia	93	32.5	29.3	32.9
Kyrgyzstan	35	15.1	14.1	15.8
Russia	357	75.6	70.8	76.6
Ukraine	517	91.3	92.4	91.1
China	245	83.1	81.7	87.3

As expected, there was more variation in training activities by establishment size than by property form (figure 7-5). In each country, frequency of training activities increased with establishment size. The variation was most pronounced in Georgia, where one fifth of the small establishments compared to four-fifths of the largest establishments provided training. In Ukraine, however, over three-fourths of the small establishments offered some training, as did nearly all of the medium-sized and large establishments. Thus in these transition economies, as elsewhere, large establishments were more likely than smaller ones to offer training. This may be due to greater variation among jobs and more opportunities for advancement in large firms, as well as larger firms' ability to spread fixed costs of training across more workers (such as hiring trainers, providing facilities, or rotating workers to avoid idling machinery).

Figure 7-5 Training activities, by size of establishment (p. 105)

Training activities were reported only slightly more frequently by open than by closed joint-stock companies, and less frequently by other forms of non state-owned establishments, such as joint ventures and private or family-held firms (figure 7-6). As noted, nearly all of the surveyed establishments in the China survey provided training, which may be explained partly by the predominance of very large establishments in the sample survey. Training was provided by about 90 per cent of establishments in each category of property form except labour service enterprises, of which only 60 per cent reported providing some sort of training.

Figure 7-6 Training activities, by disaggregated property form (p. 106)

The survey findings did not clearly indicate a relationship between property form and training - but whether this was due to lack of resources to invest in training, to a lack of perceived usefulness of improving skills, or to a mis-match of skills needed with those of workers or of job applicants, could not be determined from the survey questions. However, there was no higher incidence of training among establishments that reported expecting the number of skilled production workers to rise than among the vast majority of establishments

which did not.³

Information about the **type of training** establishments provided was collected in most of the surveys. Establishments provided initial training to new recruits or entry-level workers somewhat more frequently than they provided retraining to improve job performance (figure 7-7). Incidence of a third type of training, to upgrade workers skills in order to promote employees to higher positions, was nearly the same as for improving job performance (ability to be more productive in the same job, or in a different job at the same level). Of the FSU countries, only the Kyrgyz survey collected information on apprenticeship training. One-quarter of the privatized establishments and one-quarter of the state-owned enterprises reported having apprenticeship programmes, but the total number of their apprentices had fallen by 17 per cent from 1994 to 1995.

Figure 7-7 **Type of training provided by establishments (p. 106)**

The **preferred method** of improving workers' skills was *on-the-job* training. Over 80 per cent of the Russian and Ukrainian establishments that provided training to new recruits did so through on-the-job training; the share was over 90 per cent in Armenia and Georgia (data was not collected in the Kyrgyz survey). About 75 per cent of the Russian and Ukrainian establishments that provided retraining did so through on-the-job training, and again the share was over 90 per cent in Armenia and Georgia. In China, the question was asked differently, allowing respondents to list all the ways in which training was provided, rather than asking them to select only the main method of providing training. Training and retraining was provided within the establishment by 83 per cent of the respondents, at the parent company by 54 per cent, and at specialized training institutions by 71 per cent.

Ukraine Three-quarters of the establishments that provided training used informal and on-the job methods. Only 10 per cent provided classroom training and about 7 per cent provided training off the premises. Half of the establishments that had done so were no longer paying for training institutes at the time of the survey, and 13 per cent of those that still were planned to stop. (Standing, et al., 1995).

Establishments were asked about **changes in training activities** over the previous year or two. Even in the countries with very high incidence of training activities among establishments, only a small minority reported that they had increased training. About 8 per cent of respondents in Russia and Ukraine reported that they had increased training activities over the previous twelve months. In Russia, almost all the establishments that had increased training were privatized establishments, while in Georgia, state-owned enterprises were more likely to have increased training (table 7-4).

³The percentage of establishments that provided any type of training to workers was not statistically higher among those that expected to increase skilled workers, in absolute or relative terms, than in those that did not in any of the surveyed countries, and was lower in Russia (.05 significance level in a chi-square test).

Table 7-4 Share of establishments that had increased training, previous 12-24 months

Country	Establishments that had increased training activities			
	No. of establishments	% of all establishments	% of state-owned establishments	% of privatized establishments
Armenia	13	3.9	5.9	2.7
Georgia	7	2.5	6.9	1.4**
Kyrgyzstan	10	4.3	5.6	4.0
Russia	42	8.9	1.5	10.1*
Ukraine	47	8.3	8.2	7.5

Note: There is no relevant data for China
Differences in the percentage of privatized establishments versus state enterprises that had increased training were statistically significant in Georgia and Russia.

In the Armenian, Georgian and Russian surveys, managers were asked to explain why training activities had increased or decreased over the past year. More than a handful of answers were gathered only in Russia, where needing a more qualified workforce or responding to changes in technology or products were the most popular reasons given for why training had increased (figure 7-8). Among the larger sample of establishments that had decreased training, a majority of respondents in all three countries attributed less training to downsizing; and if responses of "stabilised workforce" are included, then workforce size adjustment was the motive for decreasing training in two-thirds or more of the respondents (figure 7-9). One out of five respondents in the Armenia and Russia surveys cited high training costs, or no resources with which to pay for training, as their main reason for having decreased training.

Figure 7-8 Why training activities had increased (p. 107)**Figure 7-9 Why training activities had decreased (p. 107)**

Training activities were somewhat more frequent among establishments that had **adopted new technology** over the past year in Russia and Ukraine. Figure 7-10 shows the share of establishments that had adopted a new technology or expanded the range of products produced (the height of the bars) and of these, how many had provided either initial training or retraining (the height of the fill patterns within each bar). In Russia and Ukraine at least four out of five establishments that had adopted new technology had also provided training. In Armenia and Georgia only about half of establishments with new products or technologies had provided training, and in the Kyrgyz Republic only 35 establishments out of the entire survey (15 per cent) had provided any training and only five of those had adopted new technology.

Figure 7-10 Training and adoption of new technology (p. 108)

7.3 Occupational wage differentials

Small wage differentials may have served societies' objectives of maintaining low income disparity in the FSU countries in the past. Typically, top managers earned only three times as much as did unskilled production workers, as set by national wage control. In market economies, wage differentials serve other functions: Wage fluctuation for similar work across industries or regions signals shifts in demand for labour and motivates worker mobility. Wage differentials across skill levels or occupations also show shifts in demand in occupation mix or demand for new skills and give workers incentive to invest in their own training. The evidence on real values of wages and wage arrears was assessed in Section 6 on labour market development. This section compares wage differentials across occupation groups as an indicator of "market" influence on human capital development.

In each establishment, the average wage reported for each occupation was re-calculated as a percentage of the average wage for unskilled workers. These differentials were then averaged across establishments in each country survey, and the results (as shown in figure 7-11) measure the difference between wages paid to workers in higher-skilled occupations and wages paid to unskilled workers. The differentials were fairly uniform across countries, with the average wage paid to skilled workers twice the wage paid to unskilled workers. The return to skill training was smallest in Georgia, where skilled production workers were paid on average only 50 per cent more than unskilled workers.⁴

Figure 7-11 Occupational wage differentials (p. 108)

There was little if any difference in average wages between skilled production workers and specialists (non-managerial professionals). In Armenia and Georgia, wage rates for specialists were essentially the same as average wages for skilled workers; in Ukraine and Russia, the differential for specialists was less than 10 per cent and in the Kyrgyz Republic it was about 15 per cent. Differentials jump sharply for managers; in Russia their average wage was four times that of unskilled workers, in Ukraine and the Kyrgyz Republic it was more than three times higher. (The categories for managers and for specialists grouped enterprise-level and shop-floor levels together.)

Thus the evidence shows that differentials from unskilled production workers to managers remain much narrower than the norm in western market economies. There seems to be a higher return to managerial than to technical training and professional education. This may reflect the scarcity of business know-how in the transition process which pushes up their wages, or it may simply indicate that managers profit from the ability to exercise greater control over salaries, including their own.

The pattern of wage differentials does not appear to have been affected by privatization. Across the five countries, there were only two instances where wage differentials differed significantly between state and private establishments: Higher differentials for skilled workers were found in Armenia (average wage was 2.3 times the average for unskilled workers in privatized establishments but only 1.9 times higher in state enterprises) and lower wage differentials for specialists in Georgia (average wage was 2.0 times the average wage for unskilled workers in state-owned enterprises but only 1.5 times higher in privatized

⁴In each occupation category, wage levels more than 4 standard deviations above the median were treated as outliers and not included in the calculation of average wage rates.

establishments⁵). These two isolated incidences indicate that returns to skill levels, or occupation, has not grown in general as a result of change of ownership form.

This conclusion is further supported by longer time comparisons that could be drawn from the Kyrgyz survey. The wage differentials between unskilled workers, skilled workers and managers in 1995 was nearly identical to the differences reported by the same establishments in the first enterprise survey in 1992. There was no evidence that monetary returns to skill acquisition had increased during the four years of enterprise restructuring (Evans-Klock, 1997).

However, it should be noted that the surveys provided no information about other components of income, and thus no conclusions can be drawn about overall changes in income distribution.

Summary findings

- Job loss was fairly proportional to share of work force across occupations. However, evidence on future employment changes indicate that managers expected to increase the share of skilled production workers when demand for product increased.
- Occupational shifts have not been a noticeable part of establishment restructuring in most countries, with the important exception of China. Privatization was not accompanied by increased investment in human resource development as part of survival strategies or long-run plans to improve productivity.
- Training activities have been sharply curtailed in some countries, and establishment support for skill formation seems to be continuing primarily in the form of on-the-job training. There is some evidence that establishments are reducing support for outside training institutions which could have long-run consequences in weakening the institutional basis for worker training.
- The pattern of occupational wage differentials has not changed substantially from the command economy system, nor does the pattern of wage differentials across occupation, appear to have been affected by changes in property form.

⁵In both cases (Armenian skilled workers and Georgian specialists), the difference between state-owned and privatized establishments in average wage differentials was significant at the .11 level.

Figure 7-1. Average share of workforce in unskilled occupations by property form

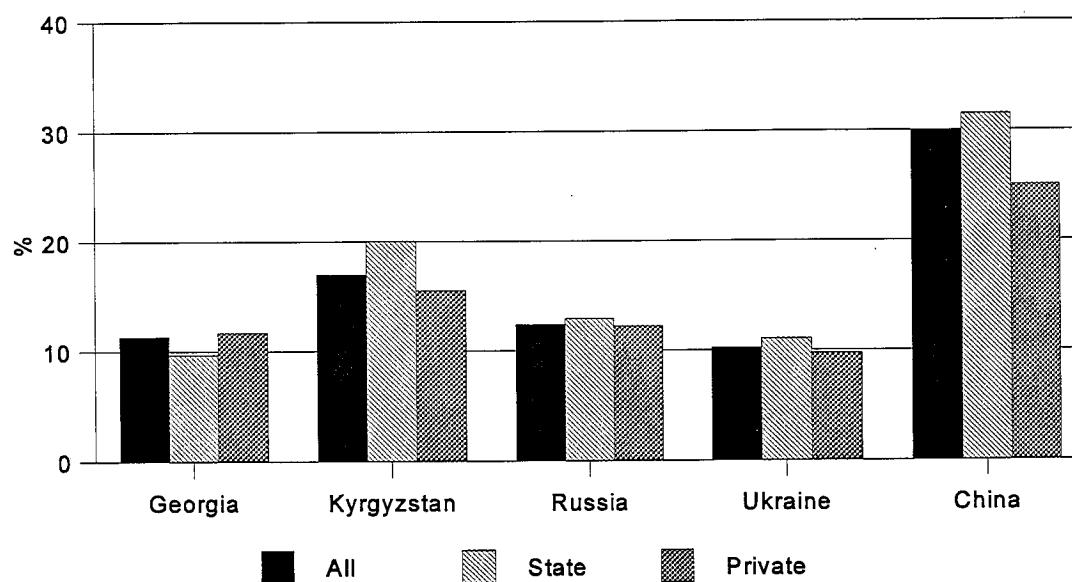


Figure 7-2. Employment change, by occupation

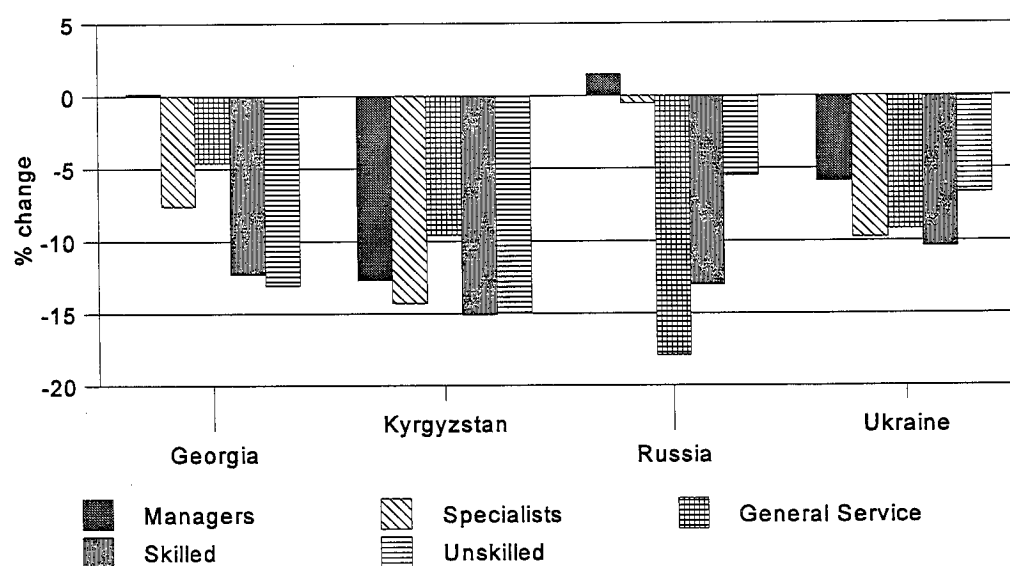
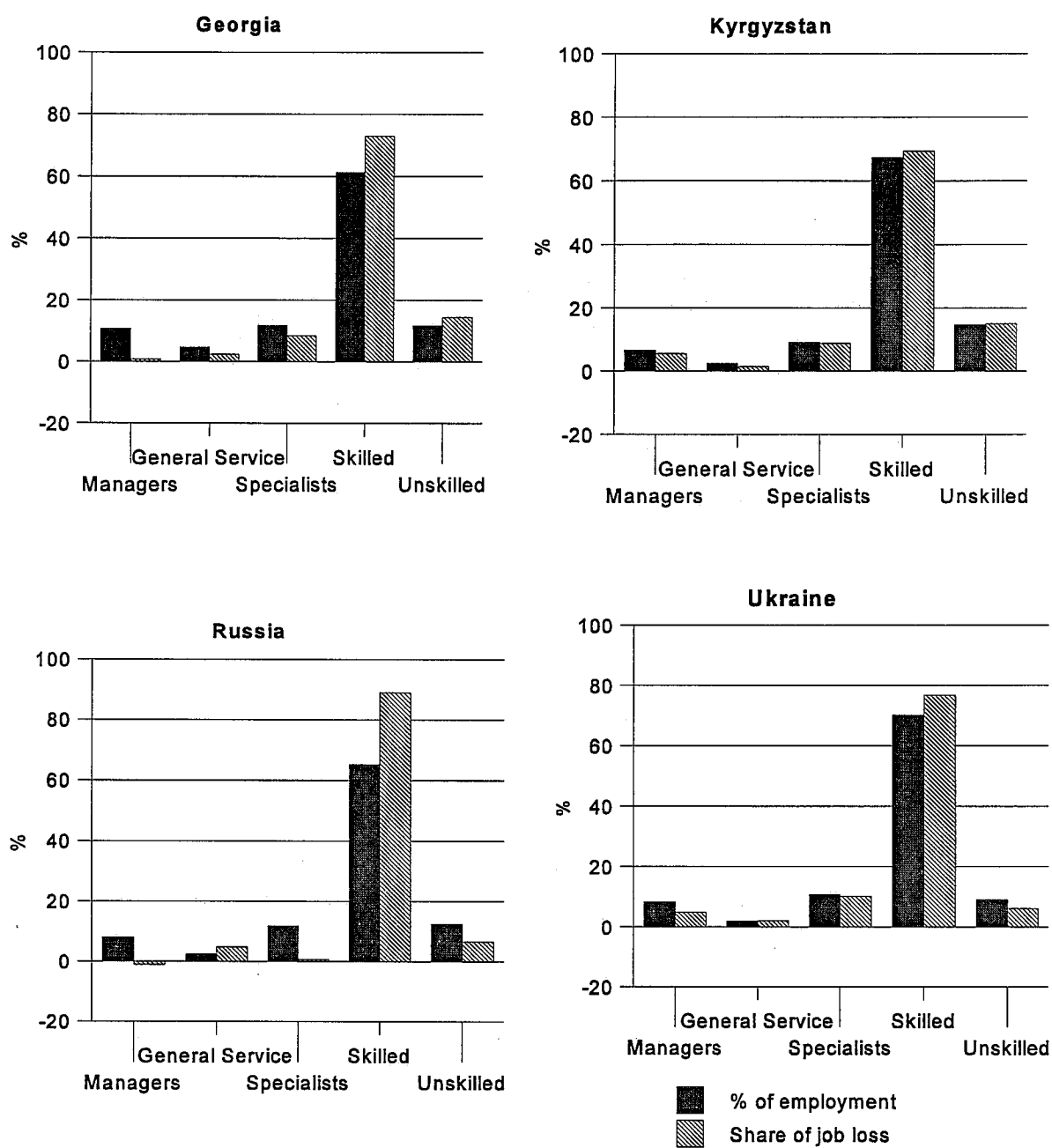
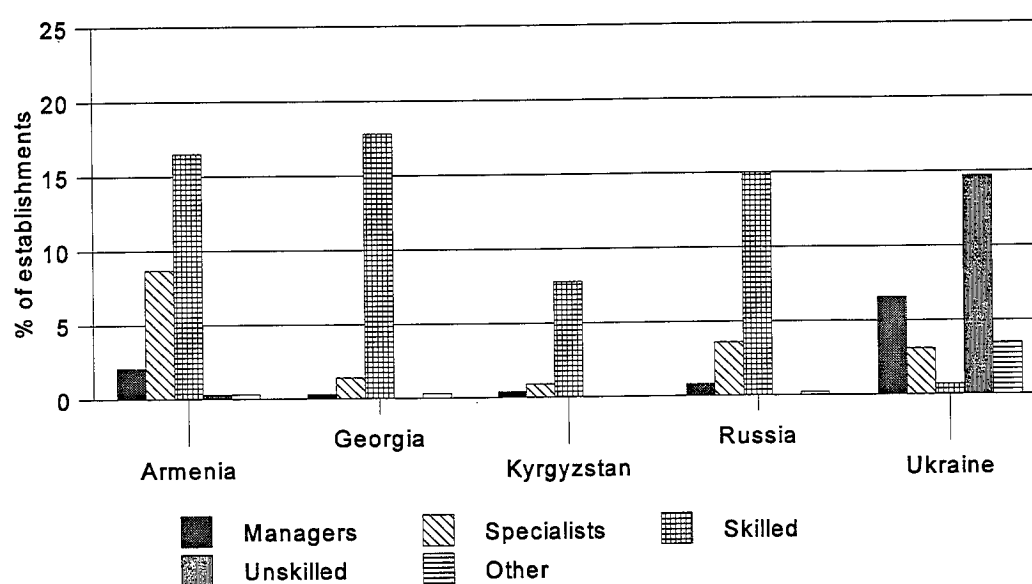


