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**Jobs, Growth and  
Social Justice**



**Report of the Director-General**

9th European Regional Meeting  
Oslo, April 2013

# **Jobs, growth and social justice**

**Report of the Director-General**

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## *Executive summary*

Since 2008, the European and Central Asian (ECA) region has been heavily affected by an economic and financial crisis that has had devastating consequences on the real economy and on the level and quality of employment. The latest figures for the European Union (EU) and several other countries in the region show record levels of unemployment, with young people being particularly affected.

There is growing concern that the pace and scope of the fiscal consolidation measures in both the crisis-hit countries and other European countries have fallen short of the intended policy objectives, put jobs recovery at risk and diverted attention away from much-needed reform of the financial system. Reductions in public spending due to fiscal austerity have frequently weakened social protection and the quality and availability of public services. Labour market reforms have eroded job security and weakened the social partners. Social dialogue has been a casualty, rather than a necessary resource for making the bargains needed to facilitate appropriate adjustments. This has fuelled both peaceful demonstrations and less peaceful outbreaks of disorder. Against a backdrop of growing income inequality and increasing numbers of working poor, these developments pose a threat to the European Social Model: to our vision of a humane, equal and fair society; to values of solidarity and social cohesion; and to the stability of our societies.

What policies and reforms can safeguard Europe's future in the global economy while preventing a reversal of the achievements of the European Social Model? The European Regional Meeting (ERM) brings actors in the real economy together in order to engage in social dialogue, grapple with these challenges and chart a course to set Europe back on track, on a path to restore confidence in the productive capacity of the social partners and unlock the potential of European economies to generate job-rich growth and better living standards for all.

The Report highlights the challenges in the region and the key areas and policies on which the tripartite partners need to reflect in order to effect the necessary changes and find a way out of the present malaise. It sets out some of the key elements of a balanced growth strategy for Europe, one to promote stable, sustainable and job-rich growth. At the core of this is the need to restore genuine social dialogue to both shape and fuel recovery. While these considerations can make a significant contribution to achieving the goal of decent work for all, they require the integration of economic, employment and social goals in order to achieve policy coherence and coordination at both national and international levels.



## ***Jobs for Europe***

Unemployment has increased in much of Europe and job creation remains the biggest challenge for improving living and working conditions. It is clear that recovery needs to be shaped in a way that delivers jobs. However, there is a risk that the policy measures that have been adopted in response to the economic downturn will thwart employment goals and may exacerbate poverty and inequality. The shift to austerity policies by many governments has weakened incipient job recovery while failing to arrest the deterioration in fiscal deficits or boost investment. There is a need for a change in direction, for supportive macroeconomic policies that match employment goals.

In short, the right balance needs to be found between a strategy for job-rich growth and achieving fiscal discipline. This will mean formulating realistic fiscal spending plans that both support job creation and meet fiscal goals in the medium term. This may include measures such as increasing the progressivity of taxation, extending refundable tax credits to low-income households and taking initiatives to improve the collection of revenue and broaden the tax base. Such a job-friendly consolidation approach will not only help to balance economic and social goals but can also contribute to income-based rather than debt-based household consumption and boost economic growth. Policies aimed at fiscal consolidation must therefore be sequenced with active labour market policies (ALMPs) and their composition changed to ensure ongoing support for job-centred measures and pro-employment programmes, particularly for youth.

Enterprises across the European region face sluggish demand and an uncertain economic outlook. For job-rich recovery to be a reality, efforts need to be taken to promote their sustainability and job-creation capacity. There is an urgent need to find ways to restore credit flows to small and medium-sized enterprises (SMEs) which account for a large proportion of total employment and are likely to be the main job generators. Governments and other actors also need to find ways to encourage enterprises with high levels of liquidity to invest in productive activities and create jobs.

Policies are also needed to support productivity, stimulate technological change – including the shift to green technologies – and encourage the accumulation of technical knowledge, skills and know-how. This is critical for the productive transformation of the economy and job-rich growth. Such policies need to: (i) increase productivity, competitiveness and employment in existing sectors; (ii) promote diversification into new higher value-added sectors; (iii) support eco-industries and green jobs; and (iv) develop the accumulated technical knowledge and skills of the workforce and the managerial and organizational practices of firms. Social dialogue, partnership and strategic collaboration between employers' and workers' organizations and the government are key for shaping the most effective policies and transformation processes.

## ***Improving the effectiveness of policy outcomes and stability of recovery through social dialogue***

While tripartite social dialogue played a significant role during the initial phase of the economic downturn, with many countries adopting tripartite responses to help mitigate the social impact, there appears to have been a retreat from social dialogue



when it came to fiscal consolidation and associated structural reforms. Some governments adopted unilateral measures and used legislative decrees to introduce fiscal consolidation packages and effect labour market reforms.

Engaging the actors in the real economy in social dialogue on economic and social policies is critical in the formulation and implementation of a job-rich growth strategy. It is the key to being able to bring about the bargains required in order to take *appropriate* macroeconomic adjustments rapidly and decisively. Social dialogue improves the design of policy measures, contributes to their effective implementation and improves the quality of the outcomes. It is a tool for forging – not forcing – consensus. As International Labour Organization (ILO) constituents know, it is a process of sharing information, bargaining, finding trade-offs and making compromises.

A lack of social dialogue can lead to costly delays in policy adjustments that may be needed to re-establish macroeconomic balance. It can also lead to the ineffective implementation of what may otherwise be sound policies. Given the depth of the adjustments required to exit the crisis, support by the social partners is key to ensure consistency, avoid costly delays in implementing measures as a result of social and political instability, and ensure the effectiveness of the outcomes (e.g., alerting policy-makers on emerging issues and keeping employment as a central focus of policy attention). Social dialogue provides the “collateral” of actors in the real economy if recovery is to be job-centred and to foster innovation and investment.

### ***Improving the quality of jobs***

An additional concern in Europe is the quality of the available jobs. Undeclared work and informal employment make up a significant share of total employment in the less developed regions. There has also been an increase in recent years in the proportion of atypical forms of employment and in the share of temporary and part-time workers that accept these working arrangements because they have no other choice. In general, these jobs tend to be of poorer quality, offer lower pay and afford workers less protection than regular full-time employment. Rather than provide a stepping stone to stable, better paid jobs, in some countries workers tend to remain in temporary work, although in others the transfer rate from temporary to permanent employment has improved. Reasons for persistent labour market segmentation in the former group of countries appear to lie in poor policy decisions, weaker employment protection legislation (EPL) for temporary workers and inadequate coverage of these workers by collective bargaining arrangements.

Recent labour market reforms have been in the direction of relaxing EPL for permanent contracts, decentralizing and deregulating collective agreements (in particular extension arrangements) and modifying representation arrangements for employers’ organizations and trade unions. In most instances, these were introduced with little or no social dialogue. There is clearly a need for balanced labour market reforms so that they both facilitate the adjustment of enterprises and ensure adequate workers’ protection. This includes measures to ensure the effectiveness of collective bargaining institutions. Such balance can only be achieved through tripartite social dialogue.

Tripartite action is also needed with a view to encouraging the transition from informal to formal and decent employment.



### ***Strengthening wage policies***

In respect of wages, two features stand out. First, wage formation in some countries has been biased toward wage moderation. In most of the developed countries in the region, real wage growth fluctuated within a relatively narrow range both before and during the crisis. Second, the relationship between real wages and labour productivity has been fairly weak in most countries in the region. This discrepancy is confirmed by the longer term decline in the wage share in gross domestic product (GDP).

A number of institutional factors explain the diversity in wage trends in the region. Countries with weak collective bargaining institutions experienced immediate and dramatic wage falls during the crisis, while countries with strong collective bargaining institutions experienced less severe decreases, even where wage cuts were traded for employment security. Similarly, countries with higher collective bargaining coverage experienced a stronger link between wages and productivity in years of economic growth. Regular and negotiated adjustments in the minimum wage have also contributed to improving wages, reducing disparities and limiting the number of low-wage workers.

Policy interventions by governments to reduce budget and fiscal deficits by including significant cuts or freezes in public sector wages in a number of countries have limited the potentially positive influence of collective bargaining, with negative impacts on the productivity of public sector employees and the quality of public services. There is clearly a need for balanced wage policies that restore the link between wages and productivity, requiring strong social partners and effective collective bargaining institutions.



### ***Promoting occupational safety and health***

The economic downturn had a negative impact on resources allocated to protection of occupational safety and health (OSH). Such cuts are a false economy, as occupational accidents and diseases have very high economic costs compared to “savings” made by cutting spending on OSH. There is, rather, a need to strengthen national labour inspection and ensure it is effective in order to achieve safe working conditions and address the increased risk of undeclared work.

### ***Getting youth back to work***

Young people have borne the brunt of the jobs crisis and there is a real risk of a lost generation. Of the three age cohorts (youth, prime age and older workers), unemployment among youth is the highest. It is over 20 per cent in two-thirds of the ECA countries, rising to over 50 per cent in countries such as Greece, Spain and The former Yugoslav Republic of Macedonia. Policies to address the youth employment crisis tend to focus on supply-side measures (e.g., skills development opportunities) while demand-side interventions to stimulate employment opportunities for young people are less frequent. There is a need for a comprehensive package of measures to get youth back to work including: activation measures targeting young people; youth guarantee schemes, subsidies and other incentives; appropriate and marketable training and skills development; promotion of youth entrepreneurship; and employment programmes such as employment-intensive public works and community programmes.

### ***Addressing the challenge of an ageing society***

Demographic change is projected to result in historic peaks in older populations in the coming decades. It needs to be managed better by promoting “active ageing”. This includes policies that allow older workers to remain in the labour market and that promote the reintegration of those excluded. While the level of unemployment among older workers is lower than that of other age groups, the re-employment challenges are significant. Older workers often face a number of prejudices with respect to their productivity and adaptability, which may cause them to withdraw from the labour market prematurely. Declining health frequently caused by ill-adapted workplace conditions may also cause older workers to retire early. All these barriers have to be tackled by a comprehensive, active ageing strategy which should include: training and skills development to maintain employability; safe and healthy working conditions; adaptation of working conditions to the needs of older workers as required; access to employment services; and recruitment incentives.

### ***Ensuring the sustainability of social protection systems***

National social protection systems in the ECA region are increasingly being put under strain by demographic changes and fiscal consolidation. While from 2008 to 2009 higher income transfers in the form of higher and longer paid unemployment benefits, expansion of social assistance and indexation of benefits and pensions became part of the stimulus packages of many crisis-hit countries, income transfers have subsequently been reduced in fiscal consolidation packages. The result is that those who depend on income transfers – such as pensioners and recipients of unemployment benefits and social assistance – are disproportionately contributing to reducing the fiscal effects of the crisis.

Demographic ageing poses additional challenges to social protection systems, which will need to adjust to ensure their financial sustainability in the long run while still providing adequate levels of benefits. Each country needs to reform its social protection system in such a way as to find a good balance between its financial sustainability and the social and economic adequacy of benefits. Well-informed social dialogue is the best tool to achieve this.

### ***The role of international labour standards in promoting policy coherence***

While support is regularly expressed for ensuring coherence between economic and social policies, the global financial and economic crisis has put these policy aspirations to the test. The current disjuncture in some countries between the goals of financial, economic, employment and social policies is threatening social cohesion and stability. Macroeconomic, employment and social policies will only succeed in promoting growth and social justice if they are based on respect for the common values and principles that have been enshrined in international labour standards. Such standards provide a normative guide for achieving coherence between economic and social policies, thus ensuring that economic growth can be translated into improvements in the quantity and quality of jobs, working conditions, skills development and social protection.



Despite the ECA region's good ratification record, it appears that the application of international labour standards has been somewhat inconsistent during the crisis. The recovery measures taken by governments have in some cases given rise to concerns about their impact on international labour standards. Indeed, there is a risk that current responses to the crisis will lose sight of and reverse the effective realization of fundamental workers' rights and the application of international labour standards more generally.

Yet, international labour standards provide a common normative framework for policy coherence that can steer the direction of recovery from the crisis. A first step towards achieving policy coherence is to ensure the recognition by all concerned that countries ratifying international labour standards have a legal obligation to apply the provisions of those standards. A second step is to consider the implications for the design of integrated policies, and a third is to strive for better coordination and accountability. In this respect, international labour standards can serve as a driver for social *and* economic development.

### ***Coherent policies for growth, jobs and social justice***

The 1919 Constitution of the ILO stated that “lasting peace can only be established if it is based on social justice”, and in 1944 the Declaration concerning the aims and purposes of the International Labour Organisation (Declaration of Philadelphia) affirmed that “it is a responsibility of the International Labour Organisation to examine and consider all international economic and financial policies and measures in the light of this fundamental objective”. This was reinforced by the ILO Declaration on Social Justice for a Fair Globalization, 2008.

The ILO has engaged with a wide spectrum of international and regional organizations and institutions in its efforts to encourage policy coherence with a view to achieving broad recognition of the importance of international labour standards, decent work and social justice.

A review of the policies adopted by regional and international institutions in recent years offers some insight into the degree of policy coherence at the regional and international levels. These demonstrate widespread recognition of decent work by the EU and many other governments and adoption of concrete policies to make it a reality. They show increased initiatives by the international financial institutions to “move jobs centre stage” and collaborate more closely with the ILO.

Yet the recent policy shift and support for rapid fiscal austerity measures and a package of structural reforms has impacted on the prospect for job recovery and on fundamental rights, disregarding the value of social dialogue with actors of the real economy. This is a cause for concern. In charting a new path for job-rich growth, the ILO and its tripartite constituency will need to ensure better coordination and accountability, and seek renewed coherence in national, regional and international policies. At this moment of crisis, there is an urgent need for unified policies within Europe that address growing regional imbalances and put Europe back on the road to sustainable recovery.



## Abbreviations

|         |                                                                                                                                                                                                                                                                 |
|---------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ACT/EMP | Bureau for Employers' Activities (ILO)                                                                                                                                                                                                                          |
| ACTRAV  | Bureau for Workers' Activities (ILO)                                                                                                                                                                                                                            |
| ALMPs   | active labour market policies                                                                                                                                                                                                                                   |
| CEE     | Central and Eastern Europe                                                                                                                                                                                                                                      |
| CFA     | Committee on Freedom of Association                                                                                                                                                                                                                             |
| CIS     | Commonwealth of Independent States                                                                                                                                                                                                                              |
| DWCPs   | Decent Work Country Programmes                                                                                                                                                                                                                                  |
| DWT/COs | Decent Work Teams/Country Offices                                                                                                                                                                                                                               |
| EC      | European Commission                                                                                                                                                                                                                                             |
| ECA     | Europe and Central Asia                                                                                                                                                                                                                                         |
| ECB     | European Central Bank                                                                                                                                                                                                                                           |
| ECOSOC  | Economic and Social Council (UN)                                                                                                                                                                                                                                |
| EFAs    | European Framework Agreements                                                                                                                                                                                                                                   |
| EPL     | employment protection legislation                                                                                                                                                                                                                               |
| EPSCO   | Employment, Social Policy, Health and Consumer Affairs Council                                                                                                                                                                                                  |
| ERM     | European Regional Meeting                                                                                                                                                                                                                                       |
| ESF     | European Social Fund                                                                                                                                                                                                                                            |
| ESM     | European Stability Mechanism                                                                                                                                                                                                                                    |
| ETUC    | European Trade Union Confederation                                                                                                                                                                                                                              |
| ETUI    | European Trade Union Institute                                                                                                                                                                                                                                  |
| EU      | European Union                                                                                                                                                                                                                                                  |
| EU-10   | Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia                                                                                                                                                              |
| EU-15   | Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom                                                                                                                   |
| EU-27   | Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom |
| EWCs    | European Works Council                                                                                                                                                                                                                                          |
| EWS     | early warning system                                                                                                                                                                                                                                            |
| FPRW    | fundamental principles and rights at work                                                                                                                                                                                                                       |



|                 |                                                                                                                                                                                                                                |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| G20             | Argentina, Australia, Brazil, Canada, China, European Union, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russian Federation, Saudi Arabia, South Africa, Turkey, United Kingdom, United States |
| GDP             | gross domestic product                                                                                                                                                                                                         |
| GJP             | Global Jobs Pact                                                                                                                                                                                                               |
| GSP             | Generalized System of Preferences                                                                                                                                                                                              |
| ILC             | International Labour Conference                                                                                                                                                                                                |
| ILO             | International Labour Organization/Office                                                                                                                                                                                       |
| IMF             | International Monetary Fund                                                                                                                                                                                                    |
| ITUC            | International Trade Union Confederation                                                                                                                                                                                        |
| KAB             | Know About Business                                                                                                                                                                                                            |
| KILM            | Key indicators of the labour market                                                                                                                                                                                            |
| MAP             | Mutual Assessment Process                                                                                                                                                                                                      |
| MLC, 2006       | Maritime Labour Convention, 2006                                                                                                                                                                                               |
| MNE Declaration | Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy                                                                                                                                    |
| MNEs            | multinational enterprises                                                                                                                                                                                                      |
| NEET            | young people/youth not in employment, education or training                                                                                                                                                                    |
| NGO             | non-governmental organization                                                                                                                                                                                                  |
| OECD            | Organisation for Economic Co-operation and Development                                                                                                                                                                         |
| OSH             | occupational safety and health                                                                                                                                                                                                 |
| PES             | public employment services                                                                                                                                                                                                     |
| PPPs            | public–private partnerships                                                                                                                                                                                                    |
| RALI            | Regional Alliance of Labour Inspectorates                                                                                                                                                                                      |
| SEECA           | South-East and Eastern Europe and Central Asia                                                                                                                                                                                 |
| SMEs            | small and medium-sized enterprises                                                                                                                                                                                             |
| SPF             | Strategic Policy Framework                                                                                                                                                                                                     |
| TVET            | technical and vocational education and training                                                                                                                                                                                |
| UN              | United Nations                                                                                                                                                                                                                 |
| UNDAFs          | United Nations Development Assistance Frameworks                                                                                                                                                                               |
| UNDG            | United Nations Development Group                                                                                                                                                                                               |
| UNDP            | United Nations Development Programme                                                                                                                                                                                           |
| UNECE           | United Nations Economic Commission for Europe                                                                                                                                                                                  |
| WTO             | World Trade Organization                                                                                                                                                                                                       |



## Introduction

Job prospects in the European region remain bleak. The latest figures for the EU and some Western Balkan countries show record levels of unemployment, with young people being particularly affected: in the EU almost one young person in four is unemployed, and in the crisis-hit countries of southern and south-eastern Europe the ratio is as high as one in two. The crisis has had a dramatic impact on the level and quality of employment, social cohesion and social justice. High unemployment coupled with significant wage cuts or wage freezes in the public sector, as well as increases in value added taxes that disproportionately affect the poor, have fuelled both peaceful demonstrations and less peaceful outbreaks of unrest. Against a backdrop of growing income inequality, increasing numbers of working poor and fading respect for fundamental principles and rights at work (FPRW), these developments pose a threat to the European Social Model and are having significant negative impacts on the sustainability of economic growth.