Figure 7-3. Distribution of employment and job loss by occupation

Note: Share of employment is for latest year, share of job loss is over the previous year.

Figure 7-4. Occupations expected to increase



Note: See footnote 2 for explanation of differences in information across surveys.

Figure 7-5. Training activities, by size of establishment

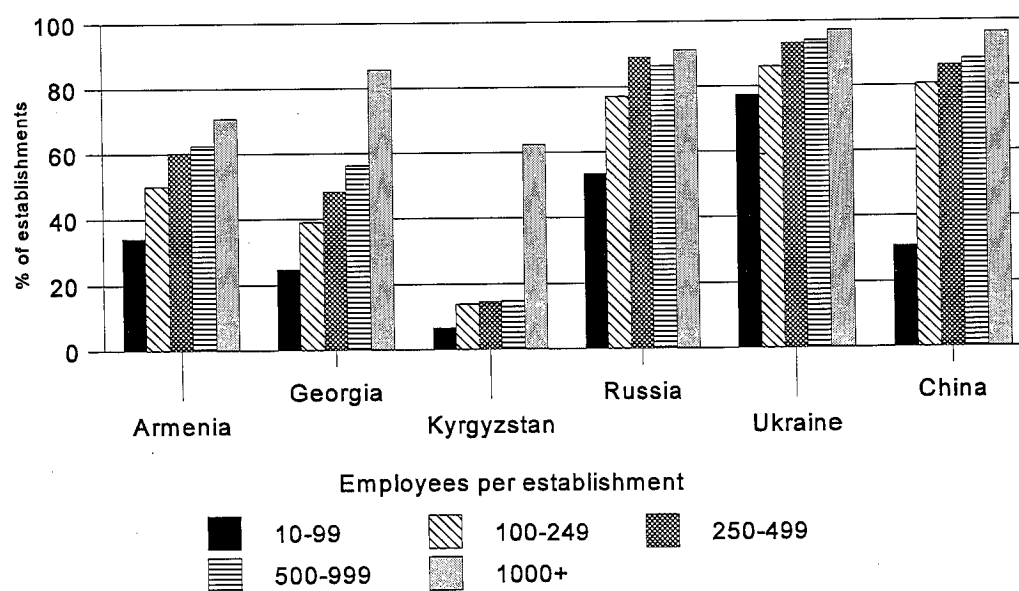
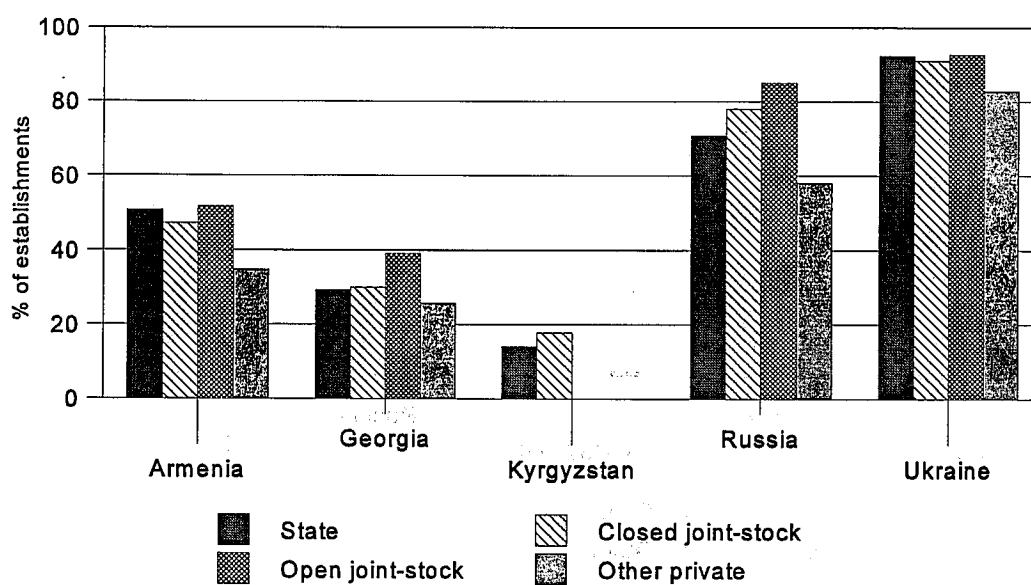
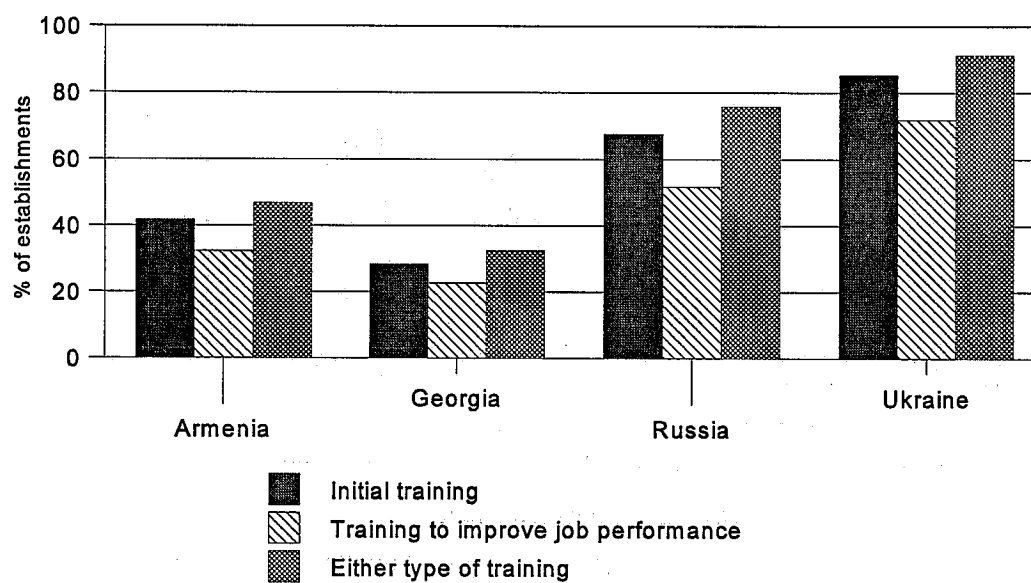


Figure 7-6. Training activities, by disaggregated property form**Figure 7-7. Type of training provided by establishments**

Note: Data not collected for China or Kyrgyz Republic.

Figure 7-8. Why training activities had increased

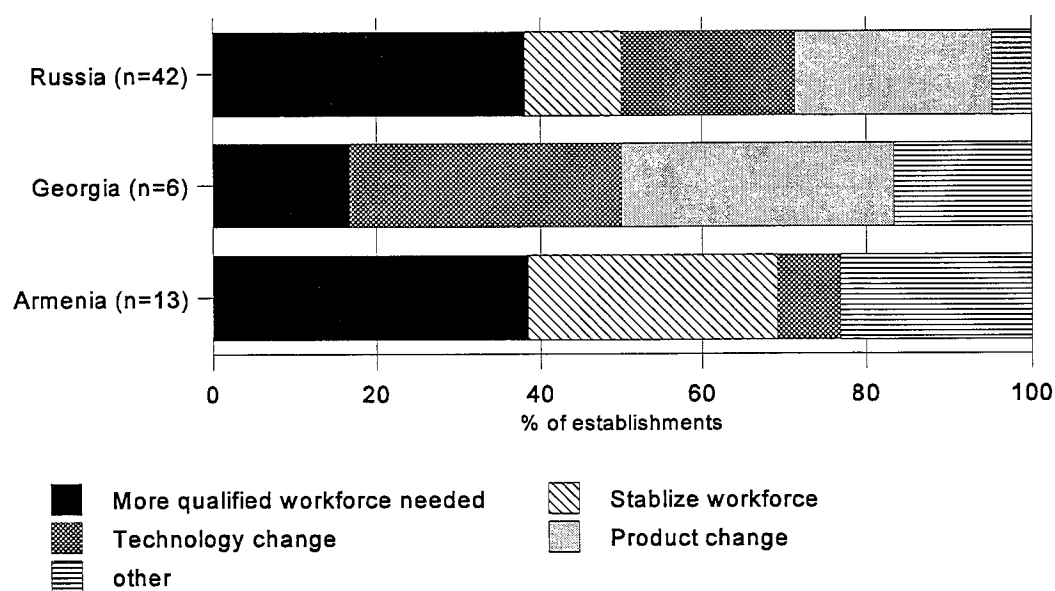


Figure 7-9. Why training activities had decreased

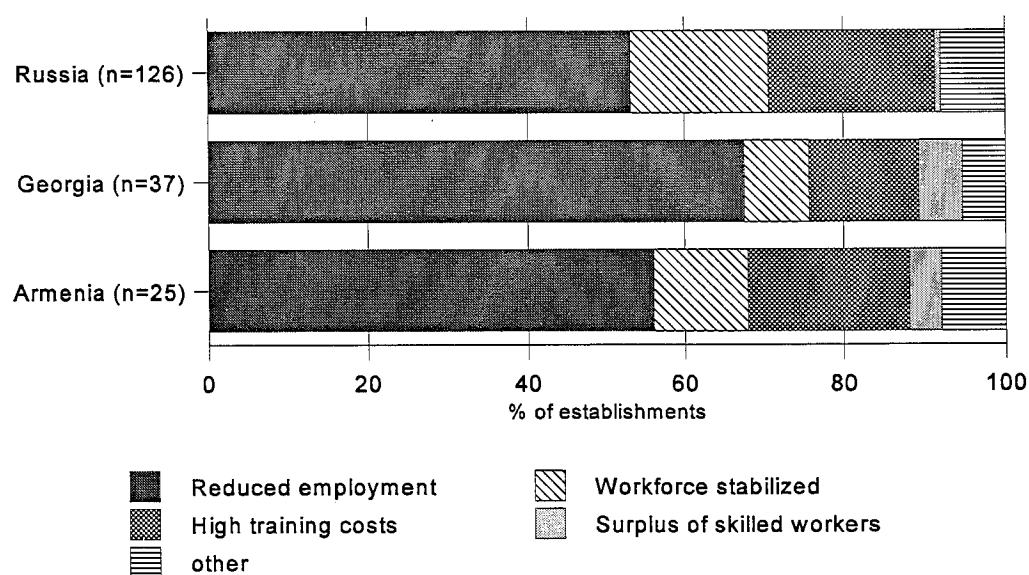
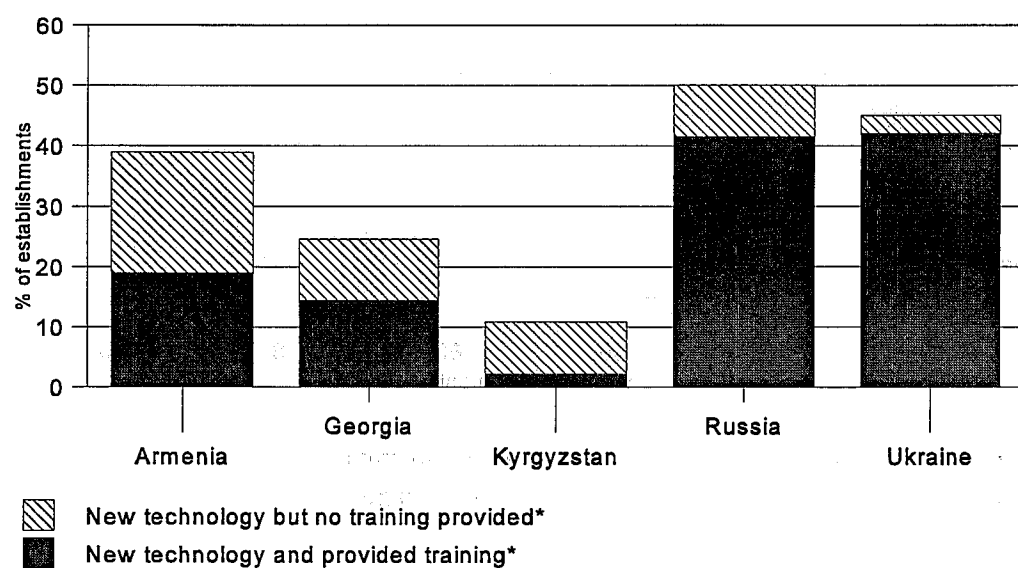
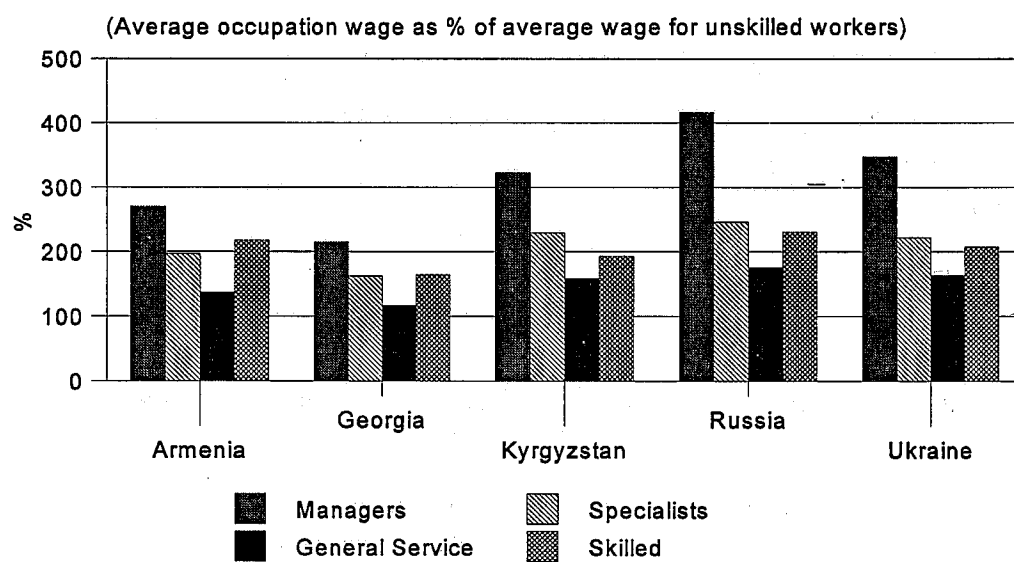


Figure 7-10. Training and adoption of new technology

Note: * Includes establishments that had adopted a new technology or had expanded its product range.

Figure 7-11. Occupational wage differentials

8. Employment impact of restructuring by age and gender

A special concern during massive enterprise restructuring and downsizing is whether the adjustment burden may fall particularly heavily on specific groups of workers. Certain groups of workers may be more vulnerable than others for reasons unrelated to job performance when managers choose which employees to release, put on leave, train, or hire. The enterprise surveys collected a wide array of data by gender of workers and basic employment statistics for young workers, older workers, and workers with disabilities, in order to examine the distribution of employment effects across these groups.

8.1 Age and disability factors in employment

Each of the surveys provided some descriptive information about the age distribution of the workforce. The definition of young workers was under the age of 25. In most of the surveys, the definition of older workers was above the normal retirement age, which is 55 for women and 60 for men. In the Kyrgyz and China surveys, however, older workers referred to all workers over the age of 50. There are two ways to compare the effect of restructuring and privatization on these two groups of workers. The first is to compare their shares of the current workforce in privatized and state enterprises. The second is to compare their rate of job loss during the restructuring period to the overall job loss rates.

The findings show that privatization itself seems to have had little impact on the age distribution of the work force. Within countries, young workers shares' of the workforce in privatized enterprises was about the same as in state enterprises (table 8-1). The differentials were largest in China and Ukraine, where young workers accounted for a slightly larger share of employment in the privatized establishments. Older workers tended to hold a slightly higher share of jobs in state enterprises than in private establishments (except in Armenia), but again the differences were within two percentage points, slightly wider in Ukraine.

Table 8-1. Distribution of employment by age group and property form (in per cent)

Country	Young workers			Older workers		
	All	State	Private	All	State	Private
Armenia	8.7	7.6	9.4	6.2	7.2	5.7
Georgia	10.5	11.6	10.4	5.2	4.2	5.6
Kyrgyzstan	20.2	21.7	19.8	12.3	13.1	11.9
Russia	15.6	15.3	16.0	11.8	11.7	11.6
Ukraine	14.8	12.6	16.8	15.8	17.4	14.8
China	14.6	14.2	17.0	9.2	9.4	7.8

As also shown in table 8-1, there was much larger variation in these groups' shares of employment across countries than between sectors within countries. For example, young Kyrgyz workers held one out of five employment slots, but only one out of ten in Armenia and in Georgia. The share of workers under the age of 25 was about 15 per cent in the other

three countries. Similarly, older workers' shares of employment was two or more times higher in Ukraine, Russia and the Kyrgyz Republic than in Armenia and Georgia.

Older workers usually accounted for a smaller portion of the work force than did young workers. Their lowest low share was 5 per cent of employment in Georgia (compared to 11 per cent for youth.) The differential was largest in China, where 9 per cent of workers were over the age of 50 compared to 15 per cent under the age of 24. Employment shares for workers at both ends of the age spectrum were markedly lower in Armenia and Georgia than in the other surveyed countries.

The privatization process itself does not appear to have affected age distribution of the workforce. In most countries the average share of workers under the age of 24 among privatized establishments was higher than among state enterprises (figure 8-1), but the differential was significant only in Russia (14 per cent in privatized establishments compared to 11 per cent on average among state enterprises.) The trend for older workers was even less clear (figure 8-2). In Georgia, China and especially Armenia, their average share of employment was higher among state enterprises but elsewhere their share was slightly lower.¹

Figure 8-1. Young workers' average share of establishment employment, by property form (p. 117)

Figure 8-2. Older workers' average share of establishment employment, by property form (p. 117)

Although the comparisons between privatized and state enterprises show no systematic change in age profile of workers, few of the establishment surveys tracked employment by age groups over time, which made it more difficult to judge whether young or older workers have suffered disproportionate job loss during the economic recessions. The analysis of the two rounds of the Ukrainian survey found a slight rise in older workers' share of total employment, attributed to workers of pensionable age needing to remain actively employed (Standing and Zsoldos, 1995). Employment by age groups was tracked over a four-year time span across the two rounds of the Kyrgyz surveys, from 1992 to 1995. As in Ukraine, the job loss by workers over the age of 50, while severe, was

<i>Age distribution of workers officially registered as unemployed:</i>		
	<u>Young workers</u>	<u>Older Workers</u>
Armenia:	45%	--
Georgia:	53%	3.5%
Kyrgyz:	40%	5.0%
Russia:	34%	6.9%
Ukraine:	37%	1.5%
<i>CIS Statistical Committee, 1997</i>		

proportional to their share of the work force. However, young workers' share of employment had dropped substantially: They had made up one fourth of the work force in 1992 but only one fifth of the work force in 1995 (Evans-Klock, 1998). The data provided by the CIS Statistical Committee showed that one third of the workers officially registered as unemployed

¹The difference in the average share of young workers between privatized and state enterprises was significant in Russia just below the .1 level; the difference in the average share of older workers was significant in Armenia at the .05 level.

in Russia were under the age of 29; in Georgia over half of the unemployed were young workers.

Workers that had acquired *disabilities* were traditionally retained by their employers. This was the defacto provision of disability insurance. The surveys asked employers what share of their employees had disabilities in order to see whether privatized establishments had a higher tendency to shed these workers. As shown in table 8-2, the proportion of workers classified as disabled (according to official eligibility definitions) ranged from a high of just under 2 per cent in Russia to a low of one fifth of one per cent in Georgia. Only in the Kyrgyz Republic did it appear that privatized establishments were less likely than state enterprises to employ workers with disabilities: 0.5 per cent of employees were so classified in the privatized establishments compared to 1.6 per cent in the state enterprises. Privatized and state enterprises had similar average share of workers with disabilities, except in the Kyrgyz Republic.²

Table 8-2. Disabled workers' share of employment, by property form (in per cent)

Country	All Establishment	Ownership Type	
		State	Private
Armenia	1.22	0.37	0.59
Georgia	0.21	0.01	0.28
Kyrgyzstan	1.13	1.58	0.47
Russia	1.90	0.71	1.10
Ukraine	1.78	1.68	1.79
China	0.93	0.91	0.91

8.2 Gender factors in employment

Much more of the data collected in the surveys was stratified by gender, which allows us to look for differential treatment of women across several aspects of employment, beginning by comparing their share of employment and job loss, but also looking for evidence of gender bias in hiring and training decisions.

8.2.1 Change in quantity of jobs

As was pointed out in Section 4, while women accounted for half or more of employment in the surveyed establishments in each country, their share of job loss varied substantially (Table 8-3; See also figure 4-1 above).

- Over the most recent two year period covered by the surveys in *Armenia, Russia and Ukraine*, women held about half of the jobs at the beginning and had sustained an equal share of the job cuts by the latest reporting period.

²The average share of workers with disabilities across state enterprises was 3.5 per cent, compared to 1.3 per cent across the privatized establishments. The difference was statistically significant at the .1 level.

- In *Georgia*, women's share of employment was slightly lower than in the other countries, 48 per cent, but their share of total job loss was nearly 60 per cent.
- *Kyrgyz* women had also held slightly more than half of the jobs initially (53 per cent) but accounted for nearly two-thirds of the total job loss.
- In *China*, women had a lower share of employment than in the FSU countries, 42 per cent. (Employment change by gender could not be calculated for China.)

Table 8-3. Women's share of total employment, by property form (in per cent)

Country	All Establishments		State-Owned		Private-Owned	
	Previous Year	Latest Year	Previous year	Latest Year	Previous Year	Latest Year
Armenia	51.4	51.5	48.7	48.8	51.0	51.0
Georgia	47.4	45.4	48.3	46.6	47.3	45.0
Kyrgyzstan	54.7	52.9	50.9	45.3	56.3	55.7
Russia	53.9	53.9	50.8	50.2	54.3	54.4
Ukraine	48.3	48.3	41.8	42.4	53.6	52.9
China	-	41.7	-	42.3	-	39.2

In the formerly central planned economies, women's labour force participation rates tended to be higher than in other industrialized countries. As the surveys related employment changes from only the demand side of the market, the extent to which lower shares of employment in some countries were due to women choosing to exit the labour market cannot be determined.

An alternate hypothesis is that with the removal of state control, gender bias may have increased, leading to lower rates of employment for women in the privatized establishments. The findings from the survey evidence are mixed. The above table shows that women's share of employment is much lower in privatized establishments in Ukraine and the Kyrgyz Republic, and slightly lower in China and Russia. But these differences could be due to different distribution of industries in these two groups, and reflect industry and occupation segregation rather than the effects of increased managerial discretion.

More telling information may be gleaned by comparing women's share of retrenchments - the method of employment loss that is most directly tied to management decision. Among establishments that released any workers, women's average share of retrenchments did not vary significantly between state and privatized establishments (figure 8-3). Women appeared to be less likely than men to be retrenched in Kyrgyz enterprises (on average about one third of released workers were women) and more likely to be retrenched in Russia (on average 60 per cent of released workers were women). However, at both ends of the spectrum across countries, women's average share of retrenchments was not significantly higher in privatized establishments. In Georgia, women's share of retrenched workers appeared to be higher in state enterprises than in privatized establishments, but the difference was not statistically significant.

Figure 8-3. Women's average share of retrenched workers, by property form (p. 118)

The survey findings in most countries provide clearer evidence of gender bias in hiring decisions. On average, women were hired for just one out of four new jobs in Georgia and in the Kyrgyz Republic (figure 8-4). In Russia, on average one out of three new jobs went to women. There appeared to be no such bias in China, where women's share of new hires was about the same as their share of overall employment. There was not a consistent story across countries as to whether privatized establishments were more or less likely to hire women. In Armenia, where women's share of overall hires was fairly high, their average share of new jobs in privatized establishments was significantly lower. The findings were reversed in Georgia: women were less likely to be hired in general, but accounted for a higher share of new jobs in the privatized establishments.³ There were no significant differences in hiring preferences between privatized and state enterprises in the Kyrgyz Republic and Russia.

Figure 8-4. Women's average share of recruits, by property form (p. 118)

The static comparisons between privatized and state-owned enterprises show that the process of privatization itself has not drastically changed women's share of employment, although hiring trends give cause for concern. However, women's share of hidden unemployment should also be taken into account in assessing employment effects of privatization and restructuring. Data identifying surplus workers and workers placed on leave or reduced work schedules was not collected separately for women. We do know, however, that women were more likely to be among the hidden unemployed because employers relied on extended maternity leaves to reduce surplus labour (encourage quits) or reduce its costs (unpaid months of leave). Furthermore, CIS statistics for 1996 showed that up to three quarters of the workers officially registered as unemployed in Armenia were women. In Russia and Ukraine women accounted for about two thirds of the unemployed.

8.2.2 Change in quality of jobs

The survey findings show that women were less likely than men to receive training from their employers. At best, women's average share of trainees was 40 per cent, in Georgia and Ukraine, and at worst just 10 per cent, in Armenia (figure 8-5). In the Kyrgyz Republic, one out of two employees were women but on average only one out of four trainees were women.⁴ Again, the comparisons between property types varied by country. In the Kyrgyz Republic, women's average share of trainees was significantly lower in privatized establishments (22 per cent) than in state enterprises (42 per cent). In Russia, women in the privatized establishments were more likely to participate in training, accounting for 36 per cent of their trainees on average, compared to 26 per cent in state enterprises.⁵

³The difference between privatized and state enterprises in women's average share of new hires was statistically significant at the .05 level in Armenia and the .1 level in Georgia.

⁴Women appear to be over represented among trainees in state-owned Georgian establishments, but the figure may not be representative because only five state enterprises provided training to any employees.

⁵ The differences between privatized and state enterprises in terms of women's average share of trainees were significant at the .1 level in Russia and the Kyrgyz Republic.

Figure 8-5. Women's average share of trainees, by property form (p. 119)

Women's share of employment in each occupation category is shown in table 8-4. Comparing their shares of employment in each of the occupation categories to their share of overall employment (as shown in the final column) shows that women were under represented in management occupations and over-represented in general services and, in a couple countries, among unskilled workers: Women's share of management positions was lowest in Georgia (just 24 per cent compared to 45 per cent of overall employment), and was also 15 percentage points lower in Ukraine. Women appeared to be over-represented in the unskilled labour category in Ukraine (accounting for 62 per cent of these jobs compared to 48 per cent of jobs overall) but not elsewhere. Not surprisingly, women held most of the clerical and other administrative jobs in the general services categories in each country, with the degree of over-representation ranging from 10 percentage points in China to 30 percentage points in Russia.

Table 8-4. Women's share of employment, by occupation (in per cent)

Country	Managers	General service	Specialists	Skilled workers	Unskilled workers	All employees
Georgia	23.5	56.9	55.3	47.5	40.2	45.4
Kyrgyzstan	42.1	66.5	69.0	51.5	51.8	52.9
Russia	43.0	82.7	68.5	50.9	57.3	53.8
Ukraine	31.7	73.6	67.3	44.9	62.4	48.3
China	35.0	51.8	32.0	42.5	41.4	41.7

Note: Armenia is excluded due to incomplete data by occupation.

There were no systematic differences in women's share of occupations between privatized and state establishments. In Georgia, women in the privatized establishments held a higher share of unskilled production jobs on average (41 per cent versus 26 per cent in state enterprises). In Russia, however, women held a higher share of the skilled production jobs on average in the privatized establishments (45 per cent versus 35 per cent in state enterprises). In Ukraine, there were several occupation categories in which women's average share of employment was higher in the privatized establishments: 43 per cent of managers, versus 31 per cent in state enterprises; 73 per cent of specialists, compared to 67 per cent in state enterprises; and 48 per cent of skilled production workers, compared to 40 per cent in state enterprises. In China, the only occupation category in which women's average share of employment differed significantly was unskilled labour, where women accounted for 46 per cent of unskilled labour jobs in state enterprises but 39 per cent in private establishments.⁶

These countries have had a fairly equitable distribution of jobs by gender, as evidenced in the overall high shares of skilled labour and specialized training positions held by women. As in industrialized countries, women workers tend to occupy a much higher share of

⁶The differences in the mean percentages between privatized and state enterprises were significant at the .1 level or better in each of these comparisons.

administrative jobs and a much lower share of management jobs. Although occupational segregation is not more pronounced in the privatized sector, women's apparent more limited access to training may jeopardize their future ability to retain a fair share of skilled production, specialized and professional jobs. In particular, their more limited experience in management positions may make self-employment and entrepreneurship more remote re-employment options for displaced women workers than for their male colleagues.⁷

8.2.3 Discrimination

Gender preferences in managers' employment and training decisions are more credible when *revealed* through documented practices. However, the questionnaires in Armenia, Georgia and Russia also asked managers to express and explain their preferences for employing men, and also for employing women. Their responses, for both employees in general and production workers in particular, are summarized in figures 8-6 and 8-7.