The Report analyses the major challenges facing the region. It reviews the economic, employment and social policies that have attempted to address these challenges. The aim of the Report is to consider the key elements of a balanced growth strategy for Europe, one that will promote stable, sustainable and job-centred recovery. Such a strategy needs to be based on coordinated economic, employment and social policies that guarantee respect for fundamental labour rights and international labour standards, strengthen social dialogue and engage the actors of the real economy in creating decent jobs. On the basis of these findings and of experience gained through the ILO's policy advice and technical assistance at regional and country levels, the Report offers considerations for the effective coordination of such policies.

The Report argues that social dialogue is crucial in formulating this ambitious yet realistic strategy, in shaping the associated policies and in ensuring the effective implementation of these policies. The Report points to good examples in the region and shows that those countries that applied the policy recommendations of the ILO Global Jobs Pact (GJP) better withstood the crisis and have been able to maintain the European Social Model based on social justice and a social market economy.

Chapter 1 analyses the economic and labour market situation since 2008, the roots of the crisis and the outcomes of the economic policies adopted. It considers elements of a strategy for: aligning macroeconomic and employment goals; facilitating the type of productive transformation that delivers sustainable and job-rich growth; and engaging the actors of the real economy in a job-centred approach. Chapter 2 focuses on ways to improve the quality of jobs, including security, working conditions and wages, through collective bargaining and by improving compliance with labour law. Chapter 3 looks at possible policy responses to the youth employment crisis and the ageing society, combining skills development with more effective ALMPs



and adequate social protection. Chapter 4 emphasizes the need for policy coherence at national and international levels. It points to good practices and supporting instruments. It shows that policy coherence between macroeconomic, employment and social policies will only succeed in promoting jobs, growth and social justice if it is based on respect for the common values and principles enshrined in international labour standards. Chapter 5 reviews the ILO's work in the ECA region since the 8th ERM held in Lisbon in February 2009 and shows areas where the ILO, its European Regional Office and its field offices have assisted constituents in addressing the challenges arising out of the crisis.



# Part I

## 1. *Shaping policies for job-rich growth*

The promotion of employment, improved working conditions, adequate social protection and social dialogue are at the heart of the origins of the European Social Model. The financial and economic crisis revealed a number of imbalances both in the region and in particular countries. It highlighted the need for changes in financial regulation and lending practices on the one hand, and for economic reforms that could address current account imbalances on the other. At the same time, job creation to get Europe back to work remains the biggest challenge for improving living and working conditions. It is clear that recovery needs to be shaped in a way that delivers jobs. However, there is a risk that the policy measures that have been adopted in response to the economic downturn will thwart employment goals and may exacerbate poverty and inequality. This challenge is even greater in the face of fiscal tightening by over-indebted governments. Here the right balance needs to be found between meeting fiscal goals in the medium term and fostering job-rich growth.

This chapter focuses on key policy areas that will contribute towards achieving this balance.

Section 1.1 provides an overview of economic and labour market developments in the region since the onset of the crisis. It considers the policy responses to, and challenges in, stabilizing the macroeconomic environment, with particular emphasis on the recent shift toward tighter fiscal policy in many countries. It assesses the impact of these policies on jobs and implications this may hold for a strategy of job-rich growth.

Section 1.2 introduces the key elements of a macroeconomic strategy that combines job-friendly fiscal and financial policies with effective employment and social policies.

Section 1.3 justifies the need to stimulate productive transformation of the economy in order to support sustainable economic growth and job creation. It discusses the role of industrial policies and transition to a green economy.

Section 1.4 focuses on the role that enterprises, particularly SMEs and social economy enterprises, play in achieving a job-centred recovery.

Finally, section 1.5 discusses the way forward and offers three key considerations for job-centred recovery. It also provides questions to facilitate the discussion during the thematic panel on Chapter 1.

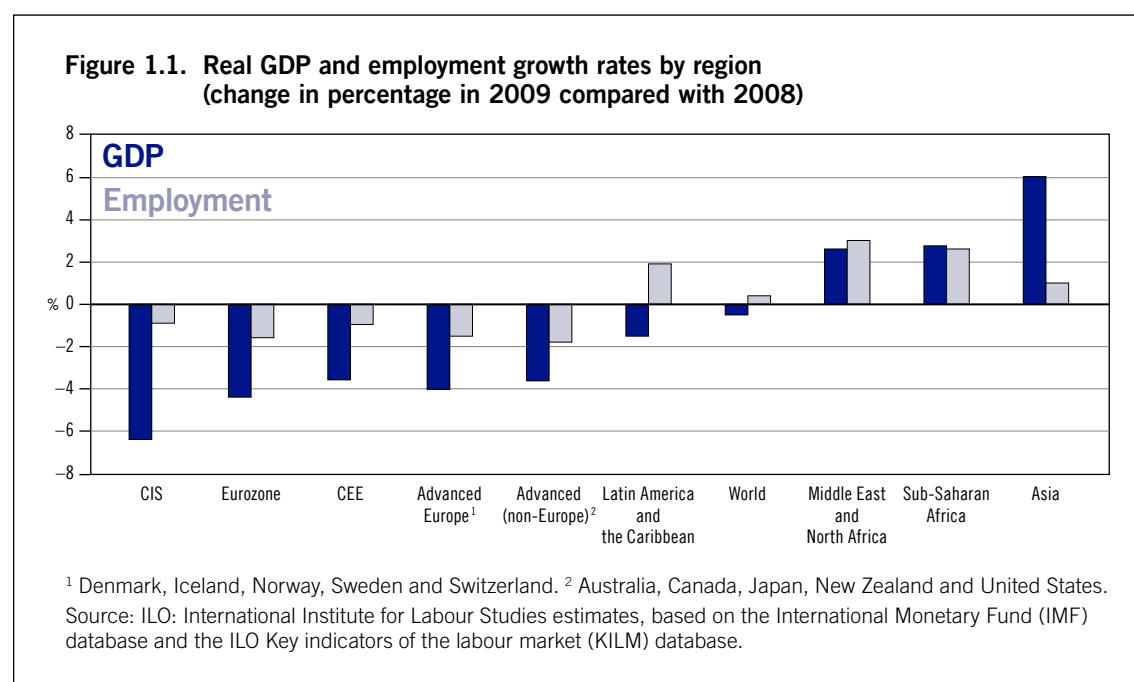


## 1.1. Macroeconomic context and labour market performance

### *The 2008–09 financial crisis and the outcomes of stimulus packages*

The impact of the financial and economic crisis on the ECA economies was dramatic in terms of both GDP and employment losses (figure 1.1). For example, between 2008 and 2009, GDP in the Eurozone, Central and Eastern Europe (CEE), and the Commonwealth of Independent States (CIS) fell by 4.4, 3.6 and 6.4 per cent, respectively – far steeper declines than those that prevailed in most other regions. Yet, despite significant deterioration in output, employment losses were comparably low in the region at the time. For example, GDP declines were steepest in the CIS and the Eurozone in 2009, yet total employment dropped by only 0.9 and 1.6 per cent, respectively – 1 percentage point less than in advanced countries outside Europe, where the fall in output was in fact less severe. However, young people were significantly more affected by the crisis across the whole region: between 2008 and 2009, youth unemployment jumped by 4.3 percentage points to 19.7 per cent in the EU-27, by 4.5 points to 23.5 per cent in south-eastern Europe, and by 2.7 points to 18.4 per cent in the CIS.

Government policies initially focused on injecting capital into financial institutions in an effort to restore credit to the real economy. Yet, as aggregate demand collapsed, it became clear that greater government intervention was needed. As a result, most countries introduced fiscal stimulus packages of various sizes and composition (ILO and World Bank, 2012).<sup>1</sup> According to the European Central Bank (ECB), the fiscal stimulus package reached 1.1 per cent of GDP for the Eurozone countries in 2009 (van Riet, 2010). Governments also helped to dampen the impact of the crisis on vulnerable individuals and households through the use of automatic stabilizers – mainly



<sup>1</sup> The inventory includes a sample of 77 countries, including 22 countries from Europe and Central Asia.

**Table 1.1. Real GDP growth and unemployment, 2010–12 (percentages)**

|                                                                 | GDP                       |      | Unemployment rate |      | Change<br>2010–12 |
|-----------------------------------------------------------------|---------------------------|------|-------------------|------|-------------------|
|                                                                 | Average growth<br>2010–11 | 2012 | 2010              | 2012 |                   |
| Advanced Europe<br>(non-Eurozone)                               | 1.5                       | 0.4  | 7.2               | 7.1  | –0.1              |
| New EU (non-Eurozone)<br>countries and south-<br>eastern Europe | 4.0                       | 2.0  | 10.8              | 9.5  | –1.3              |
| CIS                                                             | 4.6                       | 4.0  | 7.1               | 5.8  | –1.3              |
| Eurozone                                                        | 1.0                       | –0.4 | 10.0              | 11.0 | 1.0               |
| United States                                                   | 2.1                       | 2.2  | 9.6               | 8.0  | –1.6              |
| World                                                           | 4.1                       | 3.3  | 6.1               | 6.0  | –0.1              |

Note: Figures on real GDP growth are preliminary estimates and data on unemployment rates for 2012 correspond to the second quarter of 2012. Unemployment figures for World are estimates from the ILO (2012a).

Source: IMF (2012) and ILO Laborsta.

comprising unemployment benefits and social assistance. This mitigated, or at least moderated, a rise in poverty, and it also had a positive impact on consumption and helped reduce the slump in GDP. In the Eurozone, spending on automatic stabilizers increased from 0.3 per cent of GDP in 2008 to 2.4 per cent in 2009 (van Riet, 2010). The fiscal stimulus packages helped restore economic growth for a time – which was low in the Eurozone and other advanced European countries, but more robust in other ECA countries (table 1.1).



### ***Ongoing national crises since 2010 and the impact of austerity measures***

Since 2010, faced with rising public deficits, a number of countries have adopted significant fiscal consolidation measures. Much of the effort focused on spending cuts rather than raising revenues. For instance, fiscal spending as a percentage of GDP decreased by 1.4 percentage points between the third quarters of 2009 and 2011, while the share of revenue in GDP increased by 1.2 percentage points during the same period (ILO, 2012b).

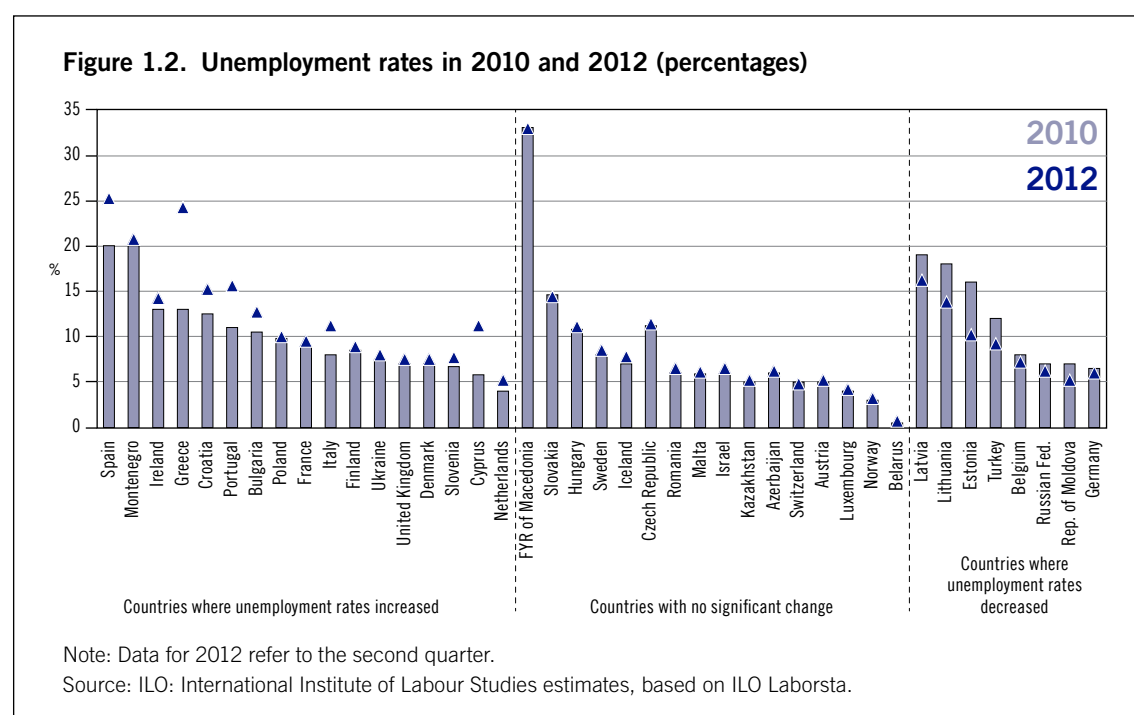
Notably, fiscal austerity measures encompassed sharp cuts in public investment and employment-oriented measures. For instance, in the case of the Eurozone, the reduction in spending was mostly accomplished through cuts in government investment, wage bills and welfare benefits. Between 2009 and 2011, each of the three components decreased by the equivalent of around half a percentage point of GDP. The cuts in benefits took different forms: for example, in Belgium, Estonia, France, Greece, Ireland, Italy, Netherlands and Spain pension entitlements were reformed. In other cases, unemployment benefits were reduced (as in Ireland and the Netherlands) (ILO, 2012c).

With the erosion of fiscal space, some policy-makers turned their attention to the deregulation of labour markets in an effort to stimulate job creation; however, these were largely counterproductive and did not contribute to an increase in employment. In some instances they even violated international labour standards, as discussed in Chapters 2 and 4.

A number of these policy measures were taken in the hope that financial markets would react positively, thereby boosting confidence, investment and job creation. These policy objectives were not realized. The economic and employment outlook continued to deteriorate in countries that adopted austerity measures and deregulating labour market reforms, principally those in southern Europe. Moreover, the austerity measures also failed to achieve their primary objective in many instances, namely, to stabilize fiscal positions.

As a result, improvements in the job situation have been slow. In the region, only one-fifth of the countries reduced their unemployment rates by more than 1 percentage point over the past three years (figure 1.2). The situation is particularly problematic in the Eurozone countries: among the 17 Eurozone countries, ten have seen an increase in their unemployment rate since 2010. In some instances, unemployment rates in countries which adopted austerity policies reached historical highs, notably in Spain (25.8 per cent), Greece (25.1 per cent), Portugal (15.7 per cent) and Ireland (15.1 per cent).<sup>2</sup> By contrast, the Baltic States, Belgium, Germany, the Republic of Moldova, the Russian Federation and Turkey managed to reduce unemployment rates significantly, although unemployment rates in Latvia and Lithuania remain high (16 and 13 per cent, respectively).

Moreover, economic growth slowed significantly in 2012, both globally and in most of the ECA region. In the Eurozone, GDP growth was forecast to decline by 0.4 per cent in 2012, compared with 2011; and in advanced Europe (non-Eurozone), to slow down to 0.4 per cent, according to the IMF's *World Economic Outlook*, October 2012 (table 1.1). Although positive growth was expected in the new EU (non-Eurozone) Member States and south-eastern Europe, it was not projected to exceed 2 per cent (considerably lower than the global forecast of 3.3 per cent). One exception was the



<sup>2</sup> European Commission (EC): Eurostat statistics database (data for September 2012).

**Table 1.2. Assessment and indicators of macroeconomic performance**

| Indicator                                                                      | Period  | Good crisis performers | Weak crisis performers |
|--------------------------------------------------------------------------------|---------|------------------------|------------------------|
| Current account balance (% GDP)                                                | 2007    | 3.0                    | –3.2                   |
| Public debt (% GDP)                                                            | 2007    | 41.4                   | 57.9                   |
| Residential mortgage debt (% GDP)                                              | 2009    | 20.6                   | 52.0                   |
| Exports (% GDP)                                                                | 2007    | 43.3                   | 35.7                   |
| Total investment (% GDP)                                                       | 2007    | 23.1                   | 23.3                   |
| Labour productivity: Average growth (%)                                        | 2000–07 | 4.8                    | 3.5                    |
| Unemployment rate: Change (percentage points)                                  | 2007–11 | –0.4                   | 3.9                    |
| Manufacturing employment (% of total unemployment): Change (percentage points) | 2000–07 | –0.9                   | –2.7                   |

Notes: “Good” (“weak”) crisis performers are defined as those with GDP growth between 2009 and 2011 above (below) the 50th percentile. “Good” performers also include countries whose pre-crisis growth rate was 2 per cent or more and whose post-crisis growth is equivalent to, or greater than, pre-crisis. The table includes an analysis of 50 countries in ECA. Data on residential mortgage debt as a percentage of GDP refer to only 19 countries (eight “good” and 11 “weak”), and therefore some caution should be exercised when comparing these statistics with others.

Source: ILO: International Institute for Labour Studies estimates, based on the IMF database, the KILM database and ILO Laborsta.