Managers were far more likely to admit gender preferences for production workers than for all employees, categories which include professional and management positions. This is noted in the Y axis labels as the number of establishments expressing a preference. Three to four times more managers expressed preference for hiring men as production workers than in overall employment; for example 124 Armenian managers gave a reason for preferring male production workers compared to 40 that had gender bias in non-production workers.

The most common rationale for gender bias in favour of men was the product-specific nature of work. This refers to workers' preferences for the type of work, or likelihood of receiving appropriate training, or "socialization" into expecting or accepting certain types of work, and was noted apart from the rationale of the "physical demands" of the job. Only in Armenia did a sizeable share of respondents (24 per cent) justify bias towards men on the basis that men needed work more than women did. From 10 per cent (in Russia) to 20 per cent (in Armenia) of the respondents said that men had better skills. Worker productivity, quality of work and reliability were relatively infrequent answers for production workers. However, "better skills" was one of the most frequent rationales for bias towards hiring men for professional or managerial positions (from 20 per cent in Armenia to 30 per cent in Russia).

Fewer than half as many managers said they had a preference for hiring women, for either production or professional jobs, as had preferred male employees. The most popular rationale was "the specific product" being produced. This confirms findings presented in several of the country reports of the continued segregation of employment by industry, with women dominating employment in the food and textile/apparel industries. Labour laws appeared inconsequential, as they were cited by only one or two managers in each of the surveys as a rationale for bias in favour of hiring women workers.

Figure 8-6. Main reason for preferring men employees (p. 119)

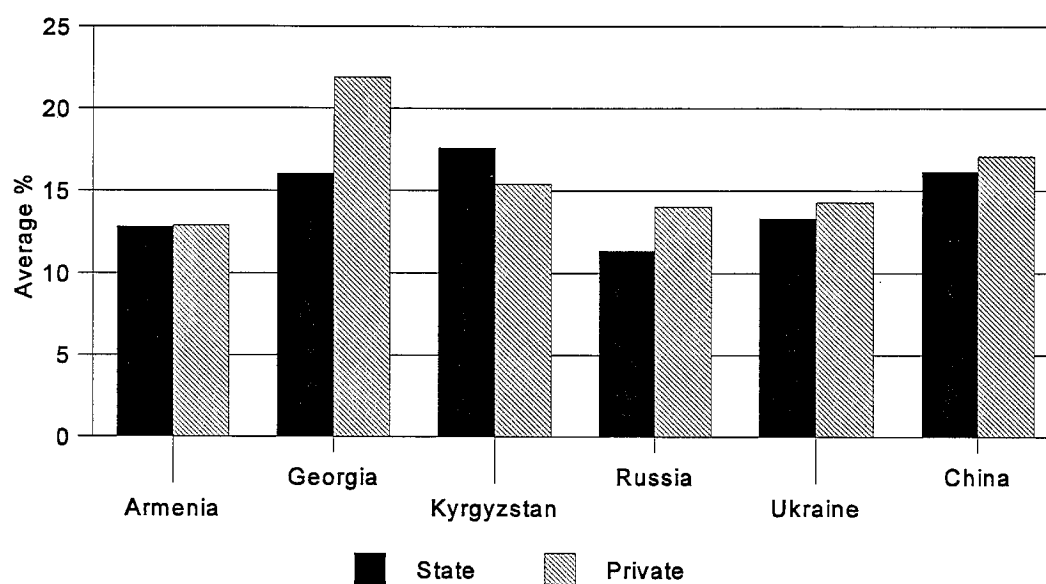
Figure 8-7. Main reason for preferring women employees (p. 120)

⁷It was not possible to compare remuneration rates by gender because of lack of data for most countries.

Summary findings

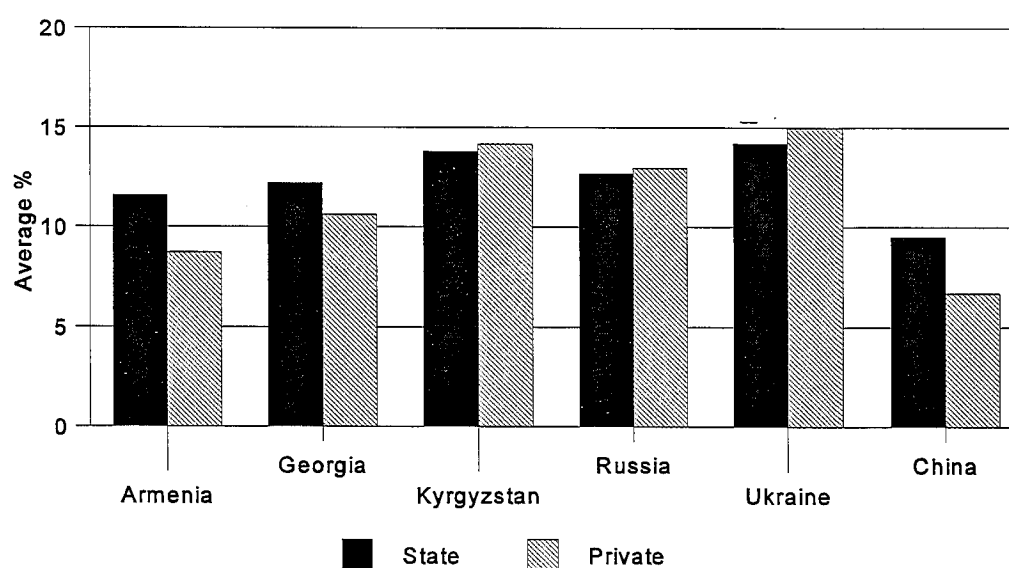
- A static comparison of age distribution of workers between privatized and state enterprises did not reveal evidence of bias against older or younger workers. However, where time trend data was available (from the Kyrgyz survey) there was some evidence that young workers' share of employment had fallen during the lengthy recession.
- Women held about half of the jobs covered in each survey. Their average share of the workforce was if anything usually higher in the privatized establishments - an indicator that they were not discriminated against as managers acquired more latitude in making employment decisions.
- The surveys revealed cause concern about women's future status and opportunities in the labour market. Establishments on average hired women for 20 to 40 per cent of new jobs. Women accounted for 10 to 40 per cent of trainees on average. Only one or two out of every five jobs for which establishments recruited new workers went to women. Women may also account for a disproportionately large share of workers in precarious employment because of the use of extended maternity leaves to reduce labour supply.
- The most obvious indicator of women's disproportionate burden of adjustment costs is their vulnerability to losing their jobs informally through extended maternity leaves.

Figure 8-1. Young workers' average share of employment, by property type*



Note: * Workers under the age of 25.

Figure 8-2. Older workers' average share of employment, by property type*



Note: * For definitions of older workers, see text.

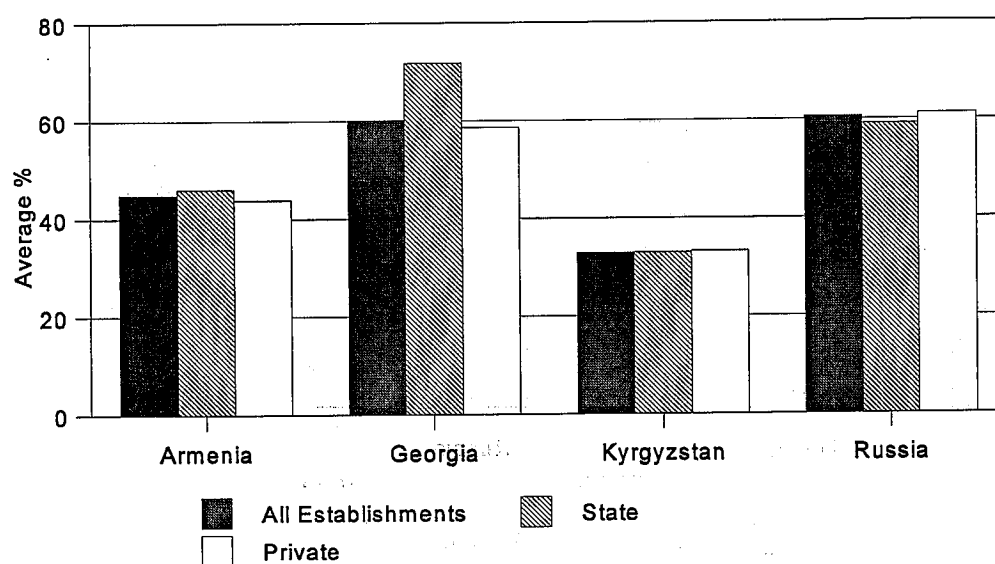
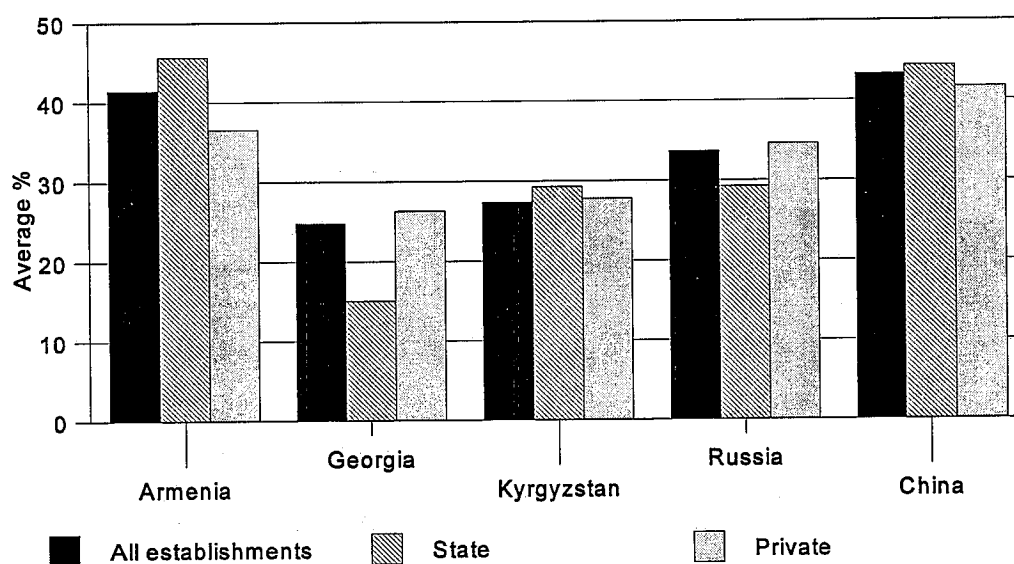
Figure 8-3. Women's average share of retrenched workers, by property form**Figure 8-4. Women's average share of recruits, by property form**

Figure 8-5. Women's average share of trainees, by property form

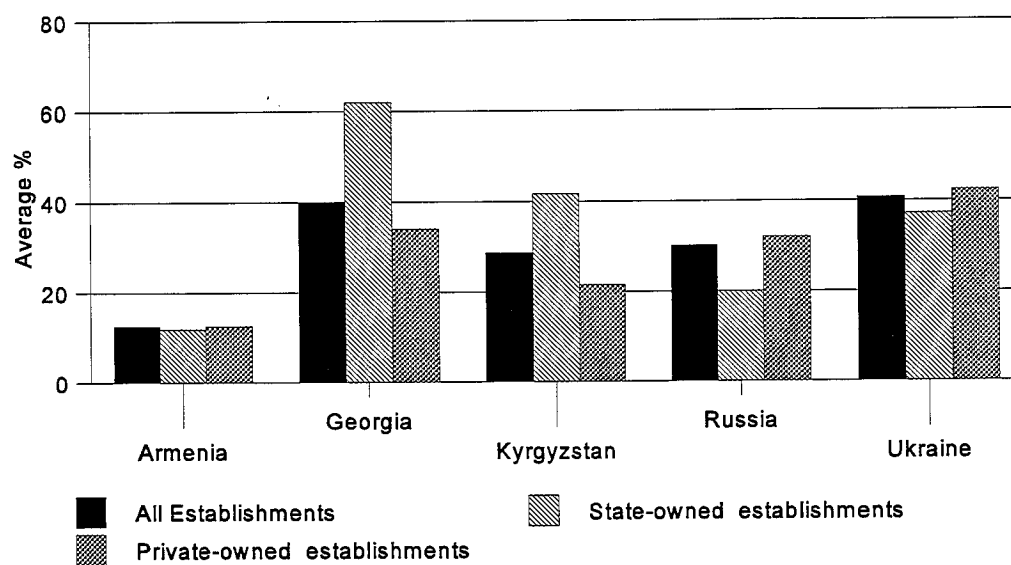


Figure 8-6. Main reason for preferring male employees

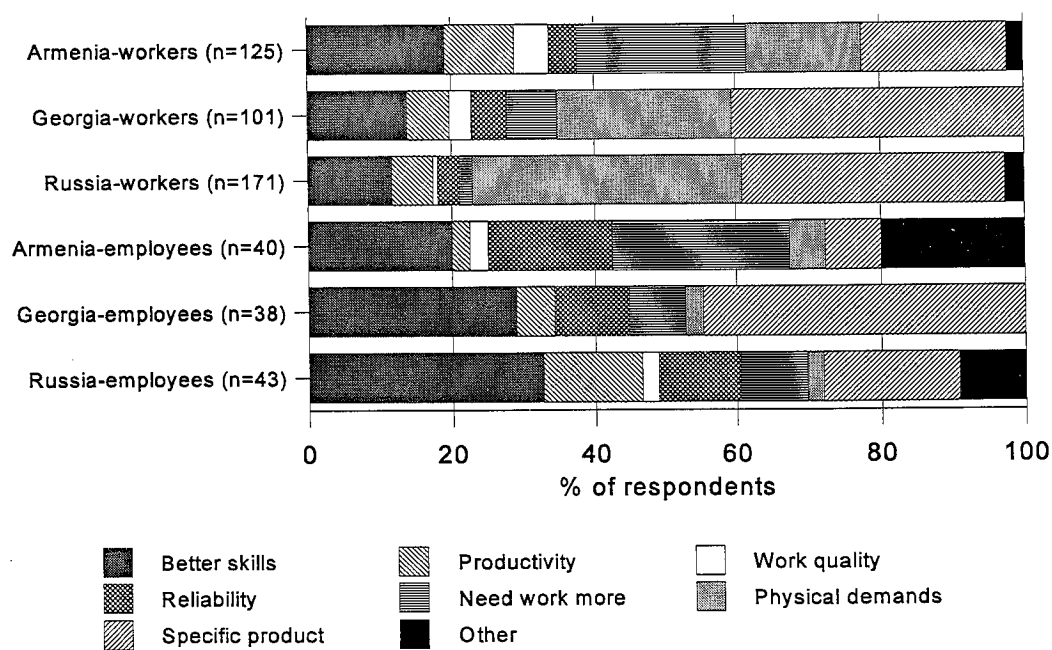
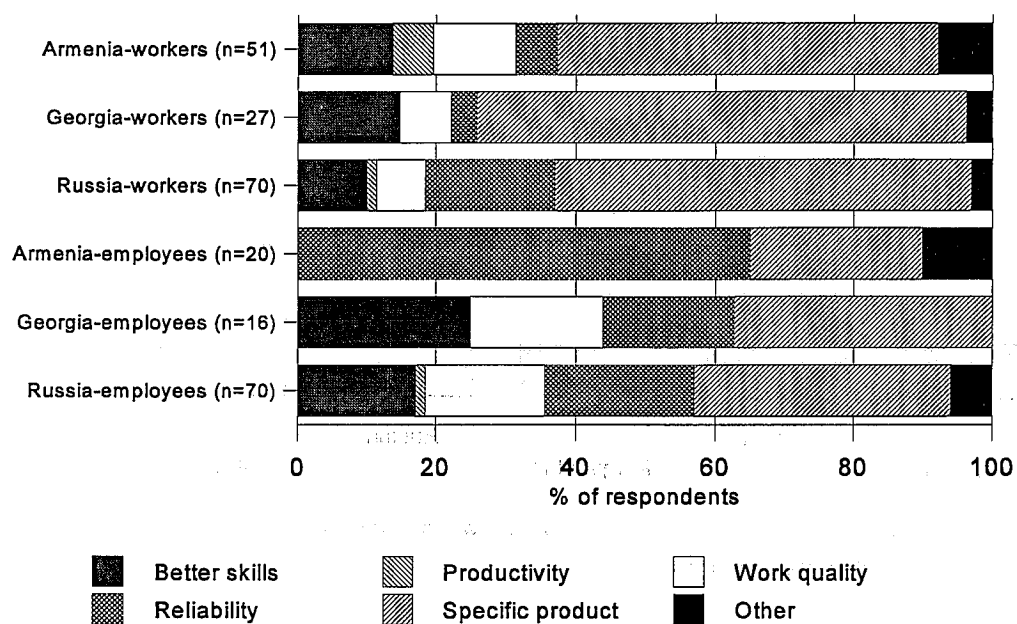


Figure 8-7. Main reason for preferring women employees

9. Respondents' main business and employment problems

The preceding sections of this report have documented and described job loss and changes in employment security and remuneration. This section reports how enterprises managers or directors viewed their business problems and prospects, in particularly identifying threats to business survival or constraints on business growth. Their views of the external economic and business climate within which they were operating shows the debilitating effects so far of market disruption and poorly developed capital and labour markets. Particular attention is paid to the views expressed by managers of joint-stock companies, as stability and growth in the privatized sector is crucial for stemming job losses and creating new employment opportunities in these economies.