CIS, where GDP was expected to increase by 4 per cent. As a result, unemployment rates were forecast to remain elevated. For example, in September 2012 unemployment in the Eurozone was 11.6 per cent, nearly double the global estimate of 6 per cent and significantly higher than the estimated 7.1 per cent for other advanced European (non-Eurozone) countries. In the new EU (non-Eurozone) Member States and south-eastern Europe, unemployment also remained high at 9.5 per cent. The CIS, on the other hand, managed an exceptionally strong recovery in terms of employment. In this subregion, the unemployment rate in the second quarter of 2012 was 5.8 per cent, 2 percentage points lower than in the same quarter of 2007.

The fundamental reason for these difficulties is that austerity policies and deregulating labour market reforms – implemented in a context of weak aggregate demand prospects and continued financial sector instability – have been unable to stimulate private investment. This has again been met with more austerity and thus has led to a vicious circle that continues to have severe consequences for job creation unless a new approach to address the crisis is taken. As table 1.2 illustrates, economic performance during the crisis was also conditioned by imbalances that had built up prior to the crisis.

First, sizeable trade imbalances had accumulated between “good” and “weak” performers between 2000 and 2007 (the criterion for distinguishing between good and weak performers is their cumulative GDP growth rate during the crisis years of 2009–11). Good performers included, for example, Austria, Finland, Germany, Poland and Russian Federation, while weak performers comprised in particular the crisis-hit countries of Greece, Italy, Portugal, Slovenia, Spain and United Kingdom. In particular, sizeable current account surpluses (3 per cent of GDP) and deficits (–3.2 per cent of GDP) had established creditor–debtor relationships that resulted in substantial credit risk for the region as a whole. As a result, financial markets had become unwilling to bear the credit risk. This resulted in: (i) persistent dangers of insolvency



that have continued to disrupt financial markets in the region; and (ii) excessive public debt – both of which had adverse effects on the real economy and governments' capacities to respond when the crisis hit.

Second, significant imbalances in competitiveness had accrued during a period of growth. While good and weak performers had similar levels of investment as a share of GDP, there were sizeable gaps in labour productivity, which, between 2000 and 2007, grew on average by 4.8 per cent in the former group, compared to 3.5 per cent in the latter. Moreover, weak performers had to cope with the deteriorating performance of manufacturing as the main export sector in terms of its contribution to overall GDP growth in the decade prior to the crisis. The low competitiveness of manufacturing resulted in its shrinking role in national economies, as illustrated by the rapid decline in the share of manufacturing employment in total employment. In fact, leading up to the crisis, investment was increasingly directed towards financial assets, rather than physical ones, and in other cases there was an over-reliance on investing in less productive sectors such as housing construction. Indeed, available data show that among the weak performers, residential mortgage debt reached 52 per cent of GDP, compared to 20.6 per cent among good performers.

These imbalances underscore the importance of ensuring that productive investment is channelled to the real economy, and from there to tradable sectors with higher value added. At present, significant levels of private sector debt in many European countries are strongly impeding the restructuring that is necessary to strengthen the tradable sector and its export capacity. Many corporate and household loans are non-performing, with a negative impact on banks' balance sheets and on the provision of credit to enterprises. High interest rates and the deleveraging of the corporate sector have taken a heavy toll on private investment. Fiscal consolidation needs to be carefully balanced with measures that support growth, structural change, investment, enterprise development and job creation.

## ***1.2. Sustainable job-rich growth: Complementary macroeconomic, employment and social policies***

The purpose of this section is to develop a comprehensive strategy and set of policies to encourage job-rich growth in the ECA region. It argues that such a strategy needs to address the existing imbalances, fiscal and financial, as well as productivity and competitiveness. Yet, sustainable progress in both these areas can only be achieved if a set of complementary employment and social policies are introduced and reinforced in a coordinated and coherent manner.

Engaging the actors in the real economy in social dialogue on economic and social policies is critical in the formulation and implementation of such a job-rich growth strategy. It is the key to bring about the bargains required in order to take *appropriate* macroeconomic adjustments rapidly and decisively. Social dialogue improves the design of policy measures and contributes to their effective implementation. It is a tool for forging – not forcing – consensus. A lack of social dialogue can lead to costly delays in the policy adjustments needed to re-establish macroeconomic balance and to the ineffective implementation of what may otherwise be sound policies (discussed further in Chapter 2).



### ***Adoption of job-friendly fiscal and financial policies***

Moving forward, it is important to foster a more balanced approach to growth (export-led versus consumption-led) and fiscal consolidation. In addition, a stable, well-functioning financial system is a priority. To achieve job-friendly fiscal and financial policies, the following could be considered:

- *The role of fiscal policy to improve domestic demand and reduce inequality:* Since the onset of the crisis, taxes in the ECA countries have been more regressive in nature. Several countries introduced flat taxes in an effort to stimulate demand, or have increased indirect taxes, such as value added taxes in the hope of raising revenues. However, given that lower income households typically have a higher propensity to consume, these taxes – which adversely affect lower income groups – failed to boost consumption and contributed to income inequality. Governments need to reintroduce progressive tax rates and also consider introducing refundable tax credits to low-income households. Such an approach would be more effective in stimulating domestic demand and job creation and have the added benefit of reducing income inequality.
- *Reorienting the role of exports in the region:* Encouraging the development of non-EU destinations for exports, where most trade growth is happening, could help reduce risk to external shocks. For example, Sweden now has the highest share of exports to non-EU countries (43.4 per cent, or 10 percentage points above the average for the EU-27). As a result, Sweden was less vulnerable to the economic crisis: exports as a percentage of GDP increased by 2.2 points between 2007 and 2011 and contributed to Sweden having the highest economic growth of the EU-27 in this period. In addition, countries in the region with a limited export industry, such as several of the crisis-hit countries, or those relying mainly on the extractive industry, such as a number of South-East and Eastern Europe and Central Asia (SEECA) countries, need to strengthen their domestic industrial base to enhance overall competitiveness (see section 1.3). By contrast, export-led countries need to stimulate domestic demand through wage policy and public investment in infrastructure as a means to rebalance growth.
- *Implementation of an international financial stability system:* In order to prevent further turmoil on the financial markets triggered by sovereign debt default risk, a stability system comparable to the European Stability Mechanism (ESM) could be implemented. The stability system could work in coordination with central banks and international institutions, including the ILO, to address and manage macro-economic, employment and social challenges in a complementary manner. The system could provide financial and technical assistance to support the development of a comprehensive growth and employment strategy. One task of this stability system could be the monitoring of macroeconomic and labour market developments.

### ***Stimulation of investment into the real economy***

Leading up to the global financial crisis, a large share of investment increasingly went into real estate and financial assets. In order to stimulate job-rich recovery, it is important to improve competitiveness by providing adequate access of enterprises, in



particular SMEs, to opportunities and credits for investment, and by boosting public investment in infrastructure. With respect to public investment, governments and social partners need to collaborate effectively through processes of social dialogue, sharing knowledge and identifying the types of investments that are most productive. In terms of private investment, it is important to support the investment activity of sustainable enterprises of the future, focusing on enhancing productivity and improving technological capacity. Several policy options to stimulate investment exist, including:

- *Tax incentives for private investment:* To encourage the purchase of fixed assets by private firms, that is to say, real investment such as plant and equipment, governments could consider introducing accelerated depreciation on existing assets, which lowers the cost of acquiring new assets and replacing older machinery. Other initiatives include tax credits and exempting firms from paying taxes on newly invested fixed assets, potentially targeted to those investments with energy-saving characteristics.
- *Innovative, job-rich public investments:* Together with social partners, governments can stimulate investment activity, for example, by co-funding research and development and information and communication technology infrastructure to stimulate growth in new, more productive sectors. Turkey nearly tripled its research and development spending, from US\$2 billion to US\$8.8 billion between 2003 and 2009, and this was channelled to various sectors ranging from energy and natural resources to electronics, pharmaceuticals and agribusiness. Moreover, public investment in infrastructure can encourage private investment into regions where technical infrastructure is underdeveloped.
- *Investment and credit to SMEs:* Promoting the creation and sustainability of SMEs will be central to any successful economic transformation. Access to credit for SMEs to invest and maintain operations remains a challenge, especially in light of malfunctioning financial markets. There are a number of measures that governments, even those constrained by public finances, could consider for supporting investment in SMEs. These and other issues regarding SMEs are taken up in more detail in section 1.4.
- *Structural and productive transformation and innovation:* Promoting investment in high value-added and technology-intensive sectors will require the development of a modern industrial policy for the region. Measures of this nature could also include earmarking investment initiatives in renewable sources of energy and green-growth initiatives. The importance of strengthening and diversifying the production and export base of weak performers to new productive sectors, including the role of green technologies, is discussed in more detail in section 1.3.

### ***Adoption of wage policies boosting growth and job creation while avoiding a deflationary spiral***

There is a growing body of literature that indicates that the widespread wage moderation which has occurred in recent decades has neither translated into higher real investment nor helped to stimulate job creation. Some economists have argued that



lower wages were necessary to boost profits in order to increase investment and employment. However, the reduction in wage share and the increase in profit share have not translated into more investment. For example, between 2000 and 2007, capital share of GDP in the EU-27 grew by 1 percentage point, from roughly 19.6 per cent in 2000 to 20.6 per cent in 2007. By contrast, investment as a percentage of GDP did not keep pace with profits and declined by 0.3 percentage points over the same period. Even in Germany, where the wage share of GDP fell by more than 5 percentage points between 2000 and 2007, investment as a percentage of GDP fell by 1 percentage point.

Moreover, while lower wages may boost labour demand at the individual firm level, a generalized fall in wages negatively affects household demand at the aggregate level, thereby depressing total output and employment. Policies that instead stimulate wage growth can boost domestic consumption. Such policies need to be formulated through social dialogue; they must also be jointly implemented by governments and social partners, and take into account the following:

- *Avoiding the wage-deflation trap:* Countries struggling to remain competitive should avoid a wage-moderation trap. In fact, falling or stagnant wage growth contributed to a growth in debt-led spending and can be counterproductive during periods of weak aggregate demand. For example, in the United Kingdom, real wages fell at an annual rate of 0.5 per cent between 2007 and 2011, while investment as a percentage of GDP decreased by 3.5 percentage points. Moreover, rather than increase exports and international competitiveness, this fall in real wages has been accompanied by a deterioration of the current account deficit. The fall in private consumption as a result of the deterioration in wages, without any improvement in the other components of aggregate demand, resulted in a sharp increase in United Kingdom's public and private debt as a percentage of GDP (by 38 and 3.5 percentage points, respectively, between 2007 and 2011).
- *Wages growing in line with productivity:* In countries where export-led growth has been associated with wage moderation, wage negotiations should restore the link between wages and productivity growth. For example, in Germany, social partners in some sectors have begun to agree to wage increases that are commensurate with productivity gains and performance. Policies that support negotiations of this nature can help to rebalance growth and stimulate domestic demand in countries with a current account surplus. This is discussed further in Chapter 2.
- *Income support measures:* Income support through social protection measures such as unemployment benefits can act as an important economic and employment stabilizer to tackle persistent unemployment. Keeping in place and reinforcing these programmes will provide support to those most in need and can have positive spillover effects on economic growth and employment. Indeed, social transfers can improve long-term work incentives by providing support to families until the labour market recovers – this issue is discussed further in Chapter 3. In this respect, minimum wages can serve as a social floor for wage adjustments and also as a buffer against wage deflation. This is discussed further in Chapter 2.



### ***Stimulation of job creation through effective employment policies***

The idea that economic growth alone leads automatically to employment is increasingly considered wrong. Not only has it proved to be a fallacy (given that many countries are confronted with jobless growth), but country experiences during the current crisis have shown that a mix of employment and social policies – for example, job-centred measures and effective social dialogue – can improve labour market outcomes. While stimulating aggregate demand, they can also help to achieve other macroeconomic objectives, such as growth and fiscal targets. As ECA countries shift to new dynamic sectors and improve overall productivity and competitiveness, it will be important to ensure that complementary policies are in place to promote job-rich growth:

- *Well-designed labour market regulations and collective bargaining* (see Chapters 2 and 4 for a more detailed discussion).
- *Effective job-centred measures:* A number of employment measures have proved to be successful during the crisis and consideration should be given to continuing to support these policies and to strengthen them. This is particularly relevant given the continued outlook of weaker growth. Job-centred measures that have been shown to safeguard and stimulate employment while contributing to recovery include: (i) short-time working schemes; (ii) direct support to employment-intensive sectors; and (iii) training to address skills erosion and changing skill demands. The latter is of particular relevance given that, in the medium term, if workers and employers are to take advantage of new opportunities that arise from the new macroeconomic, industrial and technological developments described, considerable effort in promoting training and skills acquisition will be merited. While investment in employment and social policies requires expenditure in the short term, this can be offset by medium- and longer-term gains in productivity and growth. This issue will be discussed further in Chapter 3.
- *Effective and targeted service delivery:* The effectiveness of policy instruments is enhanced when they are directed towards addressing a particular disadvantage – for example, low-skilled jobseekers and youth without work experience. Moreover, to be successful, training provisions and active labour market programmes need to be delivered by a well-resourced public employment service (PES) (discussed further in Chapter 3).
- *Reconciling fiscal constraints for effective employment policies:* The introduction of some of the measures discussed will entail certain costs for which a fiscal space is needed. The question then arises how to gain this fiscal space given the existing constraints. As highlighted in section 1.1, focusing on austerity as a short-term objective has led to adverse consequences for growth and employment. At the same time, public debt and deficits have been rising rapidly. Yet, employment and fiscal goals should not be viewed as competing objectives. Indeed, it is possible to reconcile fiscal targets with policies aimed at reducing unemployment and promoting job-rich recovery. The following measures could be considered:
  - *Expanding the tax base:* Governments could consider a more comprehensive approach to raising revenue by expanding the tax base through a number of means: (i) improve overall tax collection and compliance and reduce tax evasion; (ii) introduce financial transaction taxes, with the added benefit of reducing short-term



speculation in the markets; (iii) introduce environmental taxes levied on the production of energy-intensive goods; and (iv) implement taxes on property. In the cases of financial transaction taxes and environmental taxes, regional (and global) coordination will be key to any successful implementation. Moreover, revenue derived from these initiatives could be channelled back to investment in employment and social measures.

- *Altering the composition of austerity to support pro-employment programmes:* Fiscal consolidation plans have focused to a large extent on cutting expenditure on employment and social programmes. Yet, increasing spending on ALMPs such as training can have positive effects on employment creation and aggregate demand. Many of these programmes are not costly and often yield other positive returns over the medium term with respect to productivity gains and reduced skills mismatch.
- *Reviewing the pace of consolidation:* Many countries rapidly implemented plans to bring down fiscal deficits, with little improvement in public finances or economic outlook. A job-rich growth strategy would involve a more moderate pace of fiscal consolidation, mindful of the need to balance fiscal targets with employment and social measures. While investing in employment and social policies requires expenditure outlays in the short term, debt levels will improve in the medium term as a result of reductions in passive labour market programmes and an improved tax base.

### ***The need for policy coherence and coordination, especially in the Eurozone***

The current policy approach to address the crisis is flawed in that little real effort is being made to ensure coherence between macroeconomic policies, on the one hand, and employment and social policies, on the other, with full respect for the rule of law and compliance with international labour standards. Coordination is needed to make policies more effective (see also Chapter 4).

### ***1.3. Policies for structural and productive transformation: Promoting growth, productivity and employment***

Industrial policy can be an important instrument to support productivity, technological catch-up – including the shift to green technologies, economic recovery and growth. It can also facilitate regionally balanced development patterns. This is why the EU's growth strategy, Europe 2020, has also identified “an industrial policy for the globalization era” as one of the flagship initiatives.

Such policies aim to: (i) increase productivity, competitiveness and employment in the existing sectors in which the country has traditional and comparative advantages; (ii) promote diversification into new higher value-added sectors; (iii) support the greening of the economy; and (iv) develop the accumulated technical knowledge and skills of the workforce and the managerial and organizational practices of firms, which enable and expand the opportunities for productivity improvements and structural changes.



Social dialogue, partnership and strategic collaboration between employers' and workers' organizations and the government are essential for shaping the most effective policies stimulating learning and transformation processes. The design of industrial policies, identification of growth potentials and diversification patterns, determination of obstacles to structural change and measures to overcome them, and coordination of economic, educational, and research and development activities in such complex transformational and learning processes all require cooperation, trust and commitment from the whole of the economy and society.

### ***Strengthening productivity in existing, traditional industries***

Productivity in existing economic activities can be increased by policies and institutions that stimulate technological upgrading and the adoption of new work procedures through investment in research and development, transfer of advanced technologies, and close collaboration between research institutes and the enterprise sector on the adaptation of technologies to local production conditions. Equally important is the promotion of skills development through investment in education and training that enables the absorption of new technologies and working methods. Further measures on the supply side relate to enhancing competitiveness of enterprises and industries by promoting a favourable environment, enterprise clusters and value chains.

Supply-side policies need to be accompanied by measures supporting demand for domestically produced products. In addition, well-designed trade and export promotion measures boost access of firms to international markets and allow the country to gain from trade by exploiting its comparative advantages and benefiting from economies of scale. This is important, especially for smaller countries with limited domestic markets.

### ***Diversification into new, higher value-added products***

Industrial policies in many European countries played an important role in promoting productivity increases and structural changes, which enabled the countries to advance from middle- to higher income levels. This was the case of Spain (1973–96), Finland (1972–88), Ireland (1987–95), and more recently of the Czech Republic, Slovakia and Slovenia (Foxley and Sossdorf, 2011).<sup>3</sup>

Manufacturing is a leading sector for improving technological levels and competitiveness of the economy. Evidence from successful catch-up countries (China, Finland, Ireland or the Republic of Korea), as well as from cross-country studies, shows that high and sustained growth rates were driven by development of manufacturing and its expansion into higher technology segments. The reason is that manufacturing provides a wide potential for increasing returns to investment and for diversification because of linkages between manufacturing firms and firms in other sectors. A number of countries in southern and south-eastern Europe made a substantial move from

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<sup>3</sup> The dates in parentheses indicate the periods of high growth rates and progression from middle- to higher income levels.

manufacturing to services in the past decade, which weakened their export base. They will need to design policies that support more diversified production, in particular in tradable sectors, and the development of technologies that allow more sophisticated production. Many SEECA economies rely heavily on extractive industries that have practically no links to other domestic sectors. In their case, policies should focus on investing export revenues into higher value-added production with high employment potential.