9.1 Main business problems

Asked to identify their main business problem, apart from employment difficulties, survey respondents most frequently cited difficulty finding customers, arranging financing (including credit access and customers' arrears), and obtaining raw materials and other inputs (table 9-1).

Table 9-1. Distribution of establishments by main business problem (in per cent)

Country	Finding markets	Raw materials	Financial problems *	Equipment/ technology	High Taxes	Electric energy	Other	Total
Armenia	31.5	37.3	8.2	1.8	8.0	10.7	2.5	100
Georgia	66.9	12.7	4.3	0.4	0.7	14.4	0.6	100
Kyrgyzstan	21.3	40.5	24.1	0.9	9.9	2.2	1.2	100
Russia	29.3	16.9	24.7	0.8	27.1	0.4	0.8	100
Ukraine	33.2	19.7	35.9	0.4	8.9	1.4	0.4	100
China**	21.7	26.8	13.2	5.4	3.7	--	29.2	100

* Responses in this category include high interest rates, inability to access credit, and problems pertaining to financial settlements with customers or suppliers. In China enterprise debt was also included in this category.

** The "main problem" question in the China questionnaire included responses related to employment, which were asked separately in the FSU surveys. These were included in "other" for this table: 12.6 per cent of the respondents identified surplus labour, high wages or lack of skilled workers as their main problem.

Difficulty *finding markets* for products was most severe in Georgia where 67 per cent of respondents said it was their most pressing business constraint. However, the problem was prevalent everywhere, selected as the main problem by about one third of the respondents in Armenia, Ukraine and Russia. The pressure to find new buyers reflects both the recessionary conditions, particularly evident in Georgia, and loss of traditional customers through the dissolution of the Soviet Union. Non-economical trading patterns under centralized planning had collapsed, leaving directors scrambling to find new buyers.

Difficulties securing reliable *supplies* of raw materials and intermediate inputs, or their rising prices, can be attributed to the same problem: disruption of supply networks that had formerly spanned the Soviet Union, irrespective of transport costs. This was the most frequently cited problem by Kyrgyz and Armenian manufacturers (41 and 37 per cent, respectively.) These problems were also the top ranked business problem in China.¹

Lack of access to credit, poorly-functioning banks, lack of liquidity resulting in financial settlement problems with suppliers and customers were each identified as aspects of problems in *financial markets*--selected as the main business problem by one third of the Ukrainian respondents and one quarter of the Russian and Kyrgyz respondents. In the Kyrgyz Republic, respondents most often complained about lack of access to investment capital (19 per cent). In Ukraine, lack of liquidity most often took the form of problems settling payments with customers (21 per cent) or with suppliers (14 per cent). In Russia, 18 per cent cited settlement problems with customers or suppliers and another 6 per cent complained about problems financing investment. All of these forms of financial problems stem from the poor development of financial institutions necessary for a market economy. Liquidity problems are also an outcome of the strict monetary policies followed by governments to bring down triple-digit levels of inflation. This problem, difficulties settling accounts with customers, is another aspect of the liquidity constraint that was noted above in connection with wage arrears to employees.

Tax rates appeared to be a problem primarily in Russia, chosen by over one fourth of the respondents. Taxes were also the main problem of about 10 per cent of Armenian, Kyrgyz and Ukrainian respondents. The rather low frequency could be attributed to the fact that relatively few enterprises had "taxable" profits, or that tax avoidance was easy. Other analyses have criticized high taxation rates on businesses, as inhibiting enterprise and employment growth, and difficulties in collection and tax avoidance, as contributing to government budget deficits and delay in substituting public for enterprise-based social services.²

In Armenia and Georgia, one tenth or more of the respondents cited difficulties maintaining supplies of *electricity* as their main problem. These smaller countries had been dependent on other parts of the Soviet Union to provide electrical power and businesses, as well as households, and had suffered repeated outages and rationing.

¹In the China questionnaire, the proffered list of business problems included a number of employment-related choices, which were excluded from the question in the FSU questionnaires.

²ILO, *World Employment Report 1996/97*.

Compared to these other business survival problems, very few establishments had the luxury of considering updating *technology* as their principal problem. Problems relating to equipment and technology had the highest response rate in China, but still accounted for only 5 per cent of responses.

The story that emerges from how enterprise directors or managers viewed their own business prospects is one of trying to survive in economies without functioning product and capital markets. Each of the most commonly encountered problems is one aspect of the widespread disruptions in the command economy distribution of inputs and outputs and of the limited development of replacement distribution networks and of supporting financial institutions (see box).

For privatization to be successful - for the new owners of enterprises, for workers in the enterprises and for consumers - privatization should be seen as a logical component of a set of well-defined long-term policies, which includes development of a healthy private sector with well-functioning goods, capital and labour markets, in a system of widely respected democratic control, and with proper social security programmes and income maintenance measures, as well as training, placement and other labour market programmes. The absence of one or more of these factors may shift undue share of the costs of privatization onto individual workers and may result in the continuation of monopolies, the development of crony capitalism, the concentration of capital markets, and the exploitation of workers. (Van der Hoeven and Sziraczki, 1997)

Some of the questionnaires tried to gauge the severity of these business problems by asking whether the enterprise was threatened with bankruptcy in the next year. *In both Ukraine and Armenia, one fourth of the respondents perceived bankruptcy as definitely or somewhat likely.* In these countries there was no significant difference in the share of managers of privatized versus of state enterprises that viewed bankruptcy as likely. Fear of bankruptcy was less pronounced in Russia (by 15 per cent of respondents) and Georgia (10 per cent), and again state enterprises seemed as likely to sense this outcome as did privatized establishments.

The business problems identified by the managers of the privatized establishments did not differ substantially from those identified by directors of state enterprises. In the cross-country comparison there were relatively few differences in the frequency of difficulties identified as main business problems between privatized and state enterprises, indicating that privatization, or change in property form, had provided scant means by which establishments could respond effectively to the serious industry-wide difficulties (figure 9-1).

There was some indication that finding buyers was more difficult for joint-stock companies than for state enterprises. For example, in Georgia, 80 per cent of the closed joint-stock companies and 73 per cent of the open joint-stock companies cited lack of sales as their principal problem, compared to 58 per cent of state enterprises. The difference between state-owned and privatized establishments was also prominent in Armenia, but not in the other FSU countries. Difficulties collecting payments from customers or finding investment capital were cited somewhat more frequently by the state enterprises in Georgia, Russia and Ukraine.

In China, problems finding customers and materials were the most frequently selected main problem by establishments in each category of property form. Taxes appeared to be particularly burdensome to the labour surplus enterprises.

Figure 9-1. Main business problem, by property form (p. 126)

9.2 Main employment problems

Compared to other types of business problems, employment-related difficulties were low priorities. Indeed, a large portion of respondents in each survey indicated that they had no employment problem, from 17 per cent in Ukraine to 56 per cent in the Kyrgyz Republic (figure 9-2).

Figure 9-2. Distribution of establishments by main employment problem (p. 127)

Relatively few managers cited *surplus workers* as their main employment difficulty: as few as 4 per cent in Georgia to as many as 16 per cent in Ukraine. Managers were more likely to fault *low wages* as their main employment problem: 48 per cent in Ukraine, 26 per cent in Russia, and 20 per cent in Georgia. By contrast, at most 5 per cent of respondents (in the Armenia survey) complained of wages being too high. Managers appeared to be complaining that pay levels provided insufficient livelihoods to workers, resulting in low morale and productivity. *Lack of skilled workers and difficulty retaining skilled workers* was the most frequently identified problem in Russia (29 per cent), Armenia (27 per cent) and the Kyrgyz Republic (16 per cent). It came in a close second in Georgia, selected by 19 per cent of respondents. This problem could also be closely related to *poor worker quality or productivity* which was cited by 15 per cent of respondents in Armenia, but elsewhere accounted for 5 per cent or fewer responses.

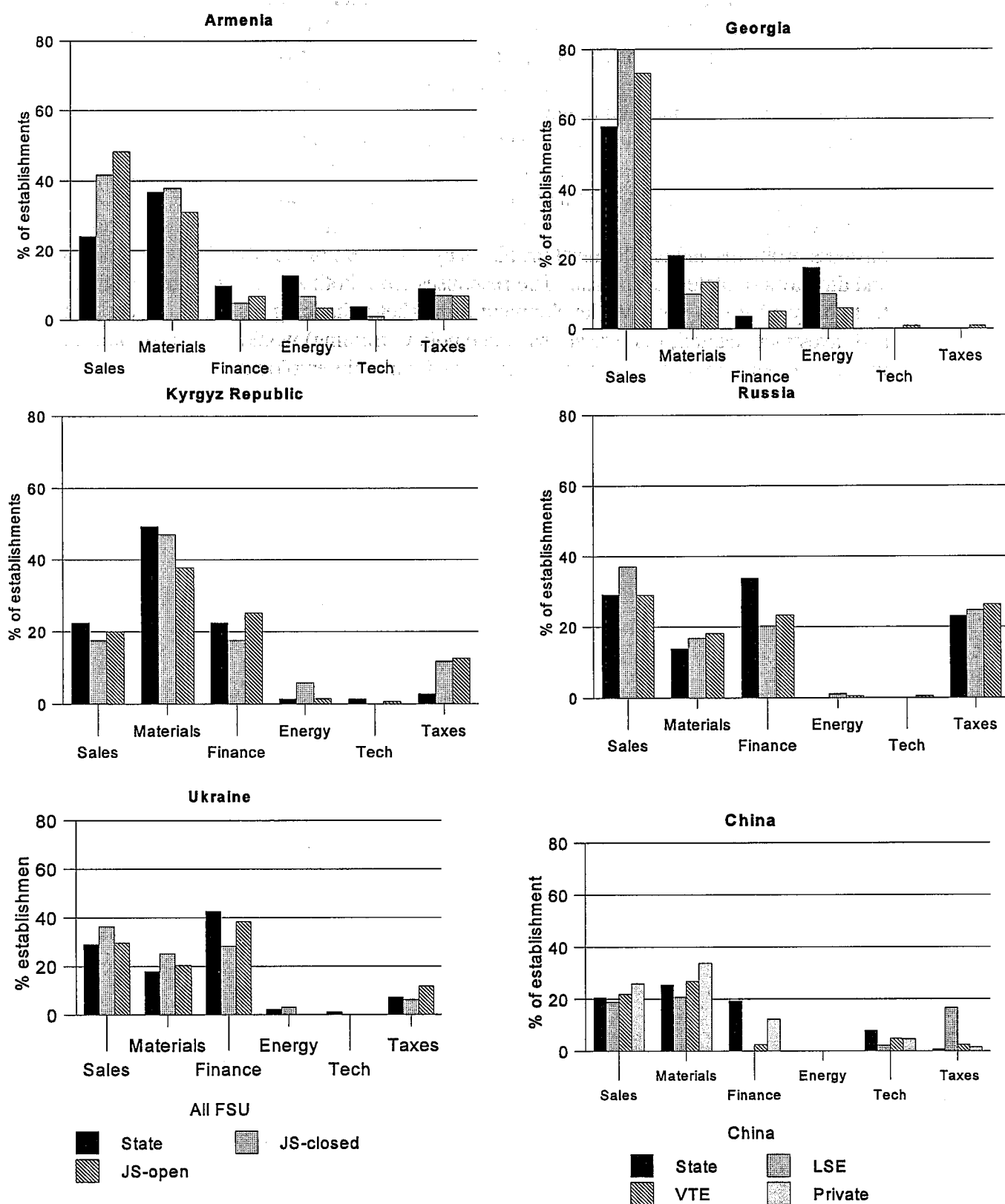
Again, in most countries there was remarkable consistency between privatized and state enterprises in terms of which employment problems were considered most important. However, in Russia, privatized establishments were more apt to regard lack of skilled workers as their primary employment difficulty, while state enterprises were more likely to consider low wages the source of their problems (figure 9-3). In Ukraine, low wages were the overwhelming problem, selected by 60 per cent of the state enterprises and 40 per cent of the privatized establishments. Although the margins were small in some countries, a larger share of privatized than of state establishments selected problems finding or retaining skilled workers as their main employment problem in each survey. As was documented above under training practices, as these economies emerge from recession, unskilled workers are apt to find it more and more difficult to compete successfully in the labour market.

Figure 9-3. Main employment problem, by property form (p. 128)

In China, 13 per cent of respondents identified employment-related problems as their most severe business difficulty. Dealing with surplus wages, increasing wage rates and lack of skilled workers were the most frequent difficulties. Managers of joint ventures were particularly concerned with poor quality of workers. The state enterprises and labour service enterprises were most concerned with dealing with surplus workers, especially with the lack of financial support from government agencies to meet their salaries or help find them jobs elsewhere. Fewer of the privately-owned enterprises (7 per cent) identified labour problems as the most serious difficulty, compared to 17 per cent of the labour surplus enterprises and 14 per cent of state enterprises.

Summary findings

- Survey respondents in each of the FSU countries identified inadequate aggregate demand and disruption in supply chains for their raw materials and other inputs as their principal business problems. Difficulty securing investment capital and payment arrears from buyers, or to suppliers, was also a prevalent problem. Steps to resolve these problems will have to be taken outside of the enterprise, in the area of macroeconomic and financial policy.
- Problems finding, or retaining, sufficient numbers of workers with appropriate skills was the most common employment problem. Efforts to provide a liveable wage were also frequently cited as the most serious problem relating to workers.
- There was a strong similarity of responses to questions concerning both overall business problems and employment problems by managers of privatized establishments and directors of state enterprises. The responses from both sets of managers suggest that policy efforts to improve development of market-enhancing institutions (working and investment capital, trade relations, wage policy, training) would have a substantial impact on their ability to stay in production and maintain employment.

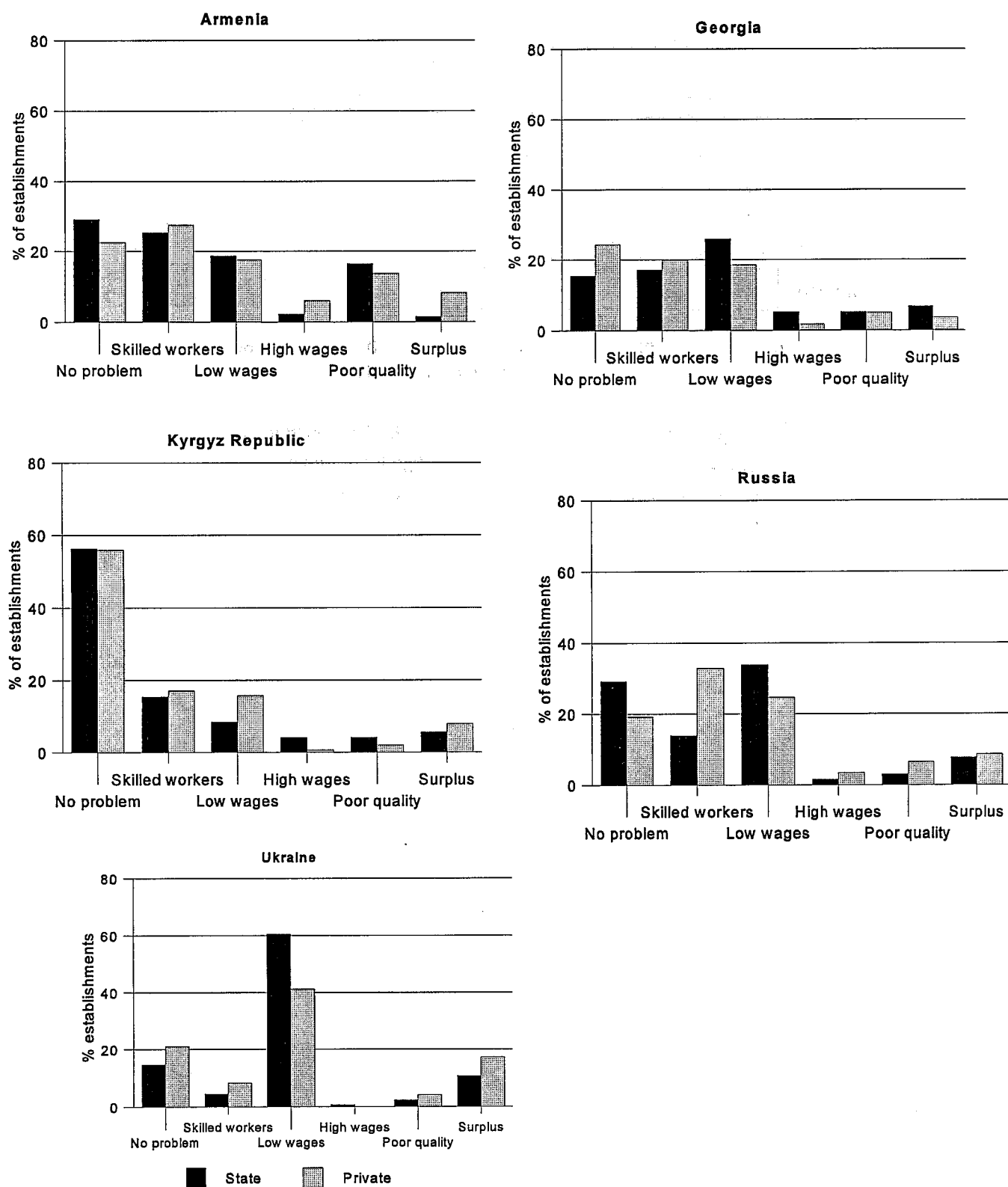
Figure 9-1. Main business problem by property form

Note: Within category answers do not sum 100% because "Other" responses are not shown.

Figure 9-2. Distribution of establishments by main employment problem



Figure 9-3. Main employment problem, by property form



Note: Within category answers do not sum to 100% because "Other" responses are not shown.

10. Conclusions and Policy Recommendations

10.1 Summary of findings

Each of the enterprise surveys documented the substantial extent of property form transformation in the transition economies reviewed. The share of surveyed establishments that had been privatized ranged from a low of 40 per cent in Armenia to a high of 85 per cent in Russia. In the China survey, about half of the surveyed establishments were traditional state-owned enterprises, another 30 per cent were labour service enterprises or village/town enterprises, and 20 per cent were joint ventures or joint-stock companies.

The performance of privatized establishments was compared to that of state-owned establishments on the criteria of sales, employment and continuing surplus labour. Although privatization has been extensive and there is some potential for change in management accountability, most of the establishments remained in precarious position at the time of the surveys. Most reported flat or still declining sales, many continued to rely on barter trade for disposing of their products, and the vast majority were operating at inefficient levels of output.

Sales growth There was no significant difference in the share of privatized and the share of state-owned establishments that reported sales growth, except in China.

Exports In each survey, one quarter or more of the privatized establishments exported some portion of their output, a higher portion than state-owned exporters in each country. However, where available, data indicated that exports outside of the Republics of the former Soviet Union were insubstantial.

Capacity In the smaller FSU countries, half of the establishments reported using less than 30 per cent of their physical capacity. In Russia half of the establishments used less than 50 per cent of capacity. Privatized establishments reported lower capacity utilization on average than did state enterprises.

The surveys also documented a loss of about 10 per cent of employment over the most recent twelve-month period in the Russian, Ukrainian, Armenian and Georgian surveys. Job loss was proportionally highest in the Kyrgyz Republic, where employment in the manufacturers surveyed dropped by nearly 15 per cent. The surveyed establishments in China reported a small net loss.

Despite these continued job losses in the third to fifth year of economic recession and transition for the FSU countries, at least one third of the establishments in each survey reported that they had more workers than were needed for current and expected levels of production. The share of total workforce covered by the surveys considered redundant, and thus in a vulnerable employment situation, ranged from one tenth (in the Kyrgyz Republic) to one quarter (in Armenia).

The relative magnitude of downsizing and of retained surplus workers appears to bear little relation to property form. Government-owned and joint-stock companies in the FSU states reduced employment at similar rates, even when the comparison takes into account differences in initial size, industrial sector, urban location, share of output exported, percentage of workers in unskilled occupations and method of selecting senior management. The "best" record of privatized establishments was in Russia, where although total employment continued to fall, the average decrease in employment was 13 per cent lower than the average for state enterprises. Similar multivariate analysis of labour surplus showed that

privatized establishments did not, on average, retain a lower share of surplus workers than did state enterprises in any of the FSU countries surveyed.

There is no evidence from the enterprise surveys to support the hypothesis that privatized firms adjusted workforce size faster than did state enterprises or were less likely to retain redundant workers, even when accounting for differences between establishments in the degree of employee governance, export markets, and workers' qualifications.

Both state and privatized establishments adopted a variety of measures to reduce the costs of retaining surplus workers--such as placing workers on unpaid leave, reduced work schedules, or extended maternity leaves--while waiting for economic conditions to improve or for government policies to release them from the burden of providing income or social services for too many employees. A majority of employers in Armenia, Georgia, Ukraine, and nearly half of the respondents in Russia cited social responsibility to their workers as the main reason for not releasing surplus workers.

Establishments identified depressed product markets and difficulties obtaining raw and intermediate inputs as their most pressing business problems. In several countries, difficulties obtaining credit and receiving payments from buyers were also identified as significant problems. Apart from these overriding constraints, the problem of dealing with labour surplus ranked low among employment problems. The employment problem identified most frequently was lack of skilled workers, or difficulty retaining skilled workers. This was followed in frequency by complaints about low wages. From one fifth of the respondents (in Georgia) to one half (in Ukraine) cited low wages as their main employment problem; by contrast, at most 5 per cent of respondents complained of wages being too high. There was very little difference between privatized and state enterprises in the ranking of business and employment problems within countries.

Inadequate social protection, in particular lack of unemployment insurance and of alternative access to basic social services in the face of severed ties to employers, was found to limit labour mobility. Relatively few cases of enterprises transferring social service facilities to public authorities were reported, and there was no higher frequency of such transfers from privatized establishments. Government agencies' inability to fund and manage social service provision confronts establishments with the difficult choice of decreasing the wellbeing of their workforce, and communities, or of accepting the financial drain imposed by maintaining such services themselves.

The potential benefits of internal restructuring and reordering managerial incentives through transfer of property rights and ownership, in terms of output growth and employment protection and creation, have been unattainable in the FSU countries because of the severe economic depression and because of severed links to product markets and input sources. Delayed development of labour markets and replacement of enterprise-based essential social services with adequate social policy impedes necessary further establishment restructuring and imposes harsh costs on individual workers.

Occupational shifts had not yet been a noticeable part of establishment restructuring in most countries, with the important exception of China where the non-state sector had lower

average portion of unskilled workers. However, in addition to identifying lack of skilled workers as a major employment problem, managers expected that their future workforce would have a larger share of skilled production workers: In Russia, of those managers that expected any employment increase, 76 per cent anticipated increasing demand for skilled workers. In the Kyrgyz Republic, 86 per cent of the respondents expecting any change in occupational mix said that demand for skilled workers would rise. Expectations about the future composition of the work force did not differ materially between privatized and state enterprises, nor did the incidence of training activities at the establishment level.

Job loss was fairly proportional to the distribution of the work force by occupation and by gender. However, in a couple of the smaller economies, Georgia and the Kyrgyz Republic, women accounted for nearly two-thirds of the job loss compared to about half of employment in the initial reporting period. The surveys revealed other areas of concern: Only one or two out of every five jobs for which establishments had recently recruited new workers went to women. If this trend were to continue, women's share of employment could decline drastically over the next decade. Within establishments that provided training to employees, women accounted for only 10 per cent of trainees (in Armenia) to 40 per cent (in Ukraine). Reduced access to skill advancement may put at risk the quality of women's future employment opportunities. Some of the restructuring practices followed by enterprises placed a disproportionately high burden on women, such as extended unpaid maternity leaves, loss of medical care and facilities during pregnancies and for children, and tendency to cut child care centres from employment-based social services.

10.2 Policy recommendations

The cross-country comparisons between FSU countries (Russia, Ukraine, Georgia, Armenia, and the Kyrgyz Republic) have been drawn in order to contrast the performance of privatized establishments with that of state enterprises, particularly in the outcome of the privatization process on employment. The principal differences between the privatization experience in the FSU countries and that of enterprise restructuring in China are the strong macroeconomic growth that coincided with enterprise restructuring and the more proactive role of public policy to re-deploy redundant workers from state enterprises. These two factors are closely related. Overall growth creates alternative jobs and reduces social disruption stemming from downsizing state enterprises. Growth also improves revenue collection, thus relaxing budget constraints on governments' ability to implement new measures to promote new businesses and job growth.

Enterprise restructuring in the countries of the former Soviet Union has been driven by two imperatives: One, decrease state decision-making (on what is produced, by how many workers and to whom it is delivered) in favour of enterprise-based decision making. Two, decrease state budget deficits by removing loss-making enterprises from government responsibility and gain revenues by selling enterprises to private investors. The latter has been countered by the desire to transfer what were in essence public-owned production facilities back to a wide spectrum of the population rather than sell them to the few persons with sufficient assets to be able to buy them--hence the popularity of voucher-based transfer mechanisms, especially for small and medium-sized enterprises.

This stage of the privatization process is largely accomplished. Policy priorities are now turning to issues beyond those of establishment ownership and governance. *The principal policy challenge at this juncture is to improve the environment within which entrepreneurship*

and market forces can lead to better social consequences. Market-enhancing institutions and policies in the areas of credit and investment, small business promotion, social services and labour market functions are now the preeminent concerns.

In China, the policy priority has been the "commercialization" of industry, meaning improving efficiency and competitiveness of the economy by submitting enterprises to more binding budget constraints (reducing state subsidies), allowing them more discretion in setting output and employment levels, and relating directors' remuneration to enterprise performance. In 1997, top officials in China announced renewed determination to increase market pressures on state enterprises and acknowledged that massive worker displacement will follow. Although China has taken a much more proactive stance towards redeploying workers displaced from state enterprises and towards providing income support, the particular challenge will be to expand programmes throughout the country and to extend performance requirements to more of the state enterprises and to their labour surplus enterprises.

10.2.1 FSU Countries

Analysis of the findings from the surveys conducted in Armenia, Georgia, the Kyrgyz Republic, Russia and Ukraine points to three principal labour market policies that are needed:

- (i) Anti-poverty measures, for workers displaced from enterprises and for workers whose earnings are below the poverty level;
- (ii) Improved labour market institutions; and
- (iii) Job creation efforts, including macroeconomic policies to spur growth.

(i) *Anti-poverty measures*

The evidence on labour surplus and lack of substantial job creation underscores the need to improve *unemployment benefits to displaced workers*, including job search assistance, retraining, and temporary income maintenance. New social safety net measures need to protect both the traditionally disadvantaged and the casualties of restructuring, privatisation, and recession.

The trap of needing tax revenue to fund such services while reducing budget deficits has certainly delayed the process. The World Bank, in a report on the Kyrgyz Republic but which is widely applicable throughout the region, acknowledged that "the sustainability and the pace of reform will depend on how effectively the Government can establish a social safety net, including unemployment compensation, and benefits targeted at the truly needy" (World Bank, 1994).

- *Increasing the amount and coverage of unemployment benefits should be a high priority. This is important first of all as a means to decrease the costs borne by individual families for changes that, eventually, are to benefit the entire economy. But it is also needed to improve labour mobility and enterprises' eventual ability to create new jobs.*
- *Benefits must be indexed to inflation and the capacity of the public employment services to distribute benefits to all eligible workers, especially in rural areas, must be improved.*

The growing poverty of employed workers requires a new approach to *wage policy*, concerning both rates of pay and penalties for non-payment. Real wages must be allowed to rise in order for effective demand to increase and create markets for consumption goods and

services that were formerly provided by employers. Policies targeting employers with wage arrears will be effective in some cases, and their implementation is important for signalling support for workers in dire conditions. However, "sticks" may not be sufficient policy instruments since many employers reporting wage arrears are themselves owed payment for goods delivered, especially by their own governments. Governments must set a higher standard for paying inter-enterprise debt by themselves discharging debts owed to now-private enterprises supplying them with goods and services.

Ukraine: Policies must focus on those in concealed unemployment as well as open unemployment because the poverty effects are similar. (Standing and Zsoldos, 1995)

Wages must also be allowed to adjust to increase incentives for workers to invest in their own skill development. Income equality objectives should not be discarded, but they must be pursued in ways that do not decrease incentives for productivity and training. In the market economies ahead, unskilled workers are likely to see their standard of living fall precipitously relative to those with better and more modern skills. Rather than maintain wage differentials across occupations at artificially low levels, policy emphasis should be on upgrading workers' skills.

- *The minimum wage must be brought up to non-poverty living standard levels. This is important for setting realistic wage rates for unskilled workers and for creating a meaningful benchmark for unemployment insurance benefits. By allowing the minimum wage to sink below subsistence levels governments have lost an important policy tool for combatting poverty throughout the economy.*
- *To confront growing poverty among the employed population, a "less flexible" wage policy is needed. Demands that enterprises pay current and back wages must be enforced with severe penalties on those that do not. Effective collective bargaining will be required, along with clearer laws and stiffer penalties, to reduce nonpayment of wages. This is the most immediate measure needed to provide minimal levels of protection for workers.*
- *The feasibility and effectiveness of a revolving credit scheme could be investigated for helping enterprises meet their payroll when they are "selling" their products but not receiving cash payments. The possibility of acquiring low-interest short-term operating capital when urgently needed because of lack of liquidity throughout the economy (e.g. buyers unable to pay for merchandise received because they in turn are owed by their own customers) would help relieve the burden that workers are paying now for mounting inter-enterprise debts. Rather than allow enterprises to accrue wage arrears, or go into bankruptcy, access to a revolving credit scheme would help protect otherwise viable manufacturers from the multiplier effect of inter-enterprise debts. This "carrot" policy would have to be narrowly targeted to avoid abuse by non-viable enterprises.*

Enterprises have been encouraged to bring the services they offer to employees more in line with what they can afford. The priority now is to replace comprehensive, employer-based systems of income and job security with social support structures compatible with a market economy. What is needed is not more policy incentives for enterprises to cut social services, but their replacement at the public level.