Tradable services, such as business services, finance and tourism, can also play an important role in a particular country context when they complement or support diversification into higher value-added segments in manufacturing. This will require policies that ensure that, for example, tourism establishes strong linkages to the domestic economy, creating demand for locally produced goods in different sectors. A recent study shows a growing number of links between industry and knowledge-intensive services in highly industrialized economies, which contributes to strengthening their export base (Hamm, 2012, pp. 632–639).

In order to promote structural change and diversification into higher value-added products, governments may encourage local and foreign investors to invest in new products or sectors that can become profitable given the local cost structure, by launching policies that protect investment returns and ensure that profits are not eroded prematurely by imitating firms. Governments can provide temporary subsidies and tax concessions, promote the supply of a skilled labour force and provide adequate infrastructure. Industrial parks, business incubators and export processing zones are important initiatives, in particular when infrastructure is still limited. Policies that promote access to markets are also very useful. For example, government procurement can generate domestic demand for certain production, while export promotion, trade agreements and support for enterprises to engage in global value chains facilitate access to foreign markets.

### ***Supporting the development of eco-industries and green jobs***

One of the priorities for any policy aimed at structural transformation is the support and expansion of eco-industries.<sup>4</sup> Job creation in eco-industries has been positive throughout the recession in comparison to many conventional sectors. With 1.12 million jobs already in the renewable energy sector, the potential for EU job creation is estimated to be an additional 5 million in renewable energy and energy efficiency by 2020 (EC, 2012a). France's green building and renewable energy sector exemplifies the green jobs creation potential and its resilience during the crisis. Jobs in retrofitting buildings to higher energy efficiency standards doubled from 90,000 in 2006 to 180,000 in 2012, and in the renewable energy sector rose from 30,000 to 70,000. Even higher employment gains were leveraged through Germany's building rehabilitation programme – a collaborative effort between the government, trade unions and employers' federations. This programme annually supports some 300,000 jobs by creating new positions or maintaining existing ones, and has reduced carbon

<sup>4</sup> Eco-industries (environmental goods and services industries) consist of activities which produce goods and services to measure, prevent, limit, minimize or correct environmental damage to water, air and soil, as well as problems related to waste, noise and ecosystems (OECD, 1999; Eurostat).

emissions by 3.7 million tons between 2005 and 2010 (BMVBS, 2012). In Hungary, it is estimated that a 5.7 per cent annual retrofit of the building stock would generate up to 184,000 new jobs by 2015 (Ürge-Vorsatz et al., 2010).

Comparable employment–environment win-win situations would notably be possible in SEECA, where ageing building stock holds enormous potential for energy efficiency, employment creation and high economic returns on the investment.

Other sectors have great potential as well. EU employment in conserving biodiversity and managing and restoring the natural environment stands at 14.6 million people (FEEM, GHK and IEEP, 2011). Waste management and recycling is another such sector. Increasing the recycling rate of key materials in the EU to 70 per cent could create 560,000 new jobs by 2025 (Friends of the Earth, 2010). SEECA countries, with only 5 per cent recycling rates, could significantly stimulate economic activity if valuable but discarded resources were fed back into the economic production cycle. Serbia has already created 7,000 green jobs in the recycling sector and foresees the creation of 3,000 additional positions through a new environmental law enacted in 2009. Part of the initiative is the formalization of the informal industry, which is dominated by the working poor and Roma. The first recycling trade union of 6,000 members has been set up in order to improve working conditions and workers' rights.<sup>5</sup>

Agriculture and forestry is still an important sector and employment provider in SEECA countries, with 25 million jobs that depend heavily on an intact environment.<sup>6</sup> With a regulatory framework for organic farming set up in 2005, today 11 per cent of Moldova's total agricultural exports now come from organic production. As organic produce is more labour-intensive and gains a premium price in European markets, the overall economic and employment effect is considered to be positive.

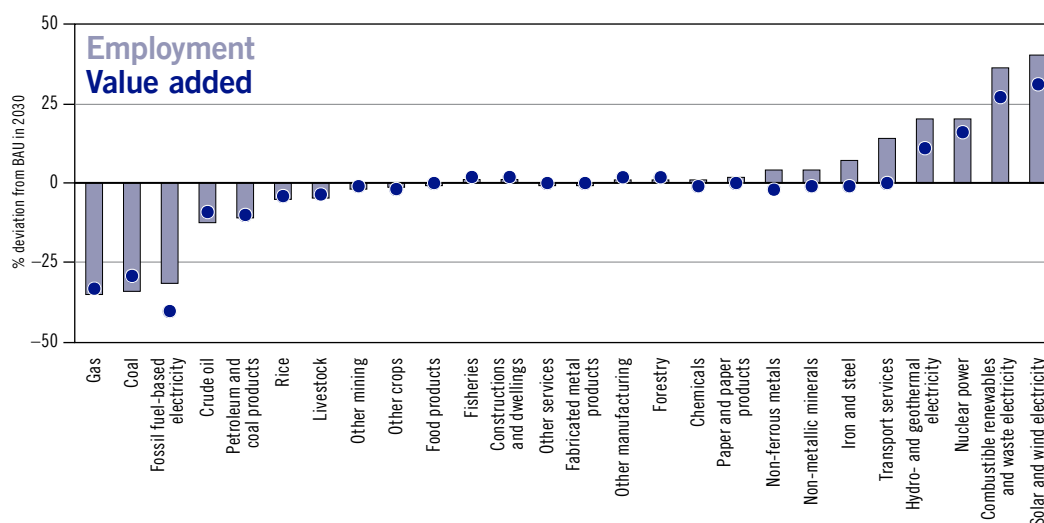
However, the overall positive employment-creation potential in emerging green industries is constrained by the shortage of skills required by emerging “green-collar” occupations (see Chapter 3). It must also be analysed in the context of declining industries that are often concentrated in certain regions. Many EU-10 and SEECA countries are notably dependent on extractive industries, which are highly polluting and face downsizing in a structural change towards greener economies. Employment in the mining industry continues to decrease, and in 2008 stood at 56,000 in the Czech Republic, 200,000 in Kazakhstan, 248,000 in Poland, 618,000 in Ukraine, and 1.4 million in the Russian Federation. The ILO policy framework for a “just transition”, which combines training and skills development for new occupations with active labour market and social protection policies for adversely affected workers and companies that are identified and agreed on through social dialogue, is a much needed buffer to the social consequences of restructuring polluting industries (ILO, 2011a). In Poland, for example, social programmes undertaken from 1998 to 2002 provided assistance to some 33,000 of the 53,000 workers laid off in the mining industry (Suwala, 2010; UNCTAD, 2012).

The Organisation for Economic Co-operation and Development (OECD) analysis concluded that the ten most carbon-intensive industries account for 90 per cent of all CO<sub>2</sub> emissions but only 14 per cent of employment in the EU, indicating that the cost of the labour market transition towards low-carbon economies is relatively small,

<sup>5</sup> Information provided by the ILO Belgrade office.

<sup>6</sup> Data from United Nations Economic Commission for Europe (UNECE) statistics.

**Figure 1.3. Simulated changes in sectoral composition of employment associated with an ambitious climate change mitigation policy (in percentage deviation from the business as usual scenario in 2030)**



BAU = business as usual.

Source: OECD ENV-linkages model.

compared to the structural change brought about by information and communications technologies and the globalized market revolution. It is estimated that in the EU, total cross-sector job reallocation from a 30 per cent carbon reduction strategy will affect less than 1 per cent of all jobs by 2030 (figure 1.3) (OECD, 2011).



### ***Accumulating technical knowledge, skills and know-how***

Supporting the accumulation of technical knowledge and skills of the workforce and the managerial and organizational practices of firms are prerequisites for productive transformation. Governments can design comprehensive learning strategies to develop a skills structure that enables diversification into higher value-added production, while promoting wide and equitable access to quality education. Evidence shows that countries that have successfully developed medium- and high-technology manufacturing sectors have systematically increased the share of workers with upper secondary education in the labour force, while also gradually expanding the share of those with post-secondary education. Such educational structures provide the basis for training workers in new occupations that are in high demand in medium- and higher technology manufacturing, in particular skilled machine operators, information technology workers, technicians and clerks. Examples of such countries include the Czech Republic, Germany and Slovenia; however, countries such as Poland or the United Kingdom now only have “pockets” of high-tech industries owing to not having a workforce with secondary education.<sup>7</sup>

<sup>7</sup> A more detailed analysis can be found in Nübler (forthcoming).

Industries are also important places of learning. Industrial policies should deliberately support the development of higher value-added industries to provide opportunities for workers to acquire more complex skills and for firms to acquire advanced technological, organizational and learning routines. Enriched skills structures and high-performing managerial and organizational practices at the enterprise level enhance productive transformation.

Deliberate support for the development of higher value-added industries can be provided through trade, investment and technology policies that nurture and protect infant industries (Reinert, 2009). In this respect, a temporary use of tariffs could be reconsidered, in order to provide strictly time-bound protection. The reason for this is that when countries liberalize their markets, sequencing and timing of trade liberalization is critical because learning capacities are limited, and the industrial base may become eroded before competitiveness is achieved. There are studies showing that countries which liberalized tariff structures very rapidly and to very low levels performed badly in terms of exports and growth (Nübler, 2003).

Learning by domestic enterprises is also supported and accelerated by institutions that promote direct interaction and collaboration between domestic enterprises and foreign firms. Value chains, production networks and clusters, and foreign direct investment can become important sources of knowledge and learning through joint ventures, where domestic firms observe and imitate high-performing procedures and know-how that foreign firms have mastered, and benefit from training and technological support provided by foreign firms.

High-performing apprenticeship systems, such as those in Austria, Denmark, Germany and Switzerland, not only produce well-trained workers but also establish rules for workers' training and education at the workplace. By supporting training in a wide variety of occupations, and in broad competences rather than in narrow skills, these countries have developed highly diverse skills structures in the labour force for adopting new technologies and diversifying into new economic activities. This approach can be used effectively in other countries.

## ***1.4. Promoting the sustainability and job-creation capacity of enterprises***

### ***The main challenges faced by enterprises in the region***

Enterprises across the European region face sluggish demand and an uncertain economic outlook, in particular those in the Eurozone. Since the beginning of the crisis, the investment behaviour of both large and small firms has changed. Finance-constrained firms tended to hold on to excess cash to ensure their long-term survival during a highly uncertain period while reducing their investment (table 1.3). This problem was particularly acute in the Eurozone, where both small and large firms showed lower levels of investment, with the change being more pronounced in larger firms (ILO, 2012d). Multinational enterprises (MNEs) in particular are holding record levels of cash: the current cash “overhang” of MNEs across the globe is estimated to be in excess of US\$5 trillion, with many MNEs located in the ECA countries (UNCTAD, 2012).



**Table 1.3. Investment as a percentage of cash holdings of listed companies**

|                               | 2003–07 |       | 2011  |       | Change |       |
|-------------------------------|---------|-------|-------|-------|--------|-------|
|                               | Small   | Large | Small | Large | Small  | Large |
| Europe and Central Asia (ECA) | 41.7    | 111.4 | 39.6  | 110.4 | –2.1   | –1.0  |
| Eurozone                      | 42.2    | 111.7 | 38.3  | 85.8  | –3.9   | –25.9 |
| Non-Eurozone                  | 41.5    | 111.7 | 40.6  | 158.5 | –0.9   | 46.8  |
| United States                 | 24.5    | 71.1  | 22.7  | 50.3  | –1.8   | –20.7 |

Notes: Small (large) companies are defined as those with assets below (above) the median of all observations for total assets for ECA and the United States (< €130 million). Number of companies: ECA: 672; Eurozone: 253; United States: 189.

Source: ILO: International Institute for Labour Studies estimates, based on FactSet Research Systems.

In SEECA, of particular concern are the so-called mono-industrial towns and regions, where the local economy and employment are highly dependent on one enterprise or sector that is unprofitable. These economic centres were created at a time when, under the central planning system, there were efficiencies identified in creating large enterprises utilizing economies of scale. But when this enterprise or sector collapses, the local implications are more devastating. Emphasis on local and regional planning and establishing restructuring strategies through proper social dialogue are particularly necessary in this environment. Examples can be drawn from France, where 400 revitalization contracts have been signed between restructuring companies and regions, and Poland, with its special economic zones. Bulgaria, Czech Republic, Hungary, Lithuania, Portugal and Romania are identified as having started such regional planning initiatives. For example, Lithuania applied and received assistance from the European Globalization Adjustment Fund to provide support to workers displaced in a mono-industry town when Alytaus Tekstile laid off more than 1,000 workers (EC, 2010a).

For job-rich recovery to be a reality, efforts need to be taken to promote the sustainability and job-creation capacity of enterprises.

### ***Small and medium-sized enterprises***

SMEs are the main job generators. In the EU, between 2002 and 2010, around 85 per cent of net employment growth occurred in SMEs, which have a much higher annual employment growth rate (1 per cent) than large enterprises (0.5 per cent). According to an enterprise survey, there were over 20.8 million enterprises active in the non-financial business sector of the EU in 2010, accounting for more than 98 per cent of all enterprises, of which 92.2 per cent were SMEs that were estimated to contribute 67 per cent of total employment (ECORYS, 2012). A World Bank report showed that the employment contribution of the SME sector outside the EU is not very different, ranging from 90 per cent in Albania and Montenegro to 60 per cent in Croatia and Bosnia and Herzegovina (Ayyagari, Demirgus-Kunt and Maksimovic, 2011).

The economic crisis has severely affected SMEs: the number of jobs in the SME sector decreased by an average of 2.4 per cent annually, compared to 1 per cent for large enterprises. SMEs continue to see deterioration in the availability of bank loans,



bank overdrafts and trade credit, particularly in southern Europe, which not only limits their possibilities of expansion and new job creation, but in many cases threatens their very existence (ECB, 2012). There is clearly an urgent need to find ways to restore credit flows to SMEs, which account for a large proportion of total employment in the Eurozone. This may take the form of reinforcement or creation of credit institutions geared to small firms (ILO, 2012c).

Many SMEs face challenges to raise productivity and competitiveness, improve working conditions and make jobs more sustainable. Investment in improving working conditions and strengthening observance of labour legislation and proper payment of taxes is often perceived as too costly, which is why informal employment in small and micro firms is rather widespread, particularly in SEECA, but is also of concern in southern Europe. However, decent working conditions can be a sound business investment that contributes to higher productivity and competitiveness, particularly if good and mutually reinforcing policies are implemented to improve working conditions, skills upgrading opportunities and collective bargaining practices, with the result being higher productivity.

### ***Cooperatives and the social economy***

Cooperative enterprises have a long history in all parts of the region. The economic and jobs crisis, growing inequality and declining ability of many governments to provide services have revived interest in cooperatives and in the social economy in general. The term “social economy” covers enterprises and organizations, in particular cooperatives, mutual benefit societies, associations, foundations and social enterprises, which have the specific feature of producing goods, services and knowledge while pursuing both economic and social aims and fostering solidarity.<sup>8</sup> In the EU, the social economy includes about 10 per cent of all companies and contributes 6 per cent of total employment (EC, 2012g). Cooperatives alone contribute 2.4 per cent to employment and are particularly active in agriculture and forestry, banking, retailing, health care, information technologies and crafts.

Cooperatives have proven to be more resilient to the crisis than other types of enterprises across Europe: financial cooperatives remain financially sound; consumer cooperatives report increased turnover; and worker cooperatives experience growth in membership (Roelants et al., 2012). In many EU countries, such as Finland, France, Greece, Hungary, Italy, Portugal, Spain, Sweden and United Kingdom, regions actively support social economy enterprises, and this regional approach is facilitated by the EU funds for regional development and social cohesion. Because of territorial anchorage, social economy enterprises are stable, difficult to relocate and provide a good opportunity to reintegrate vulnerable groups into society and the labour market. They are also able to provide innovative employment opportunities and services to individuals and communities, and as such can act as vehicles for employment creation and social cohesion. This is why a growing number of governments within the EU, and now increasingly outside the EU, are revising cooperative legislation and adopting programmes to promote cooperatives and other social economy enterprises.

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<sup>8</sup> This definition was adopted by the ILO regional conference “The social economy: Africa’s response to the global crisis”, which was held in Johannesburg, South Africa, 19–21 October 2009.

## *Multinational enterprises*

At the other end of the spectrum, the developmental impact of MNEs has often been limited by the inability of domestic actors to build the kinds of links with foreign MNEs that enhance domestic competitiveness, either because they lack sufficient absorptive capacity or because they operate largely in different sectors. Links between domestic firms and MNE subsidiaries are not automatic, and stimulating them becomes ever more challenging in high value-adding activities such as research and development (Narula and Guimón, 2010). As mentioned above, policies need to be carefully designed to encourage linkages between domestic firms and MNE subsidiaries to take advantage of opportunities for the transfer of knowledge, productivity-linked innovations and the potential this holds for contributing to job-rich growth. Governments and other actors also need to find ways to encourage enterprises with high levels of liquidity to invest in productive activities.

### *1.5. Policy considerations and the way forward*

There is an urgent need to address the worsening employment situation in the ECA region. This requires a strategy that will tackle the structural imbalances between and within countries which led to the economic crisis and that will promote job-rich recovery. Such a growth strategy would combine well-coordinated and balanced macroeconomic, industrial and enterprise policies with employment and social policies including those that stimulate skills development and the productivity of the labour force. Social dialogue has an important role to play in shaping and implementing the appropriate policies.

Proposals to tackle the crisis were elaborated in the ILO's GJP (2009) and have been refined on numerous occasions through the ILO's Conference and Governing Body debates since then. Relevant strategies to address different aspects of the crisis are advocated throughout this Report in its respective chapters, and some initial considerations are set out below.