Enacting such a policy requires a change in emphasis of fiscal policy, and coordination with labour market policy, covering both tax revenue collection methods and expenditure

priorities. Loss of inter-Union transfers following the dissolution of the Soviet Union and the decline in domestic tax collection due to recession have resulted in drastic cuts in government expenditures. New government initiatives to confront emerging poverty were originally thought unnecessary because market liberalization and privatization would, after a temporary "shock", lead to faster growth. The pain, in unemployment and income insecurity, could be borne for the duration. The duration has spanned more than half a decade and, moreover, the micro-level data provided by the enterprise surveys revealed more cause for concern than optimism for immediate employment prospects in the manufacturing sector.

Social protection has been placed in jeopardy by the way in which restructuring has taken place. And the absence of alternative "public" social services to replace what was in essence enterprise-based public distribution has contributed to the erosion of much of the social-economic equality that it helped protect. Displaced workers have lost more than their immediate livelihood, but also guaranteed employment-based health care, child care, holiday facilities, and even service housing.

- *A social consensus is needed as to what services should be purchased by individuals as consumers from private businesses and what basic services should be made available to all, especially the vulnerable and unemployed. This should be a social consensus and not a decision driven only by immediate exigencies to decrease government spending or for privatized establishments to shed unprofitable service units.*
- *The institutions for sound fiscal policy must be strengthened in order for public agencies to finance and manage delivery of public services. In particular, revenue collection systems must be implemented to make up for the large share of budgets that had been provided through inter union transfers.*

(ii) ***Improve labour market institutions***

Removing some of the social burden from enterprises is also needed to improve labour mobility and thus contribute to enterprises' viability. Both managers and production workers may consider arrangements to "share unemployment" by rotation as more equitable than large retrenchments as it allows more of the workers to maintain access to some medical benefits and to add work months to their pension eligibility. However, targeted assistance programmes, in particular unemployment assistance and provision of basic social services regardless of employment status, would be a more effective strategy to mitigate the poverty effects of continuing restructuring and to speed enterprise adjustment.

The prospects for enterprise growth would be improved by releasing employers of their social obligations to more workers than they can employ productively. If enterprises are to recover and be able to create new jobs, they must be able to redeploy what funds they can accumulate into investment. Their success, in turn, will lead to fewer workers requiring public assistance. It will also enable enterprises, many of which are now largely employee-owned, to deliver a realistic set of benefits and services to workers.

- *Labour market flexibility on the part of workers, for example moving into open unemployment from "hidden" unemployment, requires separating employment benefits from the larger sphere of social services.*
- *Replacement of enterprises as providers of basic social services requires better taxation policy (lower nominal rates, higher collection rates, effective penalties).*
- *Enterprises will be more likely to give up providing social services to their employees and communities when tax revenue returns to their communities for utilities and*

transportation infrastructure, clinics and schools and when local government agencies have the capacity to manage them effectively and fairly.

The Public Employment Services will increasingly be called upon to *monitor labour market developments*. The establishment surveys yield essential information about the demand side of the labour market. And although they are sufficiently comprehensive to allow us to conclude that displaced workers were not finding replacement jobs in manufacturing, it does not tell us whether displaced workers exited the labour market, continued looking for work, or found re-employment in the service sector, petty trade or other "informal" sectors. Without this type of information, establishment surveys alone cannot document the growth of poverty resulting from job displacement.

In practice, the official unemployment rates measure the portion of the urban unemployed who have registered for unemployment benefits, which is far from an accurate count of persons available and willing to work but unable to find remunerative work. Thus they cannot be used as a base against which to measure employment changes because they do not capture the surplus labour (unemployed "hidden" within the enterprise) nor the majority of displaced workers. Higher unemployment figures in the future could be the result of improved data collection or improved benefit distribution, rather than a measure of change in employment and unemployment rates. The use of extended leave and reduced work schedules may be justified by employers as the best they can do to meet their responsibilities to their workers. But these workers are absorbing the brunt of the transition shock without even being counted as displaced and without being eligible for unemployment benefits.

Russia: Hidden unemployment is massive. Paying attention only to estimates of open unemployment leads to a false analysis of the situation and to apathetic laissez-faire attitude towards joblessness. (Standing, 1996)

The Public Employment Services are beginning to take on the role of a job information exchange. This is an abrupt change for institutions familiar with directing rather than facilitating labour mobility. By collecting vacancy postings from employers and applications for work from unemployed and underemployed workers, public employment services help workers and employers find each other. According to the survey evidence, such employment services are not available or are used by relatively few establishments.

Finally, the public employment services have also been tasked with the challenge of improving workers' access to training in order to improve their reemployment prospects. The surveys indicated that low-skilled workers were the most likely to lose their jobs and least likely to be re-employed. Difficulties in training their workers and retaining well-trained employees was identified as the main employment difficulty by more managers than was any other aspect of employment problems. Attracting investment in the long-term will require upgrading the skills of the least trained and re-training others in new machinery and technology.

- *Labour or household surveys are needed to track displaced workers and should be taken more into account, along with PES registration, in estimating unemployment rates and family poverty. Policy-makers tasked with devising social safety nets need such data in order to form realistic estimates of the costs of providing sufficient unemployment benefits to those in need, to plan training programmes and to formulate programmes targeting young and older workers.*

- *As the economies begin to recover, efforts to improve the role of public employment services as a job information exchange could benefit both job-seekers and employers by reducing search time and duration of unemployment.*
- *In all aspects of the work of the PES - distributing benefits, tracking labour markets, providing training - direct measures should be taken to resist erosion of women's status and opportunities in the labour market.*

(iii) *Job creation*

Resource constraints are undoubtedly very tight in these countries, and policy wish lists are easy to create. But re-deployment of displaced unemployed and redundant employed workers will not accelerate without good policies and commitment of adequate funds to implement them. The survey evidence showed unabated rate of job loss among manufacturers, as well as sizeable shares of the workforce considered "surplus" by their employers, beyond the number needed to produce current or expected output, who should be counted as the underemployed or hidden unemployed. Viewing policy interventions as unaffordable luxuries stems in part from ignoring the costs of the current strategy: Workers bear the burden in terms of unemployment and unpaid work.

At this juncture, the priority of public policy must be to leverage the economy out of depression by increasing effective demand and promoting job-creating private domestic and international investment. The principal constraint on job creation and improving work conditions for employees is the recovery and growth of the national and regional economies. The following areas of macroeconomic policy to stimulate growth could be particularly effective in helping enterprises:

- *Manufacturers may not be able to take advantage of the potential of further trade liberalization until market failures in the credit and financial sectors are resolved.*
- *Policies to open new markets and help establishments improve technology or receive injections of foreign capital will need to target specific industries. In some cases, the objective must be to help establishments develop new products because previous production was sustainable only because of subsidized procurement of foreign-sourced materials. In the smaller Republics especially, successful adjustment in the agricultural sector is crucial to prospects in manufacturing.*
- *Transparency, consistency and fairness of tax policies are as important to business managers as tax rates. Uncertainty in tax liability reduces managers' willingness to commit resources to endeavours which if fruitful will be taxed at unknown rates. Reducing nominal tax rates while increasing efforts to collect taxes would probably increase state revenues by decreasing incentives to cheat. Although "flat" tax rates appear to be "fair" they are actually regressive, i.e. more burdensome to small, startup establishments, and should be replaced with graduated tax rates.*

While efforts have succeeded in bringing inflation under control, through controlled monetary policy and reduced government expenditures, tax policy has not yet succeeded in balancing state revenue needs with incentives to start and maintain small businesses. As the large state enterprises permanently reduce the size of their operations, policies are needed to promote development of small and medium-sized manufacturers. The prospects for new, small businesses to acquire startup capital, in economies where such enterprises in the manufacturing sector were previously unknown, are remote. Development of new credit institutions

conducive to entrepreneurship and small business growth will be key determinants. Such institutions as rotating credit funds, small-business cooperatives and government subsidized small business loans are all beginning in these transition economies. Because over capacity was seen as a common problem, enterprises must be able to invest in new equipment in order to downsize plants to economically efficient scale, appropriate to new smaller markets.

- *Development of new credit institutions conducive to entrepreneurship and small business growth will be a key determinant of the success of programmes to promote small and medium-sized businesses. Examples of such institutions that merit consideration include rotating credit funds, small-business cooperatives, and government-subsidized small business loans.*
- *Self-employment promotion and small-business management training should target women. The same forces that have increased their vulnerability in the labour market may place them at disadvantage in competing for scarce startup-business credit.*
- *Management training programmes could yield great benefits by preparing managers of medium-sized companies to attract foreign partners, as investors or customers, and to access credit. Because disrupted supply and market networks were consistently ranked as the most serious business problem, management training should particularly emphasize market information and development.*

Public investment in transportation and other infrastructure would both create jobs in the near term and leverage private and foreign investment for future job growth. Public investment in providing basic social services would also create employment opportunities. Public works schemes have a pejorative reputation in the FSU countries. The idea carries a connotation of demoralizing and unproductive "make work". It also has a connotation of grandiose projects, some of which provided great assistance to agriculture or transportation but others turned into environmental disasters. However, the needs are great to restore or modernize transportation infrastructure in order to improve productivity in manufacturing and industry, and a new understanding of appropriate public investment must be encouraged.

- *Use of foreign investment or aid in infrastructure development, accompanied by scrutiny against corruption and for maximum job creation, could create near-term employment opportunities and improve the productivity and eventual job creation capability of manufacturers.*
- *Infrastructure projects could also serve the important objective of bringing economic opportunities to remote regions where economic distress is greatest, by improving transportation to national and regional commercial centres.*

10.2.2 China

The Chinese strategy has emphasized releasing the constraints of centralized planning on enterprises gradually, rather than by shock, and increasingly subjecting them to market forces. One principal means of this has been through encouraging competition in the form of foreign investment, village/township enterprises and joint-stock companies. Innovative enterprise structures can be effective in improving productivity and creating jobs, within an overall framework of gradual release from centralized planning. This is one lesson drawn from the survey findings from China.

Second, the China experience shows the effect of "commercialization" separately from adjustment to overall economic dislocation, as has been the case in the FSU countries.

Enterprises had a better chance of benefiting from the paradigm shift away from centralized decision making because of the healthy GDP growth rate. Enterprises could view the external economy as a source of potential growth of demand, rather than as one more constraint or business difficulty.

One of the clearest differences between the findings from the China survey and those from the FSU countries is that enterprises that were less controlled by centralized governments demonstrated better performance. This finding was not limited to the categories of private ownership and joint ventures with foreign investors, but more importantly was also documented for the village and township enterprises in terms of capacity utilization, employment, and profits. By contrast, the state enterprises and the labour surplus enterprises established to absorb their surplus workers reported continuing labour surplus and heavy social burdens.

The Chinese strategy has been to couple incentives for enterprise reform with providing resources to enable managers to undertake change and encourage workers to be more flexible. Chinese enterprises undertook massive restructuring with more extensive government support for dealing with the problem of labour surplus, including more effective job exchange services from the public employment service, more adequate income support for dislocated workers, and, especially, establishing labour surplus enterprises to simultaneously absorb workers and relieve state enterprises from the burden of carrying too many workers. This type of enterprise has been criticized as unproductive, make-work. And the survey findings did point to the need and desirability to increase productivity requirements, technology and training to improve their performance. However, in contrast to the *laissez-faire* policy in the FSU states, or allowing workers to go unpaid as part of the hidden unemployed, the policy seems both more equitable and effective.

The country report made several recommendations about how to improve both the effectiveness and coverage of China's restructuring policies (Lim, Sziraczki, and Zhang, 1996). The recommendations emphasized extending the autonomy and accountability that had been granted to the joint ventures and village/township enterprises to the enterprises remaining in the state sector. While withdrawing subsidies from state enterprises, state support to underwrite investment credits and decrease social security requirements for village/township enterprises would enhance their job-creating capacity. The report also acknowledged that demands on the public employment service would increase as it played an active role in redeploying redundant workers and improving mobility between low-growth rural and the high-growth urban centres. The report also called for measures to nurture smaller, independent establishments as a potential source of future job creation and to decrease the heavy burden borne by enterprises to provide a wide range of social services to both productive and surplus labour. The most pressing challenge for China may be the magnitude of increasing job displacement ahead. The question for Chinese policy is whether resources commensurate to the need can be devoted to business investment and to worker redeployment programmes and unemployment insurance.

10.3 Conclusion

Enterprise restructuring is not completed with the tasks of retrenchment and reducing surplus labour. Efforts to reduce labour surplus at the level of the enterprise must be matched by national efforts to redeploy retrenched workers, including providing adequate social services and unemployment benefits, resources and incentives for retraining, and the

institutional framework to support the creation and growth of small firms. The fact that enterprises retain more workers than they can use productively, make limited recourse to national employment service agencies, and continue to provide expensive social services but to shrinking beneficiaries all underscore the need for public policies to aid restructuring.

Questions about the "affordability" of such measures to leverage economies out of recession must be matched with questions about the affordability of the alternative: stymied growth, increasing poverty and growing inequality, and social unrest. The goal of balanced government budgets must be pursued through efforts to restore economic growth and job creation. It is very difficult in the FSU countries to separate failures due to privatization methods from those caused by general economic crises. In essence, privatization has not been given a fair chance to succeed. The immediate results documented by the surveys are not surprising: employment in manufacturing continues to fall, and the livelihoods of many of the employed workers are also at risk due to the extensive use of various forms of leave time, cuts in social services, and low or unpaid wages.

One purpose of this report, and indeed of conducting the enterprise surveys, was to assess the impact of changes in ownership structure, or property form, on employment. The obvious answer is that no ownership restructuring alone would create sufficient conditions for surmounting the constraints imposed by disruption in input and output markets and the incomplete development of macroeconomic policy conducive to business growth. The business problems identified by business directors or managers through the establishment surveys indicate that the most urgently needed public policies are trade promotion to help rebuild market and supply networks, new credit institutions targeting small and medium-sized businesses, and improving skills training for workers.