**Macroeconomic policy:** All **ECA countries** could consider adjusting tax and wage policies to support wage growth and domestic consumption. They should also stimulate both public and private investment in the real economy, which would boost the innovation, productivity and job-creation capacity of the enterprise sector, and promote export performance and the diversification of exports outside the EU. This would help enhance demand for labour that could be further stimulated by effective employment and labour market policies. Additional fiscal space for such policies can be created by expanding the tax base and reintroducing progressive taxation, by moderating the pace of fiscal consolidation and putting more emphasis on employment promotion measures in public expenditure.

**Policies to promote structural transformation and a green economy:** The **EU** – in particular the **southern European countries**, as well as the **Baltic States**, **Bulgaria** and **Romania** – may consider industrial policies directed towards strengthening the manufacturing sector and stimulating diversification to new, higher value-added manufacturing products, and by supporting related business services. This would help those countries not only to boost exports but also, partially, to replace imports with domestic production, rectify external imbalances and create new jobs. **SEECA countries** need to



formulate policies to help diversify their economies from basic agricultural production and extraction of hydrocarbons and minerals towards quality food industry, chemical industry and other higher value-added production areas that offer more productive jobs.

For the transition to a green economy and green jobs, a three-pillar strategy should be considered by policy-makers in **all ECA countries**:

- *Provide the right mix of incentives and support to enable the greening of the economy:* Incentives for enterprises to invest in green technology need to be accompanied by training for workers to adapt to the new mode of production. A prominent tool is an environmental tax, which shifts the burden to resource use and pollution, and away from labour. Part of the revenue from this could be used for “greening” education, skills, and research and development.
- *Ensure that investment in “greening human capital and employment”, decent work, and social inclusion are central to any sustainable development strategy:* Social and labour market policies are essential for a transition to greener economies to be socially inclusive and to ensure equitable outcomes for women and men as explained by the ILO Just Transition framework. In particular, investment in education, research, skills development and targeted programmes for displaced workers is a precondition. Placing emphasis on skills and education policies to facilitate job transition and improve employability is critical (ILO, 2011b).<sup>9</sup> Income support measures in unemployment for redundant workers need to be linked to assistance in job searching and job matching provided by employment services. Making social protection work for sustainable development allows for buffering during the social, economic and environmental crisis while enabling structural change towards greener economies. While most of these policies are relevant to any type of structural change, they need to be tailored to the specifics of greening enterprises and economies, which vary between sectors and locations. Early identification of opportunities, and potential risks and losses, is possible with the help of assessments to guide economic diversification and structural change.
- *Place social dialogue at the centre of policy-making to improve coherence and ensure a successful shift to a new growth model:* Effective social dialogue can help resolve crucial socio-economic issues and improve economic performance. Given that the structural change and transition towards a greener economy will entail profound changes in production processes and technologies, as well as reallocation of jobs, close cooperation between government and the social partners will be central to the success of this transformation. Well-informed and coherent policies that result from broad support and active commitment among stakeholders, and particularly employers’ organizations and trade unions, will be essential to ensuring that the shift towards a job-rich and greener economy is sustainable.

***The promotion of enterprise sustainability and job-creation capacity.*** Policies that support productive transformation of the economy need to be combined with policies promoting the job-creation capacity and sustainability of enterprises. Sustainable enterprises are those which “innovate, adopt appropriate environmentally friendly technologies, develop skills and human resources, and enhance productivity to remain competitive in national and international markets. They also apply workplace

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<sup>9</sup> This issue is discussed further in Chapter 4.

practices based on full respect for the fundamental principles and rights at work and international labour standards, and foster good labour–management relations as an important means of raising productivity and creating decent work” (ILO, 2007). In this respect, policy-makers could consider the following issues:

- *A conducive environment for enterprises needs to be created and/or improved across the **whole ECA region**:* This implies ensuring that legislation is effective in promoting fair competition and protecting property rights, and that it is properly enforced. It further requires a transparent tax system that does not overburden enterprises, but that generates sufficient revenue for important public services. Well-functioning, relatively stable and transparent administrative and financial systems are also needed, and they should apply equally to all enterprises. The ILO has developed a methodology (the Enabling environment for sustainable enterprise toolkit)<sup>10</sup> that is meant to assist employers’ organizations in making a systematic and complete assessment of their own environment and the environment for enterprises. More specifically, the toolkit helps identify constraints in the development of sustainable enterprises and formulate advocacy and proposals for reform that can be used to make dialogue with enterprises more effective.
- *The enabling environment for SMEs should be further improved across the **whole ECA region**:* This is an area of intervention that has an excellent cost–benefit ratio for governments. There is empirical evidence that package approaches for SMEs tend to perform better than single interventions; and these include combining access to finance (by setting up specialized financial institutions and encouraging commercial banks to provide cheaper credits and credit guarantees to SMEs) with management training, business counselling and coaching, access to markets, new technologies and cheap premises, access to public orders/tenders, simplification of administrative and financial rules applicable to SMEs, and other possible assistance (ILO, 2009). Employment in SMEs can be further supported by subsidies for direct job creation and, during the crisis, by time-bound subsidies for maintaining jobs.
- *Restructuring mono-industrial towns or regions, in particular in **SEECA countries**:* This should be managed to ensure socially just transitions through a mix of SME promotion measures, ALMPs and social protection, in accordance with the conclusions concerning the promotion of sustainable enterprises, reached at the 96th Session of the International Labour Conference in 2007.
- *Strengthening the social economy across the **whole ECA region**:* Such strengthening can help master the current challenges of high and protracted unemployment and restructuring. Social economy enterprises can also provide goods and services to a growing proportion of the population not reached by conventional private or public channels. Governments should ensure that legal, administrative and financial instruments are conducive to the development of social economy enterprises, so that they can compete on equal terms with traditional enterprises. In the long term, the social economy can provide complementary paths to bring together, in a coherent manner, the concerns of economic sustainability, decent work, social justice, ecological balance, political stability, conflict resolution and gender equality (ILO, 2011a).

<sup>10</sup> Available at: <http://eese-toolkit.ilo.org/> [accessed 15 Nov. 2012].

- *Deliberate steps should be taken to develop linkages of MNEs to the local and national economies, in particular in **SEECA countries**, but also in the **crisis-hit EU countries**: This is important in order to reap the benefits of foreign direct investment and the installation of MNEs. This may require a two-pronged approach by governments: to engage in capacity building and technological upgrading with SMEs, and to implement the appropriate policy and institutional framework to stimulate MNEs to invest in local supply-chain developments. The enhanced application of the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) to promote socially and environmentally responsible business behaviour by MNEs would, in turn, support better integration of MNEs and their greater contribution to national development.*



***Participants may wish to discuss the following questions during the thematic panel on Chapter 1***

1. The Report advocates a balanced, job-rich growth strategy that would stimulate the sustainability of development, economic growth and creation of quality jobs not only at national level but also at regional/local level (e.g., in so-called mono-industrial regions/towns or economically depressed regions in general). To make such strategies effective in view of overcoming and preventing crises, their outlines should be agreed through social dialogue at national or regional level. Do you currently see a real commitment of the government and the social partners in your country to reach such an agreement that would support economic recovery (e.g., in the form of a social pact)? What should be done to strengthen this commitment and collaboration?
2. The Report makes strong advocacy of job-friendly macroeconomic policies stimulating both public and private investment into the world of work and the real economy. Being under tremendous fiscal constraints, this is a major challenge for many countries. Do you agree with this or do you see different roads and options for reconciling fiscal constraints with the urgent need to get Europe back to work? How could more fiscal space be generated and invested to this end? Do you think your country has designed conducive policies in this respect? If so, how does or should such policy look like? If not, what are the main obstacles? Should social partners and social dialogue play a significant role here? How can the ILO be of further assistance in general and towards your country?
3. Wage and tax policies can be promising areas for reducing ever-increasing income inequalities and for overcoming the current recession by enhancing domestic demand, investment, growth and employment generation. In your view, is this finding relevant for your country with regard to the current political and economic context and is social dialogue strong enough to achieve appropriate changes in wage and tax policies?



4. Accumulation of relevant knowledge and skills of the labour force, and managerial and know-how experience in enterprises are key elements of a new industrial policy that would boost competitiveness, sustainable recovery and growth, and decent employment creation, important especially for countries mainly relying on export of raw materials or with a weakly developed export sector. A comprehensive strategy directed towards strengthening technical and vocational education and training (TVET) systems for youth and adults as well as a deliberate support for domestic enterprises to learn through cooperation with foreign enterprises, including MNEs, are the means to achieve it. In this regard, what is the main obstacle in your country that needs to be addressed in the first place and what assistance would you request from the ILO to overcome it?
5. Greening the economy is seen as an example of a successful industrial policy. While it opens new opportunities for sustainable development and decent job creation, it is however also connected with adverse social impacts in the declining industries and regions depending on these industries. The ILO Just Transition framework suggests a range of labour market and social policies to cope with this challenge. How can the ILO assist your country in strengthening these policies to achieve the best possible results for workers and employers in adjusting to change?
6. SMEs as well as social economy enterprises are seen as the main job creators at present. Is the current legislative, institutional, investment and policy framework in your country conducive to their development and increasing their employment-creation capacity? What are the main barriers and what type of assistance would you expect from the ILO to overcome them?



## ***2. Promoting quality jobs through effective social dialogue and collective bargaining***

Sustainable economic growth and social development cannot be achieved if jobs are not of good quality. This chapter analyses factors that determine the quality of jobs in the region. It examines the impact of the economic crisis on job quality and labour market segmentation. It also demonstrates the contribution of strong social dialogue and collective bargaining to job quality and employment.

Section 2.1 documents the increased incidence in atypical forms of employment as well as high levels of informal employment, both of which expanded during the crisis. It analyses the causes and the negative consequences for workers engaged in these types of employment. It examines the extent to which these atypical forms of employment can serve as a stepping stone to permanent employment and possible strategies to promote transitions from informal to formal and more decent employment.

Section 2.2 shows that national collective bargaining systems differ greatly across the region in terms of the predominant bargaining level, the coverage of workers, the capacity of the social partners and the role that they play in shaping national economic and social policies, including in response to the crisis. While analysing these issues, the section documents recent labour law reforms aimed at the decentralization of collective bargaining and weakening of workers' protection.

Section 2.3 discusses wage trends and the relationship between wages and productivity in the region before and during the crisis. It examines some of the causal factors behind these trends. Three main factors are shown to be behind this discrepancy: the decentralization of collective bargaining and decreasing collective bargaining coverage; the lack of or the low minimum wage; and policy intervention in wage setting. Moreover, the decline in real wages and the wage share of GDP have had a negative impact on consumption and economic growth, thus contributing to the reduction in the quantity and quality of jobs.

Section 2.4 examines the impact of the crisis on OSH, both for workers who have been made redundant and for overloaded "lay-off survivors". It discusses the implications of cuts in OSH spending.

Section 2.5 examines the issue of compliance with labour legislation and regulation and the role of labour inspection.

Section 2.6 outlines a number of policy considerations to improve the quality of jobs and strengthen the impact of social dialogue and collective bargaining. It also provides questions to facilitate the discussion during the thematic panel on Chapter 2.

## 2.1. Promoting the quality of jobs and addressing inequalities in the world of work

### *Atypical jobs, informal employment and labour market transitions*

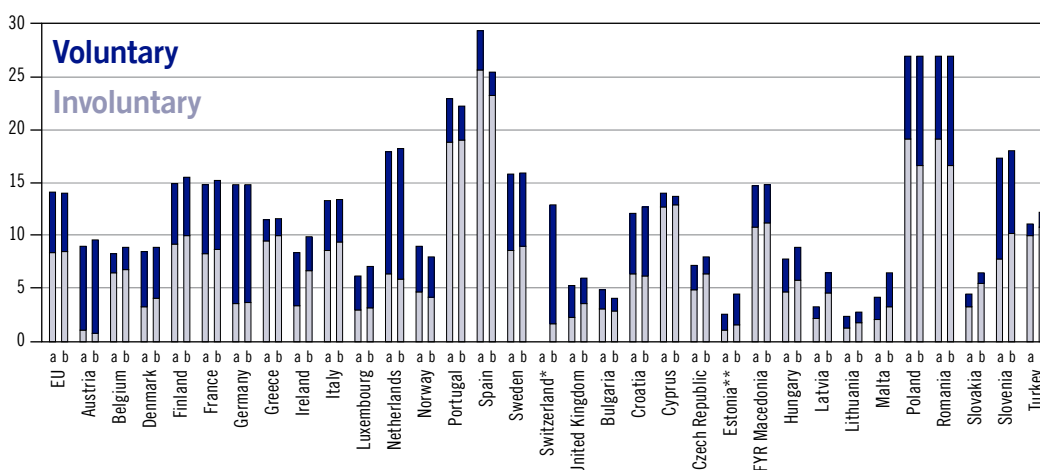
The Report prepared for the 8th ERM, as well as numerous other studies, document a continuous increase in the share of atypical forms of employment – including temporary employment, agency work<sup>11</sup> and part-time employment – in total employment. The economic crisis reinforced this trend.

In the case of temporary employment, figure 2.1 shows large cross-country differences in the share of temporary employment across the region. It demonstrates a significant decline in temporary employment in the initial phase of the economic crisis in 2009, as temporary workers were the first to be laid off, while workers with open-ended (permanent) contracts remained relatively protected. During the economic recovery in 2010–11 employers began to hire workers again, but largely on temporary contracts due to the prevailing level of uncertainty. Figure 2.1 also shows that the majority of workers that accepted temporary work did so because of the unavailability of permanent employment (60.4 per cent in the EU in 2011). The involuntary proportion of temporary employment increased during the crisis. The incidence of temporary work is particularly high among young and low-skilled workers.

The crisis also resulted in an increase in part-time employment (figure 2.2) in the vast majority of European countries. While most part-time workers preferred this arrangement, as indicated by the voluntary proportion of part-time employees,<sup>12</sup> the involuntary share of part-time employment increased during the crisis, particularly



**Figure 2.1. Temporary employees as a percentage of total employees, 2008 and 2011**

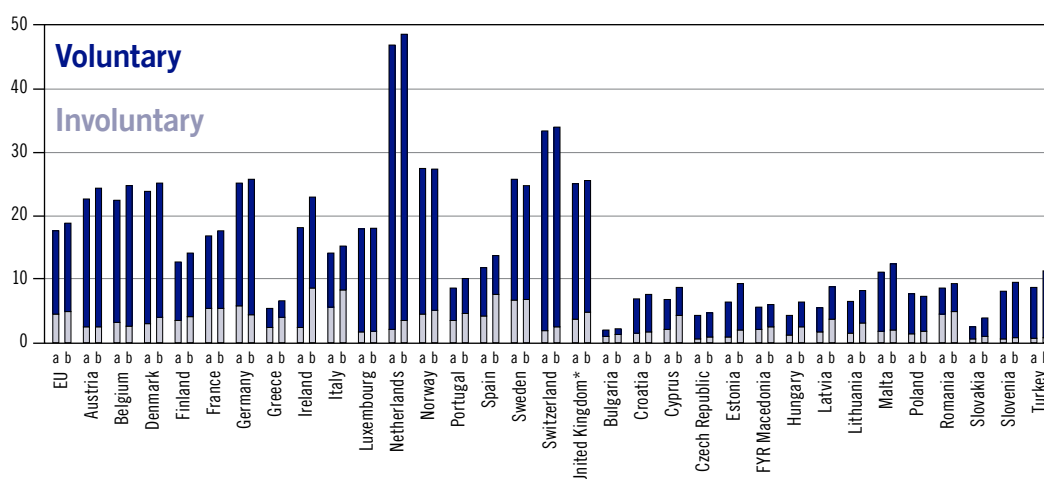


a = 2008; b = 2011. \* Switzerland, 2011 only; \*\* Estonia, 2009 instead of 2008.

Source: Eurostat.

<sup>11</sup> Agency work is a special form of temporary employment, with workers being employed on a temporary basis by an employment agency, which then hires them out to enterprises seeking temporary labour.

<sup>12</sup> Some experts raise doubts about the voluntary choice of part-time employment, pointing for example to the lack of, or the short opening hours of, childcare facilities.

**Figure 2.2. Part-time employees as a percentage of total employees, 2008 and 2011**

a = 2008; b = 2011. \* United Kingdom, 2009 instead of 2008.

Source: Eurostat.

in the Baltic States, Cyprus, Greece, Hungary, Italy and Spain. The incidence of part-time employment is significantly higher in the countries of northern and western Europe than in those of eastern and southern Europe. The main reason for this is the lower level of wages in the latter group. A larger proportion of women tend to be engaged in part-time work, as it helps them to combine work and family responsibilities: in the EU, 31.6 per cent of all employed women worked part time in 2011, compared with only 8.1 per cent of employed men.

Atypical jobs tend to be of lower quality in terms of the instability of employment, lower incomes, lack of access to on-the-job training, weaker OSH protection and inadequate social security. Estimates show, for example, that EU workers on temporary contracts earn on average 14 per cent less than those with permanent contracts (EC, 2010b, p. 134).<sup>13</sup> Furthermore, temporary workers, agency workers and the self-employed are traditionally not covered by social dialogue institutions and have not benefited from the anti-crisis measures adopted through social dialogue. The crisis has therefore accelerated the growing segmentation of European labour markets.

However, there is also a debate concerning the extent to which temporary employment can act as a stepping stone to more stable and better paid jobs, or whether these groups of workers remain trapped in a vicious circle of temporary jobs and unemployment as firms use them as a “buffer” to adjust their employment levels to temporary demand shocks. Some insight into this is offered by an analysis of the transitions of workers from temporary into permanent jobs in a sample of EU countries (EC, 2010b). The analysis reveals a diverse picture: in Belgium, Cyprus, Czech Republic, Finland, France, Italy, Poland, Portugal and Spain workers tend to remain in temporary work. In contrast, in Austria, Hungary, Ireland, Latvia, Slovakia and the United Kingdom, temporary workers are more likely to transit to permanent jobs, suggesting a “stepping stone” function of temporary work. Similarly, in Germany

<sup>13</sup> This is the net difference, after controlling for personal characteristics, such as age, gender, occupation, etc.