Data Appendix

Appendix Table 1. Distribution of establishments by size class (per cent)

Size class	Country					
	Armenia	Georgia	Kyrgyzstan	Russia	Ukraine	China
10-99	49.2	65.7	32.8	30.1	9.4	13.2
100-249	16.2	16.1	31	20.3	21.6	13.9
250-499	17.7	10.1	17.7	23.3	23.1	9.8
500-999	9.6	5.6	11.6	14	21	17.3
1000+	7.2	2.4	6.9	12.3	24.9	45.8
Sum	99.9	99.9	100	100	100	100
N	333	286	232	472	566	295

Appendix Table 2. Distribution of employment by size class in (per cent)

Size class	Country					
	Armenia	Georgia	Kyrgyzstan	Russia	Ukraine	China
10-99	6.1	12.4	4.9	2.3	0.5	0.4
100-249	9.0	12.2	12.7	5.9	3.8	1.5
250-499	20.5	18.0	16.7	13.0	8.7	2.2
500-999	22.8	19.1	20.6	16.4	15.4	8.4
1000+	41.6	38.3	45.2	62.4	71.6	87.5
Sum	100.0	100.0	100.1	100.0	100.0	100.0
N	98029	56366	89772	289671	538679	467578

Appendix Table 3. Distribution of establishments by industry categories

Industry	Country					
	Armenia	Georgia	Kyrgyzstan	Russia	Ukraine	China
Food, beverages and tobacco	15.6%	40.2%	31.5%	15.9%	21.6%	5.8%
Textiles and apparel	24.0%	10.8%	22.8%	19.7%	14.7%	13.9%
Chemicals	6.9%	12.6%	3.0%	7.2%	7.6%	13.2%
Metallurgy	1.8%	0.3%	0.9%	2.8%	3.7%	6.4%
Construction materials	9.6%	0.0%	13.8%	9.3%	10.1%	1.4%
Engineering	24.9%	10.1%	16.4%	32.2%	30.7%	39.0%
Wood and paper	11.7%	15.7%	8.6%	12.9%	6.9%	3.1%
Other	5.4%	10.1%	3.0%	0.0%	4.8%	17.3%
Sum	99.90%	99.80%	100.00%	100.00%	100.10%	100.10%
N	333	286	232	472	566	295

Appendix Table 4. Distribution of employment by industry categories

Industry	Country					
	Armenia	Georgia	Kyrgyzstan	Russia	Ukraine	China
Food, beverages and tobacco	9.5%	17.1%	29.1%	10.0%	10.0%	4.1%
Textiles and apparel	26.1%	18.4%	30.4%	20.1%	12.2%	11.4%
Chemicals	12.6%	21.3%	1.1%	13.0%	8.1%	13.1%
Metallurgy	4.1%	12.3%	1.4%	3.1%	11.9%	8.0%
Construction materials	3.6%	0.0%	9.6%	4.2%	5.3%	0.8%
Engineering	36.4%	9.3%	22.3%	45.1%	40.5%	47.4%
Wood and paper	3.2%	5.1%	3.5%	4.5%	4.2%	1.0%
Other	4.5%	16.5%	2.7%	0.0%	7.8%	14.2%
Sum	100.00%	100.00%	100.10%	100.10%	100.00%	100.00%
N	98029	56366	89772	289671	538679	467578

Appendix table 5. Regression results: Establishment employment change (in per cent)
(absolute values of t-statistics in brackets)

Independent variables	Armenia		Georgia		Kyrgyzstan	
	(1)	(2)	(1)	(2)	(1)	(2)
Constant	5.82 (1.69)*	8.53 (1.39)	2.54 (.58)	6.33 (1.20)	-9.16 (2.69)***	-5.47 (1.44)
REGOLS	.86 (.37)	3.28 (.81)	-3.43 (.93)	-4.06 (.84)	-3.96 (1.63)	-3.68 (1.46)
Textile	-5.70 (1.54)	-12.55 (2.15)**	-1.45 (.26)	-2.67 (.35)	-4.82 (1.53)	-5.56 (1.66)*
Heavy	-7.82 (2.21)**	-13.75 (2.53)**	-2.58 (.61)	-7.40 (1.30)	-2.30 (.66)	-2.69 (.75)
Other Industry	-3.40 (.96)	-5.97 (1.12)	1.38 (.33)	-2.32 (.42)	4.19 (1.41)	4.46 (1.43)
Medium Size	-15.21 (5.77)***	-18.25 (3.74)***	-10.61 (2.86)***	-12.81 (2.60)**	-4.06 (1.51)	-7.03 (2.39)**
Large Size	-12.46 (3.76)***	-15.11 (2.44)**	-12.19 (2.12)**	-9.20 (1.23)	-2.88 (.82)	-5.40 (1.44)
PEXPORT	.11 (2.06)**	.19 (1.67)*	.08 (.98)	-.01 (.06)	-.04 (.66)	.00 (.02)
PUNQUAL	-.08 (.94)	-.02 (.13)	.08 (.82)	.10 (.77)	.03 (.44)	.04 (.60)
MGREST	5.65 (2.19)**	7.56 (1.45)	-5.74 (1.59)	-10.81 (2.14)**	1.25 (.51)	2.61 (1.01)
PRIVATE	-3.08 (1.21)	x	-1.51 (.35)	x	1.27 (.51)	x
PRIVGE2Y	x	-2.94 (.52)	x	4.26 (.82)	x	-.58 (.22)
n	315	155	262	178	224	174
F-value	5.68	3.59	2.16	2.24	1.80	2.09
Sig. F	.00	.00	.02	.02	.06	.03
Adjusted R2	.13	.14	.04	.06	.03	.06

Notes: * Significant at .10 level; ** Significant at .05 level; *** Significant at .01 level.

Dependent variable: per cent employment change from 1994 to 1995 (1995 to 1996 for Georgia).

REGOLS: binary variable, central urban region = 1.

Textile: binary variable, textile and apparel industry = 1; Heavy industry: binary variable, chemical, metallurgy and engineering = 1; Other industry: binary, wood and paper, construction and other industries = 1; Food processing is omitted category.

Medium size: binary variable, 100 to 499 workers in 1994 (1995 for Georgia) = 1; Large: binary variable, more than 500 workers in 1994 (1995 for Georgia) = 1; Enterprises with fewer than 100 workers is omitted category.

PEXPORT: per cent of sales from exports.

PUNQUAL: per cent of workers in unqualified (unskilled) occupations.

MGREST: binary variable, manager selected by employees or enterprise board rather than government agency = 1.

PRIVATE: binary variable, privatized = 1.

PRIVGE2Y: binary variable, privatized for at least 2 years = 1.

Appendix Table 5. continued

Independent variables	Russia		Ukraine	
	(1)	(2)	(1)	(2)
Constant	19.59 (2.14)**	18.84 (1.76)*	5.55 (1.93)*	3.92 (1.17)
REGOLS	-1.47 (.26)	-.36 (.05)	1.64 (.71)	1.44 (.51)
Textile	-13.33 (1.74)*	-13.68 (1.49)	-14.82 (6.78)***	-14.34 (5.07)***
Heavy	-9.42 (1.44)	-6.86 (.86)	-9.47 (5.37)***	-7.04 (3.10)***
Other Industry	-12.39 (1.72)	-13.56 (1.57)	-6.11 (3.17)***	-4.92 (2.01)**
Medium Size	-22.74 (4.01)***	-24.04 (3.47)***	-4.51 (1.91)*	-4.87 (1.76)*
Large Size	-25.78 (4.15)***	-26.95 (3.63)***	-5.38 (2.24)**	-5.36 (1.93)*
PEXPORT	.41 (2.61)***	.42 (2.32)**	-.01 (.22)	.00 (.09)
PUNQUAL	.08 (.45)	.06 (.27)	-.08 (1.42)	-.08 (1.18)
MGREST	-11.87 (1.82)*	-9.74 (1.25)	-1.68 (1.14)	-1.44 (.69)
PRIVATE	12.92 (1.77)*	x	1.37 (.92)	x
PRIVGE2Y	x	12.63 (1.54)	x	1.80 (.84)
n	444	347	472	299
F-value	3.80	2.83	6.43	3.84
Sig. F	.00	.00	.00	.00
Adjusted R2	.06	.05	.10	.08

Appendix Table 6. Regression results: Surplus labour (per cent of establishment workforce)
(absolute values of t-statistics in brackets)

Independent variables	Armenia		Georgia		Kyrgyzstan	
	(1)	(2)	(1)	(2)	(1)	(2)
Constant	10.94 (2.87)***	10.69 (2.23)**	5.19 (1.51)	6.97 (1.70)*	12.93 (3.84)***	11.25 (2.80)***
REGOLS	-2.20 (.82)	-2.86 (.88)	4.99 (1.74)*	5.30 (1.41)	-6.06 (2.58)**	-6.42 (2.40)**
Textile	1.55 (.37)	5.82 (1.25)	4.23 (.98)	5.29 (.92)	-4.98 (1.65)	-4.78 (1.36)
Heavy	3.15 (.80)	11.83 (2.78)***	.14 (.04)	-.94 (.22)	.21 (.06)	.74 (.20)
Other Industry	-4.53 (1.14)	-2.79 (.67)	-.71 (.22)	-.68 (.16)	-6.22 (2.22)**	-5.75 (1.76)*
Medium Size	5.35 (1.79)*	.65 (.17)	3.47 (1.19)	1.70 (.44)	1.97 (.76)	3.14 (1.02)
Large Size	11.13 (2.95)***	3.83 (.79)	12.62 (2.83)	6.34 (1.12)	1.57 (.46)	1.66 (.41)
PEXPORT	.03 (.56)	-.13 (1.39)	-.12 (1.88)*	-.09 (1.11)	-.01 (.26)	-.02 (.24)
PUNQUAL	.01 (.08)	.16 (1.18)	-.05 (.69)	-.09 (.77)	-.05 (.86)	-.04 (.58)
MGREST	-3.22 (1.11)	-5.65 (1.38)	8.28 (3.02)***	8.47 (2.18)**	.49 (.21)	1.04 (.39)
PRIVATE	7.57 (2.61)***	x	2.37 (.70)	x	.79 (.33)	x
PRIVGE2Y	x	-10.48 (2.20)**	x	2.14 (.54)	x	1.45 (.53)
n	294	142	265	169	211	167
F-value	3.53	2.99	3.41	1.75	1.64	1.36
Sig. F	.00	.00	.00	.07	.10	.21
Adjusted R2	.08	.12	.08	.04	.03	.02

Notes: * Significant at .10 level; ** Significant at .05 level; *** Significant at .01 level.

Dependent variable: per cent of workforce perceived to be surplus by enterprise management.

REGOLS: binary variable, central urban region = 1.

Textile: binary variable, textile and apparel industry = 1; Heavy industry: binary variable, chemical, metallurgy and engineering = 1; Other industry: binary variable, wood and paper, construction and other industries = 1; Food processing is omitted category.

Medium size: binary variable, 100 to 499 workers in 1994 (1995 for Georgia) = 1;

Large: binary variable, more than 500 workers in 1994 (1995 for Georgia) = 1; Enterprises with fewer than 100 workers is omitted category.

PEXPORT: per cent of sales from exports.

PUNQUAL: per cent of workers in unqualified (unskilled) occupations.

MGREST: binary variable, manager selected by employees or enterprise board rather than government agency = 1.

PRIVATE: binary variable, privatized = 1.

PRIVGE2Y: binary variable, privatized for at least 2 years = 1.

Appendix Table 6. continued

Independent variables	Russia		Ukraine	
	(1)	(2)	(1)	(2)
Constant	.84 (.19)	3.10 (.65)	-.16 (.04)	2.07 (.49)
REGOLS	-1.98 (.70)	-.24 (.08)	5.25 (1.74)*	3.72 (1.06)
Textile	13.42 (3.52)***	12.19 (2.97)***	6.58 (2.24)**	2.35 (.65)
Heavy	7.54 (2.32)**	4.97 (1.39)	2.86 (1.19)	.43 (.15)
Other Industry	8.24 (2.30)**	6.37 (1.65)*	.37 (.14)	-1.24 (.39)
Medium Size	1.60 (.57)	1.78 (.57)	3.80 (1.21)	3.00 (.86)
Large Size	5.33 (1.72)*	3.01 (.91)	5.77 (1.81)*	4.39 (1.26)
PEXPORT	-.05 (.65)	-.05 (.61)	-.06 (1.19)	-.06 (1.01)
PUNQUAL	.06 (.64)	.04 (.35)	.19 (2.19)**	.23 (2.41)**
MGREST	4.05 (1.25)	2.93 (.84)	.27 (.14)	.99 (.37)
PRIVATE	-2.39 (.66)	x	1.82 (.91)	x
PRIVGE2Y	x	-1.87 (.51)	x	1.69 (.61)
n	444	347	441	276
F-value	2.01	1.21	1.92	1.15
Sig. F	.03	.28	.04	.32
Adjusted R2	.02	.01	.02	.01

Appendix Table 7. Regression results: Employment change, Labour surplus-All countries

Independent variables	Dependent variables			
	Per cent employment change		Per cent of workforce deemed surplus	
	(1)	(2)	(1)	(2)
Constant	12.19 (1.29)	14.36 (3.89)***	3.78 (1.80)*	7.30 (2.97)***
REGOLS	-8.64 (1.52)	-2.89 (1.29)	-.37 (.29)	.83 (.55)
Armenia	9.24 (1.25)	-4.50 (1.33)	7.84 (4.67)***	1.05 (.46)
Georgia	-9.59 (1.21)	-8.16 (2.68)***	9.88 (5.67)***	8.52 (4.26)***
Kyrgyzstan	-5.96 (.71)	-10.41 (3.35)***	-1.14 (.60)	-1.76 (.85)
Ukraine	-1.25 (.19)	-3.43 (1.30)	-2.35 (1.57)	-2.34 (1.32)
Textile Industry	-8.75 (1.14)	-9.40 (3.12)***	4.03 (2.32)**	3.96 (1.96)**
Heavy Industry	1.53 (.23)	-5.61 (2.13)**	2.03 (1.35)	1.05 (.60)
Other Industry	-3.49 (.51)	-4.12 (1.53)	-.41 (.26)	-.60 (.33)
Medium Size	-20.37 (3.46)***	-15.87 (6.90)***	3.41 (2.57)**	2.09 (1.36)
Large Size	-22.24 (3.27)***	-16.61 (6.29)***	6.35 (4.12)***	3.23 (1.84)*
PEXPORT	.05 (.36)	.12 (2.29)**	-.04 (1.35)	-.07 (1.88)*
PUNQUAL	-.11 (.64)	.01 (.19)	.05 (1.38)	.07 (1.52)
MGREST	1.29 (.24)	-3.54 (1.56)	1.55 (1.25)	1.68 (1.10)
PRIVATE	4.85 (.82)	x	2.00 (1.48)	x
PRIVGE2Y	x	3.01 (1.23)	x	-.78 (.47)
n	1717	1153	1670	1110
F-value	1.94	6.08	6.70	3.03
Sig. F.	.02	.00	.00	.00
Adjusted R2	.01	.06	.05	.02

Note: * Significant at .10 level; ** Significant at .05 level, *** Significant at .01 level.

Dependent variables: Per cent employment change from 1994 to 1995 (1995 to 1996 for Georgia).

Per cent of workforce perceived to be surplus by enterprise managers.

Countries: binary variables for each country; Russia is omitted category.

REGOLS: binary variable, central urban region = 1.

Textile: binary variable, textile and apparel industry = 1; Heavy industry: binary variable, chemical, metallurgy and engineering = 1; Other industry: binary variable, wood and paper, construction and other industries = 1; Food processing is omitted category.

Medium size: binary variable, 100 to 499 workers in 1994 (1995 for Georgia) = 1; Large: binary variable, more than 500 workers in 1994 (1995 for Georgia) = 1; Enterprises with fewer than 100 workers is omitted category.

PEXPORT: per cent of sales from exports.

PUNQUAL: per cent of workers in unqualified (unskilled) occupations.

MGREST: binary variable, manager selected by employees or enterprise board rather than government agency = 1.

PRIVATE: binary variable, privatized = 1.

PRIVGE2Y: binary variable, privatized for at least 2 years = 1.

Appendix Table 8. Occupations expected to increase, by property form

Occupation	Reported by share of establishments (in per cent)									
	Armenia		Georgia		Kyrgyz Republic		Russia		Ukraine	
	State	Private	State	Private	State	Private	State	Private	State	Private
Management	2.2	2.1	0	0.5	0	0.7	0	1.0	7.7	6.6
Professional	5.8	11.3	0	1.8	0	1.3	0	4.4	5.0	6.0
Skilled	14.0	17.3	15.5	18.9	7.0	8.6	13.8	15.3	0.6	0.4
Unskilled	0	0.5	0	0	0	0	0	0	18.3	14.1
Other	0	0.5	1.7	0	0	0	0	0.3	6.1	7.8
n	30	59	10	47	5	16	9	81	-	-

Notes: For Ukraine, establishments were asked whether each occupational group would be decreased, increased or unchanged, whereas for other countries, only one main group was selected as the principal occupation to be increased or decreased.

No relevant data for China.

Appendix Table 9. Vacancies, hires and exits, percentage of current employment

Country	Ownership Type	Vacancies as % of total current employment	Hires as % of total employment	Exits as % of total employment
Armenia	All	0.80	4.53	11.46
	State	1.25	6.85	11.08
	Private	0.64	3.62	11.64
Georgia	All	0.46	6.26	14.53
	State	1.80	4.56	8.35
	Private	0.05	6.56	16.30
Kyrgyzstan	All	1.09	2.97	27.51
	State	0.58	2.88	30.58
	Private	1.29	3.04	26.47
Russia	All	1.66	6.25	9.89
	State	1.40	8.32	10.23
	Private	1.69	6.05	9.88
Ukraine	All	2.51	0.44	11.20
	State	3.10	0.33	10.67
	Private	1.93	0.48	11.67
China	All	1.52	5.22	7.85
	State	1.35	4.85	7.86
	Private	2.59	6.58	9.32

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