(which was not among the countries analysed), the transfer rate from temporary to permanent employment increased markedly from 39 to 56 per cent between 2005 and 2011 (IAB, 2012). The difference between the relatively strict EPL for open-ended contracts and the relatively loose EPL for temporary contracts, which is more typical of the first group of countries, is seen by some economists as a driver of labour market segmentation and the reason for the lower transition from temporary to permanent jobs (EC, 2010b). Another reason may lie in the structure and coverage of collective bargaining, as sectoral collective bargaining tends to provide better protection for all workers than decentralized bargaining (see section 2.2).

Recent labour market reforms in a number of countries in the region have gone in the direction of relaxing EPL for permanent contracts, but only in some cases has the regulation of temporary contracts been made more stringent (the recent labour market reform in Italy has introduced a maximum cumulative duration of temporary contracts set at 36 months and a surcharge on social contributions for such contracts which is, however, recoverable if the contracts are made open-ended). An overview of labour market reforms as they affect EPL in Eurozone countries is provided in table 2.1. It should be emphasized that most changes have been

**Table 2.1. Changes in collective bargaining and employment protection across the Eurozone countries\***

|             | Industrial relations                |                                                   |                                                      | Employment protection legislation (EPL) |                                     |                                       |
|-------------|-------------------------------------|---------------------------------------------------|------------------------------------------------------|-----------------------------------------|-------------------------------------|---------------------------------------|
|             | Tripartite national social dialogue | Changes in the regulation of industrial relations | Changes in the regulation of workers' representation | EPL changes for permanent employees     | EPL changes for temporary employees | EPL changes for collective dismissals |
| Austria     | Yes                                 | No                                                | No                                                   | Yes                                     | No                                  | No                                    |
| Belgium     | Yes                                 | Yes                                               | No                                                   | Yes                                     | No                                  | Yes                                   |
| Cyprus      | No                                  | Pending                                           | No                                                   | No                                      | No                                  | No                                    |
| Estonia     | Yes                                 | No                                                | No                                                   | Yes                                     | No                                  | Yes                                   |
| Finland     | Yes                                 | Yes                                               | No                                                   | No                                      | Yes                                 | No                                    |
| France      | No                                  | No                                                | Yes                                                  | Yes                                     | No                                  | Yes                                   |
| Germany     | Yes                                 | No                                                | No                                                   | No                                      | No                                  | No                                    |
| Greece      | No                                  | Yes                                               | No                                                   | Yes                                     | Yes                                 | Yes                                   |
| Ireland     | Yes                                 | No                                                | Yes                                                  | No                                      | No                                  | Yes                                   |
| Italy       | Yes                                 | Yes                                               | No                                                   | Yes                                     | Yes                                 | No                                    |
| Luxembourg  | No                                  | Yes                                               | No                                                   | Yes                                     | No                                  | No                                    |
| Malta       | No                                  | Yes                                               | No                                                   | Yes                                     | No                                  | No                                    |
| Netherlands | Yes                                 | No                                                | Yes                                                  | Yes                                     | Yes                                 | No                                    |
| Portugal    | No                                  | Yes                                               | Yes                                                  | Yes                                     | Yes                                 | Yes                                   |
| Slovakia    | No                                  | Yes                                               | Yes                                                  | Yes                                     | Yes                                 | Yes                                   |
| Slovenia    | No                                  | Yes                                               | No                                                   | No                                      | No                                  | No                                    |
| Spain       | Yes                                 | Yes                                               | No                                                   | Yes                                     | Yes                                 | Yes                                   |

\* Cut-off date is March 2012.

Source: ILO (2012b, Chapter 2), The European Industrial Relations Observatory, ILO EPLex and NATLEX, and national sources.



introduced with only limited social dialogue. Moreover, the reasons behind labour market segmentation and lower transitions to permanent jobs are complex. They are not necessarily linked to the relatively lower labour market flexibility resulting from relatively stricter EPL and centralized collective bargaining, but also to the lower level of access by temporary workers to training and other ALMPs intended to improve their employability and chances of redeployment, and to their lower coverage by social protection when moving to new jobs. Policies addressing temporary workers should therefore cover several areas and be identified and agreed through processes of social dialogue.

In light of the above, the debate should concentrate on how to better protect workers' rights against the backdrop of labour market segmentation and adjustable labour markets.<sup>14</sup> Social dialogue and collective bargaining are instrumental in weathering these challenges. The objectives to be met are the balancing of the need for enterprises to adapt to a fall in aggregate demand and the freezing of credit channels (see Chapter 1, section 1.2) with the increased requirement of workers for employment and income security.

To ensure employment security it is essential to keep workers in the labour market and provide them with protected mobility. In this regard, stimulation of internal adjustment within enterprises should receive more attention. It is also key to find the right balance between internal adjustment through redeployment within the enterprise, or the adjustment of working time or wages and external adjustment through lay-offs if internal adjustment is not feasible. For example, the German case with massive use of work-sharing and short-time working schemes instead of lay-offs, tends to support those who advocate fairly strict employment protection to ensure greater security against lay-offs, combined with subsidized internal adjustment. In any case, the employment and income security of workers, particularly those threatened with redundancy or already made redundant, should be strengthened. This can be achieved through an improved and adequate income support during unemployment. For instance, in many countries temporary workers with contractual arrangements under one year are not entitled to unemployment insurance benefits (see Chapter 3). On top of better income support, more and more effective assistance for active job search and support for skills upgrading and re-employment through broad access to job placement by PES and to effective ALMPs are needed (see Chapter 3).

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<sup>14</sup> The subject was partly discussed at the 7th and 8th ILO ERMs under the issue of flexicurity. At the 7th ERM the following consensus was reached: "A policy of flexibility and security for enterprises and for workers by providing new training opportunities to improve employability, job search assistance, income support and social protection has worked well in some countries. Critical elements in balancing flexibility with security are tripartite social dialogue in the framework of broader national macroeconomic strategies, collective bargaining and respect of labour legislation." The conclusions of the 8th ERM stated: "Flexicurity is not a panacea and cannot achieve all goals: it can facilitate labour market adjustment, but cannot create jobs in the absence of positive interaction with the macroeconomic environment."

### *The challenge of informal employment*

Informal employment,<sup>15</sup> which is typically associated with poor job quality, also represents a concern for the region, with great disparities between countries. Estimates of the size of informal employment vary widely, depending on the methodology used. For example, a recent study has estimated the share of informal employment in northern Europe at 10.7 per cent of total employment, and at 17.8 per cent in western Europe (Hazans, 2011). The ILO estimated that in 2009, the first year of the crisis, the share of informal employment was 26.5 per cent in Azerbaijan, 59.2 per cent in Kyrgyzstan, 15.9 per cent in the Republic of Moldova, 12.1 per cent in the Russian Federation and 30.6 per cent in Turkey. Informality is particularly prevalent in sectors such as agriculture and services (including hotels, catering and domestic work), although it is not limited to these sectors (ILO, 2012a).

Multiple factors drive informality in the region. In some cases, it may be the result of deliberate evasion of taxes and social protection contributions. This may include situations of undeclared or underdeclared earnings or fake self-employment, when the employment relationship is in reality dependent. The EU defines such types of activity as “undeclared work” which covers “any paid activities that are lawful as regards their nature but not declared to the public authorities, taking account of differences in the regulatory system of Member States” (EC, 2007). However, in most cases informality is not a choice and workers are pushed into it by a lack of good formal employment opportunities.

Evidence suggests that, within the region, the low-educated, the young (particularly students), the elderly and those with chronic health problems are more likely to accept informal employment. The gender dimension of informality is mixed. In eastern Europe, women are less likely to be in informal employment than men, while in western and southern Europe, women workers are more likely to work without a contract than their male counterparts. Migrant workers are also at particular risk of informality.

In general, informal employment involves high costs for the workers themselves, and also for governance institutions. It deprives workers and economic units of access to rights at work and recourse to justice, as well as social protection. Working conditions are often poor, and even hazardous, and sometimes involve child labour. Incomes are frequently low, with very little chance of upward mobility. Unsurprisingly, there are strong links between informality and poverty. For enterprises, informality restricts access to markets, technology and productive resources which would enable them to grow. For governments, it gives rise to lower income for state and municipal budgets, and lower revenues for social security and health-care systems.

Reversing the spread of informality is only possible by significantly increasing the scope and pace of the creation of decent work opportunities in the formal sector at the same time as augmenting labour inspection so as to extend the coverage of labour rights (see section 2.5). There is no universal formula to facilitate the transition

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<sup>15</sup> Informal employment relates to persons employed in jobs that lack basic social or legal protection or employment benefits and may be found in the formal economy, informal economy or in households. It therefore comprises: (i) own-account workers and employers employed in their own informal economy enterprise/production unit; (ii) contributing family workers, irrespective of whether they work in formal or informal economy enterprises; (iii) members of informal producers' cooperatives; (iv) employees holding informal jobs in formal or informal economy enterprises, or as paid domestic workers employed by households; and (v) own-account workers engaged in the production of goods exclusively for final use by their household (ILO, 2012m).

to formality and decent work. A set of pragmatic and multidimensional policies are needed, which can be combined in an integrated policy framework and adapted to the specificities of each national labour market.

## **2.2. Strengthening national tripartite social dialogue and collective bargaining**

### ***Collective bargaining in Europe and Central Asia: The main features***

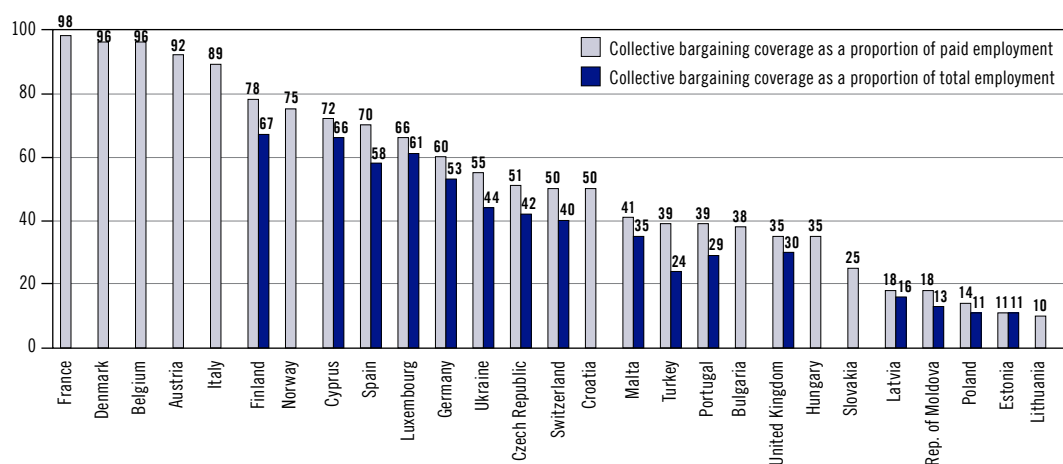
In the EU, there are two groups of countries with broad similarities in their collective bargaining systems. The first group includes most of the EU-15 countries, as well as Slovakia and Slovenia, and is characterized by relatively strong multi-employer bargaining institutions, with the *sector* as the main bargaining level and a high degree of coverage by collective agreements. The second group, which includes the United Kingdom and most of the new EU Member States, have comparatively weak bargaining institutions, with the *enterprise* as the predominant bargaining level and a relatively low degree of coverage by collective agreements (Schulten, 2005). Beyond this relatively clear-cut dichotomy between *centralized* and *decentralized* bargaining systems, many European countries in practice have a quite differentiated multi-level bargaining system in which different levels of bargaining (intersectoral, sectoral and enterprise) are connected. In addition, other forms of negotiations, such as tripartite consultations at the national level, often provide a framework for collective bargaining.

Many EU countries also have systems in which collective agreements are extended either automatically or by application to the public authorities (usually the Ministry of Labour) to similar employers who are not members of the signatory employers' associations. The possibility of the legal extension of collective agreements exists in 19 of the 27 EU Member States. In some countries, extension is legally possible but rarely used, either because few sectoral agreements are concluded, or due to the reluctance of the government to interfere in the autonomous process of collective bargaining (EC, 2011b). Moreover, some countries with well-developed industrial relations institutions have introduced procedural amendments to extend coverage to vulnerable workers. In Norway, a new act seeks to increase the effectiveness of the extension of collective agreements in sectors with a large proportion of migrant workers and to ensure the applicability of collective agreements to workers employed by subcontractors.<sup>16</sup>

The coverage of collective bargaining differs widely across the region, ranging from above 90 per cent in Austria, Belgium, France and Denmark, to around 10 per cent in Estonia, Lithuania and Poland (see figure 2.3).

With the deepening of EU integration, the transnational dimension of collective bargaining is becoming more important. There have been two developments in this regard. The first is the increased cross-border comparison of labour costs, flexibility and performance by MNEs, and the exchange of information and coordination of bargaining agendas by unions. The second concerns transnational negotiations between European industry federations, sometimes initiated by European Works Councils (EWCs), and an MNE, resulting in European Framework Agreements (EFAs). These

<sup>16</sup> For reference to the act and discussion, see Hayter et al. (2011).

**Figure 2.3. Collective bargaining coverage (percentage of employment)**

Source: Hayter and Stoevska (2011) and ILO (2011j).

agreements do not address core collective bargaining issues, such as wages and working time, but rather topics such as corporate social responsibility, the key principles underpinning company employment policies, business restructuring and specific aspects of company policy, such as health and safety (ILO, 2010a).

In the Western Balkan countries, tripartite social dialogue remains the main pillar of industrial relations. Significant efforts have been made in recent years to enhance the legal and institutional framework for tripartite consultation at the national level in Albania, Montenegro, Serbia and The former Yugoslav Republic of Macedonia. However, collective bargaining has received much less attention. The social partners have concluded a number of collective agreements, mainly in the public sector and at the enterprise level, in all these countries. In practice, however, these agreements are either outdated or only differ marginally from the provisions of labour legislation, and their enforcement remains fairly poor (GVG, 2010). The weak development of collective bargaining in the subregion is caused, among other reasons, by the weak organization of workers at the enterprise level in the expanding private sector and the weak capacities of employers' organizations at the sectoral level (*ibid.*).

In the CIS countries, collective bargaining takes place mostly at the national and enterprise levels. National negotiations involve the government alongside the national confederations of trade unions and employers' associations and lead to general agreements. These agreements contain fairly formal commitments that are not legally binding and mechanisms to monitor their implementation are often lacking. The direct involvement of the government in negotiations tends to create confusion between tripartism and voluntary collective bargaining, which should remain free from any form of government interference. Collective bargaining at the enterprise level tends to be confined to large and formerly or currently state-owned enterprises. The agreements concluded tend to be generous in terms of wages and social benefits.<sup>17</sup>

<sup>17</sup> For example, in Armenia, the collective agreement of Electric Networks of Armenia (ENA) provides for significant social benefits (a 50 per cent additional pension is paid to ENA retirees) and levels of wages (the lowest wage is two-and-a-half times higher than the national minimum wage).

### ***Recent legislative reforms and their impact on collective bargaining***

Legislative reforms adopted since 2010 as part of the structural reforms in a number of ECA countries (see table 2.1 for the Eurozone countries) to address the public debt and deficits and restore national competitiveness have had an adverse effect on industrial relations.

For example, in Romania, the new Social Dialogue Law significantly restricts the scope of collective bargaining in the public sector and modifies both the rules on representativity and the arrangements for tripartite dialogue at the national level. In Greece, the new legislation on which the austerity measures are based contains provisions undermining the autonomy of the social partners and voluntary collective bargaining. Companies that are experiencing adverse economic conditions are now permitted to conclude collective agreements containing less favourable conditions than those agreed at the sectoral level. In Italy, the Chamber of Deputies approved a new austerity plan in September 2011 which envisages the possibility of derogation, by company agreement, from the provisions of laws and agreements, including those governing lay-offs.

However, despite pressure towards the decentralization of collective bargaining and elimination of the extension of collective agreements in Europe, collective bargaining structures in many countries have remained relatively stable, while at the same time adapting through the articulation of issues at different levels. For example, the structure and functioning of collective bargaining in Austria, Belgium and Germany remained quite stable during the crisis. Finland returned to a practice of centralized collective bargaining, following the conclusion by the social partners of a national framework agreement, supported by the Government. The agreement is aimed at securing enterprise competitiveness and protecting employment and purchasing power in an uncertain economic context.

### ***The global economic crisis and the role of collective bargaining and tripartite social dialogue***

*Tripartite social dialogue at the national level* played a significant role during the first phase of the global economic downturn in helping many EU countries to devise tripartite responses to mitigate the social impact of the crisis and accelerate recovery. Tripartite consultations between the government and social partners led to innovative joint initiatives and agreements, such as the short-time working schemes in Austria, France, Germany and the Netherlands, and the framework agreement in Finland. Tripartite consultations also played a role in the CIS and Western Balkan countries. In Kazakhstan and the Russian Federation, the social partners were involved in the design of anti-crisis plans. In Serbia, the Economic and Social Pact signed in April 2010 consisted of a tripartite response to the economic crisis.

The crisis also resulted in innovative collective agreements at the *intersectoral* and *sectoral levels*. Work-sharing arrangements and pay flexibility figure prominently in these agreements. A common theme in the French and German metalworking and the German chemicals sectors was “employee leasing”, an innovative alternative to short-time work and redundancy, whereby employers with surplus staff can loan them to other companies with staff shortages (EC, 2011b). In Belgium, an exemplary



inter-sectoral agreement, which was given legal backing in March 2009, opened the door for innovative sectoral negotiations.

At the *enterprise level*, negotiations tended to follow two approaches. The first was a reactive strategy aimed at survival, through which the social partners attempted to cut both jobs and wages, sometimes combined with an uncompensated extension of working time. The second, “high-road” approach, involved agreement to a package of short- and longer term measures aimed at maintaining income and employment through, for example, work-sharing arrangements combined with retraining and employability measures to improve the sustainability of the enterprise (ILO, 2010a).

In the face of a debt crisis, a number of governments retreated from social dialogue on issues related to fiscal consolidation and the related structural reforms, presenting these as inevitable and non-negotiable. Unilateral measures were adopted in Italy and Spain, where the Governments used legislative decrees to introduce austerity packages and changes in employment legislation.

### ***Trade union actions and strategies***

At the EU level, the European Trade Union Confederation (ETUC) strategy has been based on several principles: defending the autonomous social partners in collective bargaining; combating unwanted decentralization; and increasing wages to reflect productivity gains and rises in inflation so that they boost demand.<sup>18</sup>

In individual EU countries, trade unions have strongly criticized the austerity measures and labour market reforms, emphasizing their negative impact on industrial relations and sustainable recovery, as well as the ways in which anti-crisis measures have been brought into force. They point to procedures adopted by national legislators, bypassing consultations and negotiations with the social partners, and even previously concluded national agreements (in Estonia, Hungary and Slovakia) and parliaments (in Greece and Italy), and they question the consistency of such practices with democratic principles.<sup>19</sup> The degrees and forms of union opposition to labour market reforms vary from country to country. In Bulgaria, the Czech Republic and Lithuania, it resulted in temporary union withdrawal from social dialogue. In other countries, such as Romania and Slovakia, the trade unions have combined social dialogue with efforts to build political alliances with left-of-centre parties with a view to reversing the legislation. In the crisis-hit countries, union strategies have alternated social dialogue with industrial action and mass mobilization.

In the Western Balkans, prospects for EU accession have given impetus to continuous legal and institutional reforms. Unions in Croatia, Serbia and The former Yugoslav Republic of Macedonia have strengthened their technical capacity to influence reforms, as well as wage and social security policies. Disagreements over representativity criteria have been a major issue in the subregion, as well as in the Ukraine. However, declining membership and insufficient coordination have limited the influence of trade unions. Internal union reforms have also been undertaken, for example, in Albania and The former Yugoslav Republic of Macedonia, with a view to

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<sup>18</sup> ETUC, Executive Committee, resolution “Collective bargaining: The ETUC priorities and working program”, 6–7 Mar. 2012.

<sup>19</sup> Pan-European Trade Union Council, PERC Policy Platform 2011–15, Brussels, 6 Dec. 2011.

consolidating branch structures, ensuring the participation of youth and women at the various levels and enhancing internal democracy.

In the Russian Federation, the trade unions, strengthened by coordination between the two major trade union confederations, have been able to use national agreements to secure certain improvements in working conditions. Trade unions in Azerbaijan, Kazakhstan, Kyrgyzstan and Tajikistan are undergoing internal reforms to strengthen internal democracy, build capacity and rejuvenate their membership. In terms of trade union rights, the unions in several CIS countries are still subject to strong and prolonged pressure. Obstacles to the registration of independent unions and anti-union discrimination and harassment are also continuing in Belarus. By contrast, the new Georgian Government is currently in the process of amending legislative obstacles to freedom of association and the right to collective bargaining that have been raised by the ILO supervisory bodies.

### ***Employers' organizations and the crisis***

Employers' organizations in many countries in the region have been able to constitute reliable partners for governments by keeping them informed of business needs for recovery from the crisis. Governments have been particularly receptive to innovative policy proposals from employers' organizations, and have shown a determination to pursue even politically difficult policy agendas (ILO, 2010b). However, in the current economic situation the challenges remain, and it is even more urgent for employers' organizations to push for the implementation of national reform programmes to restore the confidence of investors as the indispensable precondition for renewed growth and job creation.

In Western Europe, in terms of their roles, structures and membership, there has been overall stability and continuity for employers' organizations. In some CEE countries, employers' organizations have gradually extended their structures, member services and influence. Gratifying developments, for instance, included the consolidation of employers' organizations at the national level in Ukraine and the setting up of a new employers' federation in Albania. Unfortunately, in other countries in the subregion, employers' organizations have remained weak in terms of membership and influence, or have focused mainly on economic issues, paying little attention to labour and social matters. In the Western Balkans, employers' organizations continue to face a preference by governments towards Chambers of Commerce and Industry, or for offshoot business organizations which depend on the chambers administratively or financially. This situation reflects the ongoing lack of full recognition of the role of free and independent employers' organizations by the governments in these countries. In Central Asia, the development of independent employers' organizations continues to be hampered by difficult political frameworks, including the slow progress towards the market economy. Their weaknesses include a lack of representativity, visibility, recognition and influence, as well as shortcomings in terms of governance, revenues, administrative structure and services.



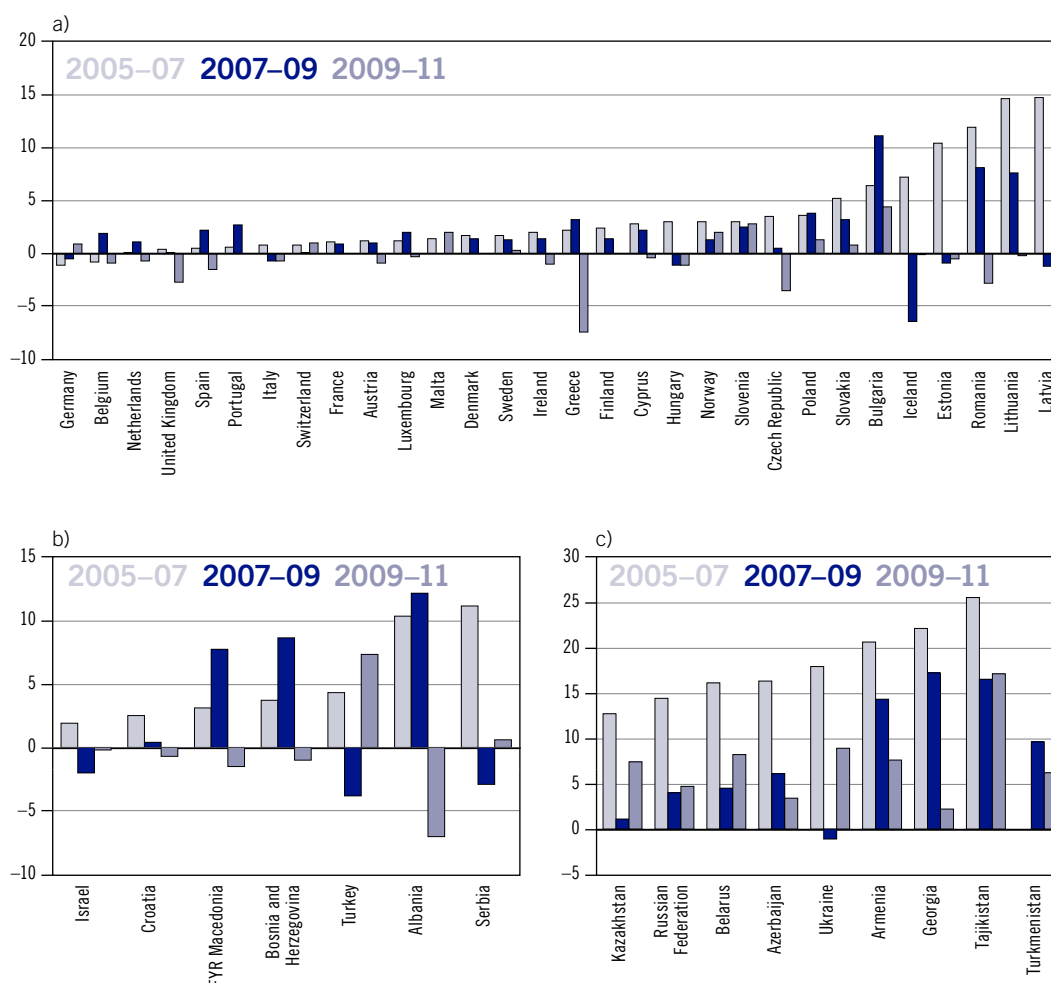
## 2.3. Wages, productivity and the role of social dialogue institutions

### Real wage developments

There has been great diversity in wage trends in the region over recent years (see figure 2.4). In Albania, the Baltic States, Romania and Serbia, as well as in Bulgaria and the CIS, real wages were growing at double digit rates before the crisis. However, during the recession, they suddenly dropped to negative rates in the first group, and slowed down significantly in Bulgaria and the CIS.

In the EU-15, the phenomenon of wage moderation that was a key characteristic of wage formation in years of economic growth continued during the crisis. In Greece, Ireland, Italy, Portugal, Spain and the United Kingdom, real wages declined. This was also the case in the Czech Republic, Hungary and Israel. By contrast, some countries were able to achieve stable real wage growth, particularly Norway, Poland, Slovenia and Sweden which recorded positive real wage growth both before and during the recession.

Figure 2.4. Real wage growth, 2005–11 (percentages)



Source: ILO global wage database.

The crisis reinforced the long-term trends of low pay and poverty in the region. In 2011, 18.6 million people were experiencing “in-work” poverty in the EU-27 according to Eurostat.<sup>20</sup> In SEECA, 8 million workers even live below US\$2 a day (ILO, 2012a).

There is also a significant gender wage gap in the region. In the EU-27, women’s hourly wages are 17 per cent lower than men’s, but in the Western Balkan countries this gap widens to 23 per cent, and is even greater in the CIS, reaching around 50 per cent in Georgia and 65 per cent in Tajikistan (Sattar, 2012, pp. 52–53; Eurostat for EU-27).

### ***Wages and productivity***

Figure 2.5(a) shows the relationship between the growth of average real wages and labour productivity as measured by output per person employed before the crisis (1999–2007) and in the period following the crisis (2008–11). During the earlier period, the relationship between wages and labour productivity varied within the EU-15. In some countries, such as Greece and Ireland, average wages grew more than labour productivity, while in Germany the average wage declined in spite of positive productivity growth. In Finland, France and the United Kingdom, they grew in parallel. In the EU-10, wages grew rapidly, particularly in the Baltic States, Bulgaria and Romania, on a par with labour productivity. The CIS countries recorded wage increases that greatly exceeded productivity growth.

During the crisis, the relationship between wages and productivity changed radically. Labour productivity growth rates dropped, but remained positive in most countries. In southern and south-eastern Europe and the Baltic States, and also in some Central European countries, labour productivity growth exceeded that of wages, while the opposite happened in the CIS and Bulgaria (see figure 2.5(b)). Two points stand out. First, most developed economies share the relatively narrow range within which real wage growth fluctuated both before and during the crisis. Second, the relationship between wages and labour productivity is fairly weak in most countries in the region.

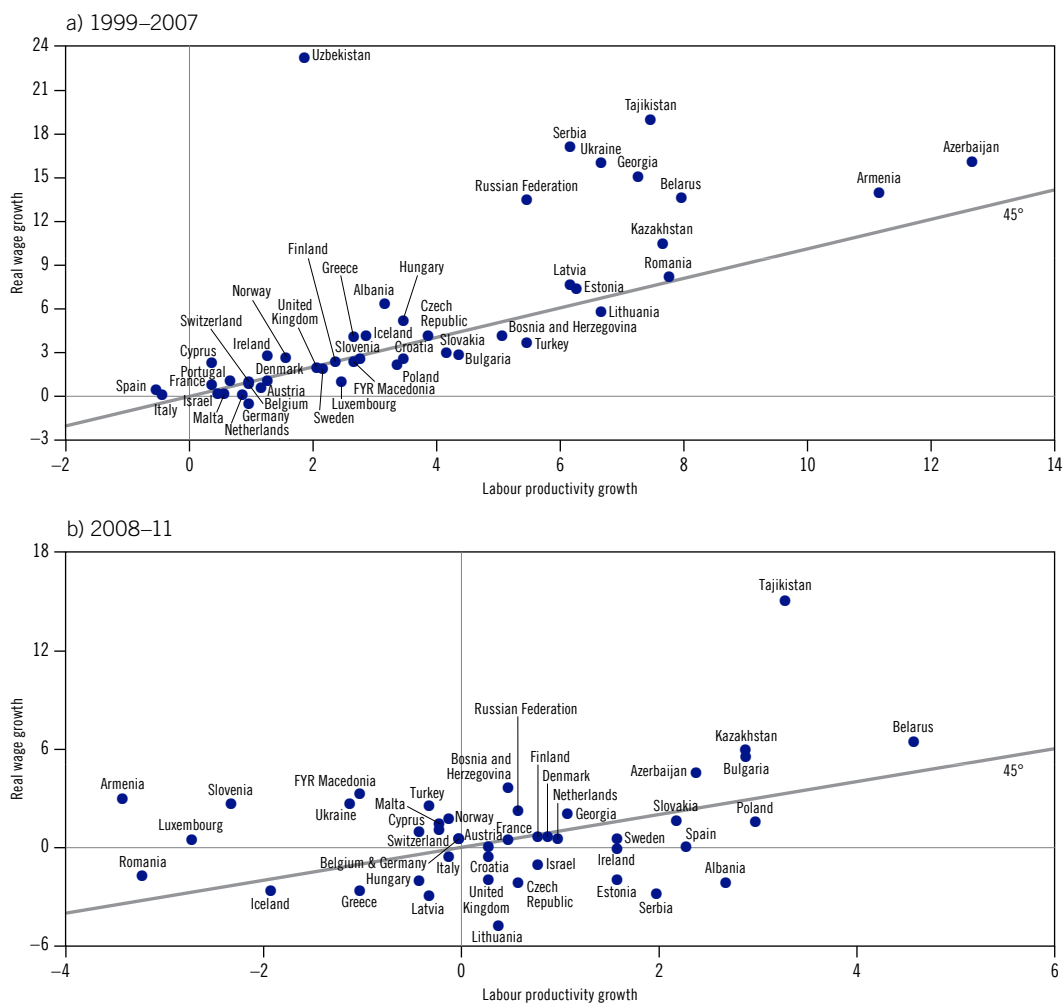
### ***The long-term decline in the wage share of GDP***

The discrepancy between wages and productivity is confirmed by the longer term decline in the wage share of GDP. Figure 2.6 illustrates the trend in the so-called “adjusted” wage shares for 2000–11.<sup>21</sup> It first shows that the wage share of GDP declined during the period of economic growth (2000–07) in nearly 70 per cent of countries, with the exception of the CEE countries (where strong wage growth merely compensated the serious fall in real wages during the transition period). The global economic crisis has only temporarily reversed this declining trend, as shown by the positive development of the wage shares of GDP in 2007–09. However, from 2009 the wage share of GDP again began to decline in nearly all countries.

<sup>20</sup> This figure is based on national poverty definitions.

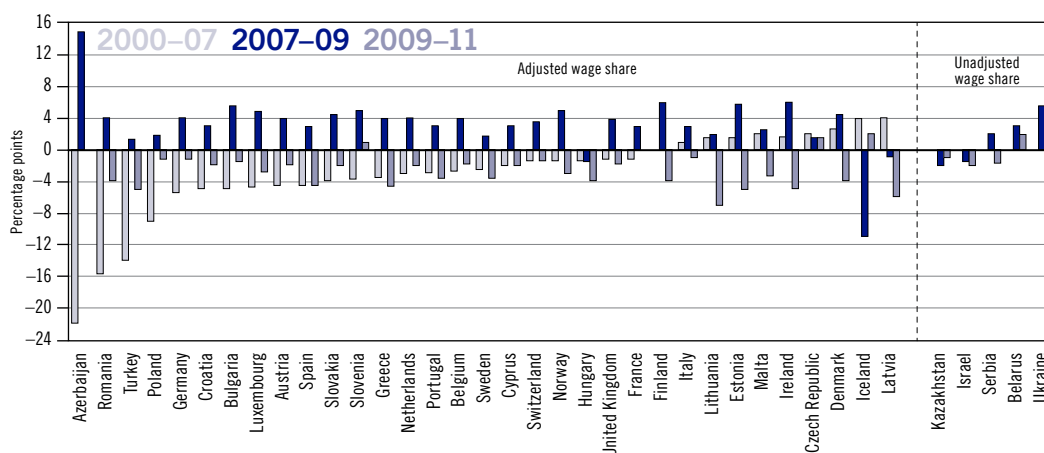
<sup>21</sup> For some countries only information on the non-adjusted wage share could be collected, which is equal to the total compensation of employees divided by GDP, while the adjusted wage share assumes that self-employed workers have similar average earnings to employees and adds it to the total compensation of labour.

**Figure 2.5. Labour productivity and real wage growth, 1999–2007 and 2008–11 (percentages)**



Source: ILO global wage database.

**Figure 2.6. The wage share of GDP, 2000–11 (change in percentage points between the two indicated years)**



Source: ILO global wage database.

### *Institutional factors*

A number of factors explain the great diversity in real wage trends and their relationship with productivity in the region, the most important of which are collective bargaining, minimum wages and policy intervention in wage setting.

*Collective bargaining systems:* In general, countries with weak collective bargaining institutions experienced immediate and dramatic wage falls during the crisis, while countries with a tradition of social dialogue and wage bargaining were able to limit the fall in wages. Even where employment retention was traded for a cut in wages, the negotiated wage decreases were less severe than those imposed unilaterally in countries with poor or no collective bargaining systems.

Moreover, in countries with high collective bargaining coverage and better coordination between the various collective bargaining levels (see section 2.2), wages tended to follow productivity better during the years of economic growth, and were more stable during the crisis.<sup>22</sup> By contrast, in countries with uncoordinated or weakly coordinated bargaining, real wages tended to grow less in line with productivity changes.

Regular and negotiated adjustments of the *minimum wage* have also contributed to improving wage trends, reducing wage disparities and limiting the number of low-paid workers. As a result, policy-makers have paid increased attention to the minimum wage in recent years (Vaughan-Whitehead, 2009). Table 2.2 provides an overview of minimum wage setting in Europe.

In a number of countries, such as Belgium, Poland and Portugal, policy-makers actively used minimum wages as a social protection tool for the most vulnerable workers during the crisis (ILO, 2010d). In contrast, the decision to freeze the minimum wage in Armenia, Georgia, Ireland, Serbia and Spain contributed to reducing wage growth during the crisis. The most extreme case is Greece, where the minimum wage has been cut by a dramatic 22 per cent from its previous value.

Another factor that has strongly influenced recent wage developments is *policy intervention in wage setting*. In order to reduce budgetary and fiscal deficits, many European governments decided to implement austerity packages, including significant cuts or freezes in public-sector wages. Wage cuts took the form of basic wage decreases in Estonia, Ireland and Romania, or the removal of 13th or 14th monthly salaries for public-sector employees in Greece and Hungary. Wage freezes in the public sector

**Table 2.2. Minimum wage systems, Europe**

|                                                     | European Union                                                                                                                                                                                                 | Other European economies                                            |
|-----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| National minimum wage                               | Austria, Belgium, Bulgaria, Czech Republic, Estonia, France, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, United Kingdom | Albania, Israel, Russian Federation, Serbia, FYR Macedonia, Ukraine |
| Minimum wages set by sectoral collective agreements | Cyprus, Denmark, Finland, Germany, Italy, Sweden                                                                                                                                                               | Iceland, Norway, Switzerland                                        |

Source: ILO global wage database.

<sup>22</sup> This is also the conclusion of the European Trade Union Institute (ETUI, 2012).

were also adopted in Serbia, as well as in Albania, Bosnia and Herzegovina and The former Yugoslav Republic of Macedonia. In contrast, the Nordic countries, which had already consolidated their budgetary situation, were under less pressure to carry out similar quantitative adjustments.

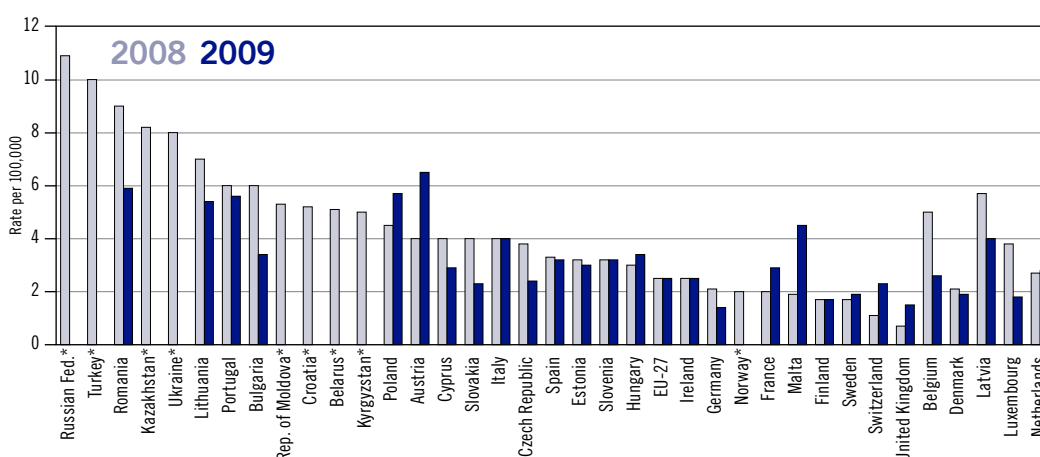
Policy intervention of this type has clearly limited the influence of collective bargaining and minimum wages, and had a direct impact on the motivation and productivity of public-sector employees, industrial relations, and the overall quality of public services (EC, 2012b). Interestingly, a rapid deterioration in the social climate seems to have been avoided in countries where tripartite consultations have been held on wage freezes or cuts, such as Estonia, in contrast with Latvia and Lithuania, and most recently Ireland.

## 2.4. Promoting safe and healthy working conditions

### *The impact of the economic crisis on safety and health in the region*

Occupational accidents and diseases are matters of health, but also have high economic costs for workers, enterprises and society as a whole (Dorman, forthcoming). Figure 2.7 shows the latest available figures on the incidence rates of work-related fatalities in a range of countries.<sup>23</sup> It shows broad differences across the region: countries in the eastern part of the region, particularly those that are dependent on agriculture and extraction industries, tend to have a much higher incidence of fatalities, compared with Western European countries. Before the crisis, all the countries in the region had recorded declining fatality rates, mainly due to the higher emphasis on prevention. This trend continued in most countries after the outbreak of the crisis, but mainly

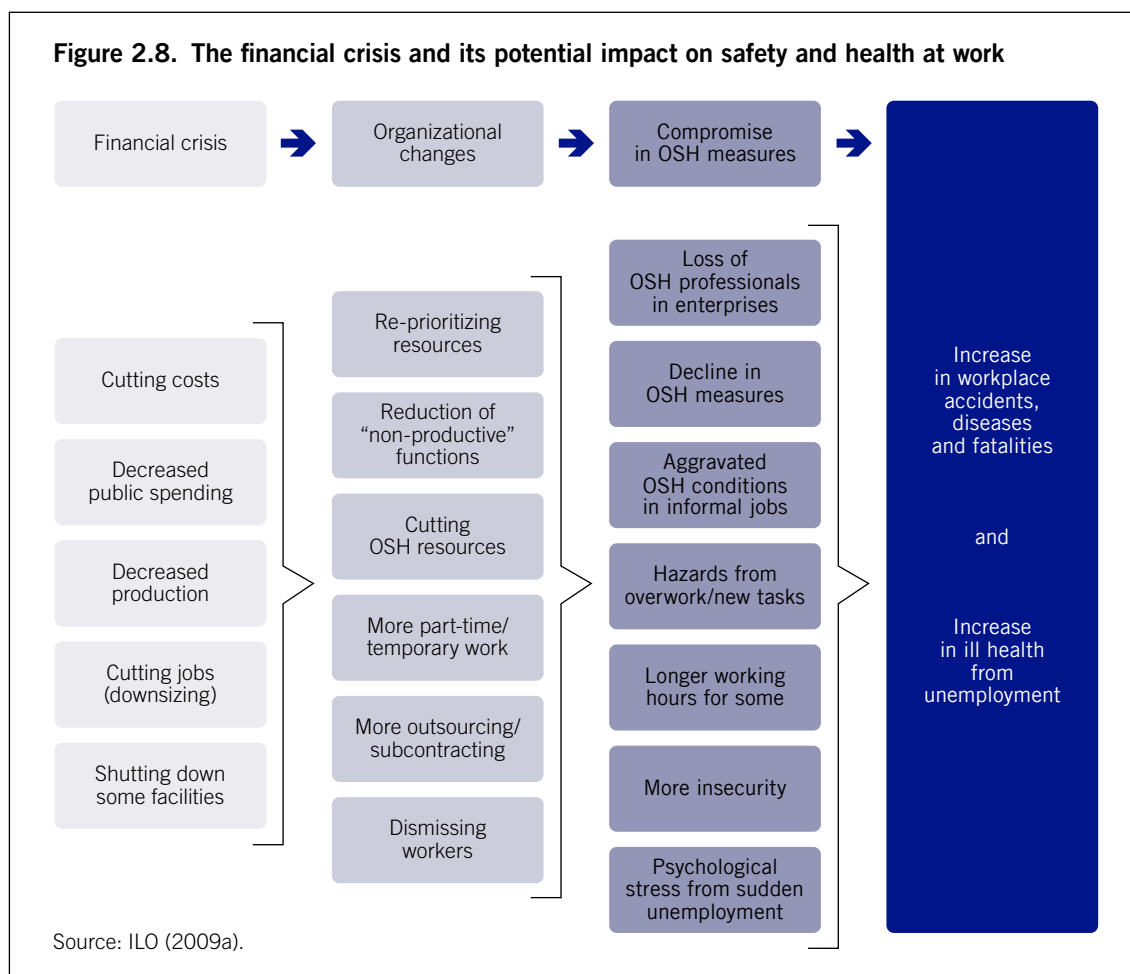
**Figure 2.7 Fatal accidents at work, 2008–09 (incidence rates per 100,000 employed)**



\*Data for 2009 not available.

Source: Eurostat, ILO Safework database.

<sup>23</sup> A work-related fatality is a death that occurs while a person is at work or performing work-related tasks.

**Figure 2.8. The financial crisis and its potential impact on safety and health at work**

because of the contraction of production in the crisis-hit construction and heavy industry sectors, although fatality rates also increased in some countries.

Nevertheless, organizational changes and restructuring, which emerged in response to the crisis, raise the danger of compromises in relation to OSH measures which may result in an increase in workplace accidents and diseases and in ill-health from unemployment, as summarized in figure 2.8 (ILO, 2009a).

Unemployment, especially when it lasts a long time, or repeated instances of unemployment, as is the case in the current crisis, has a significant negative impact on the mental and physical health of those concerned. However, attention also has to be paid to workers who continue to be employed after restructuring. These “lay-off survivors”, who are sometimes forced to work longer hours and are stressed by the threat of further downsizing, are at higher risk of suffering from psychosocial problems that are detrimental to their health and well-being, as well as from work-related musculoskeletal disorders (ILO, forthcoming).

The process of restructuring is also leading to the further use of outsourcing and increasing numbers of “contingent” workers and workers in atypical forms of employment, as discussed above. A growing body of international research indicates that such workers are at greater risk of occupational injuries (ibid.).

The recession is having a negative impact on the resources allocated to OSH protection, as revealed by an ILO survey of 13 MNEs with their head offices mainly in

France, Germany and the United Kingdom. These cuts in OSH spending are a false economy, as occupational accidents and diseases have very high economic costs. The ILO estimates the direct costs of working time lost due to occupational accidents and diseases at 4 per cent of global GDP annually (ILO, 2003).

An effective response to these challenges, especially during difficult economic times, needs to be based on a systematic approach to OSH through the adoption of a proper legislative framework, the formulation, in collaboration with the social partners, of a national OSH policy and through the introduction of risk management systems.

## ***2.5. Strengthening compliance through labour inspection***

### ***Labour law enforcement through labour inspection***

Changes in the labour market, further accelerated by the crisis, have led to the extension or modification of the functions of labour inspectorates. Labour inspection systems in the EU and other developed countries now cover the whole spectrum of employment relations issues, as well as OSH. In Bulgaria, the labour inspectorate has focused on the enforcement of specific laws and programmes as a follow-up to the Government's anti-crisis plan of action. There is also cross-border cooperation between labour inspectorates in frontier areas and in relation to posted workers.

Several SEECA countries, such as Albania and Ukraine, have recently launched labour inspection reforms, including the introduction of a central authority to improve the coordination of labour inspection services and promote effective enforcement policy. Labour inspection is also in the process of modernization in Armenia and Kazakhstan. In contrast, Georgia no longer has a labour inspectorate, and proposals to dissolve the labour inspectorate are being discussed in the Parliaments in Kyrgyzstan and Tajikistan.

During the crisis, many European countries have reduced the budgets of national labour inspectorates. This has resulted in a recruitment freeze (Ireland), or even staff reductions (Denmark), organizational changes aimed at reducing overall costs (Denmark, the Netherlands and Sweden), as well as cuts in staff salaries in crisis-hit countries (Greece, Ireland, Portugal and Spain). In contrast, many new labour inspectors were recruited in Italy, Portugal and Spain during the period 2008–09. Structural problems and budget constraints for national labour inspectorates have also been reported in the Balkan countries.

At the same time, national labour inspection services are being called on to strengthen their activities to improve compliance with labour legislation, which has deteriorated during the financial and economic crisis. Austria, the Czech Republic, Denmark, France, Greece, Ireland, Italy, Kazakhstan, the Netherlands, Portugal, Slovakia and the United Kingdom have also revised their procedures and penalties, and increased fines. Some have introduced or strengthened criminal liability for certain violations. In addition, non-traditional sanctions, as well as incentives for compliance, have been made available to labour inspectors and the judiciary to improve compliance. For example, the reforms in Italy seek a balanced combination of sanctions and promotional measures. In Denmark, Ireland, Portugal, Spain and



the United Kingdom, in cases of serious or recurrent violations, the penalty may include the requirement to publicize the identity of the offending employer/company. In Switzerland, sanctions can include increased insurance premiums, the withdrawal of permits, and the suspension or revocation of the enterprise's operating licence. In general, the credibility of labour inspection depends on its ability to advise, and lead discussion with, employers and workers on the most effective means of compliance.

### ***Cooperation between labour inspection and the judiciary***

The effectiveness of the measures taken by the labour inspectorate depends largely on the manner in which the judicial authorities deal with the cases referred to them by labour inspectors. In order to make an informed assessment of whether, with a view to bringing an end to a violation, it would be more appropriate to use measures within its mandate or to recommend prosecution, the labour inspectorate needs to be notified of the relevant information. The courts and the labour inspectorate therefore play a complementary role in ensuring the protection of workers and decent working conditions, and therefore need to collaborate closely. In a few countries, such as Austria, the judicial and administrative systems are even integrated.

In Belgium, the “Cheops system” provides a sustainable database for both judges and labour inspectors on a wide range of issues. In Greece, inspectors have the authority to prosecute violators in criminal courts for serious offences although, due to the delays in the judicial system, they often prefer to impose fines.

### ***The role of labour inspection in combating undeclared work***

Action to combat undeclared work usually forms part of a wider national strategy for the formalization of informal employment (see section 2.1). Labour inspectors are usually competent to monitor undeclared work. Special monitoring operations have also been carried out in certain economic sectors, for example, in Italy, Latvia, Poland, Portugal and Spain, with a view to curbing undeclared work and detecting irregularities in working conditions. However, due to the complexity of the issues involved, labour inspectorates cooperate with a number of other labour administration bodies, as well as with the social partners. This cooperation may be coordinated by a special interministerial unit, such as in the Czech Republic, France and Italy.

Action against undeclared work includes sanctions against employers using undeclared workers, introduction of identity cards and/or other types of worker registration, incentives for firms to register their activity and undeclared workers, information and dissemination campaigns and other measures. Many countries, such as Bulgaria, France, Greece, Italy, Portugal, Romania and The former Yugoslav Republic of Macedonia, have recently increased sanctions for the use of undeclared work. In Germany, employers using undeclared labour are liable to high fines and up to three years' imprisonment, while in Norway and Switzerland employers engaging undeclared workers can be imprisoned for up to six months. However, there is a danger that where labour inspectorates direct their attention at enforcing immigration laws against undeclared migrant workers, this may expose such workers to deep precarity and exploitation (see section 4.1).



## 2.6. Policy considerations and the way forward

This chapter has demonstrated the key role that tripartite social dialogue and collective bargaining play in formulating and implementing policies that improve the quality of jobs in terms of employment security, decent remuneration, healthy working conditions, and coverage by legal and social protection. Social dialogue and collective bargaining are also the key to improving the relationship between wage and productivity growth. The chapter noted the weak and underdeveloped collective bargaining systems in some new EU Member States and in the SEECA countries in general. It also highlighted with concern austerity measures and labour law reforms in ECA aimed at weakening the role of collective bargaining in wage formation and freezing or cutting wages in the public sector.

***To increase the quality of jobs and to mitigate labour market segmentation*** caused by – in many cases involuntary – atypical employment, tripartite constituents in the region could consider the following: consensus needs to be achieved on the appropriate regulation and social security coverage of atypical forms of employment, as well as on policies to stimulate the internal redeployment of redundant workers or, if that is not possible, their rapid placement in new quality jobs, with adequate income support during the move (see Chapter 3).

***For the transition from informal to formal and decent employment***, the countries in the region could consider adopting a long-term tripartite plan of action targeting several objectives simultaneously:

- 
- *promoting formal employment creation* through job-rich macroeconomic, industrial and enterprise policy, as discussed in Chapter 1, so that more formal and possibly more regular jobs are available on the labour market;
  - *reducing informal employment*, including undeclared work, by increasing the cost of informality through sanctions for violations of labour rights and tax avoidance, combined with the creation of an enabling environment that reduces barriers to formalization, opens the access of informal enterprises and workers to productive resources and legal protections, and builds the capacity of all stakeholders to improve working conditions; and
  - particularly in the less economically developed **SEECA countries**, *facilitating the move out of informality* by launching national social protection floors for all, implementing the minimum wage and health and safety measures, promoting the right to organize of workers and employers in the informal economy and developing social dialogue platforms. One of the promising paths to facilitate the transition to formality and decent work is also the development of the social economy, as discussed in section 1.4.

***Collective bargaining and social dialogue*** are important tools for shaping new, balanced and mutually coordinated economic, industrial, employment and social policies in all countries:

- *the social partners should be fully involved in the debate on austerity measures and the related structural reforms*, particularly in **crisis-hit EU countries**;
- *legislative reforms need to be reviewed* from the viewpoint of their impact on industrial relations and the autonomy of the social partners;

- *recourse to extension procedures for collective agreements at the sectoral level* should be maintained or, in the case of **EU-10** and **SEECA** countries, established/strengthened in view of their potential to keep stable or increase collective bargaining coverage;
- *collective bargaining needs to be strengthened at all levels*, particularly in the **EU-10** and **SEECA** countries; and
- *the technical capacities of the social partners need to be further strengthened*, particularly in **SEECA** countries, to enable them to play an important role in both bipartite social dialogue and tripartite consultations on national policies.

For *wages to follow productivity increases more closely and reduce in-work poverty* throughout the region:

- *collective bargaining on wage increases needs to be strengthened, particularly at sectoral level* while pay systems should also be related to enterprise performance through profit-sharing and profit-related pay to ensure a fairer distribution of added value;
- *minimum wage institutions should be developed* so that workers at the bottom of the wage scale are protected and do not fall below the poverty threshold. The minimum wage should be set so as to reflect both social and economic goals, that is, living standards and labour productivity; and
- despite the crisis, *governments should avoid interfering in wage setting*, as this immediately limits the role of the institutional factors described above.

With regard to improving *safety and health at work*:

- **SEECA** countries should endeavour to *further strengthen their national OSH legislation* and to *develop national tripartite OSH policies* as well as *risk management systems in enterprises*;
- tripartite policy-makers in **all countries in the region** should consider launching policies to encourage employers to reduce work-related stress by *incorporating psychosocial hazards in risk management strategies* and *investing in ergonomic equipment and other tools and practices* to prevent occupational accidents and diseases.

*Ensuring compliance with labour legislation through effective labour inspection:*

- *national labour inspections have to be reinforced* by improving their legal framework, professional management, the qualifications of labour inspectors, the tools available for promoting compliance with labour legislation and sanctioning infractions, and promoting cooperation with the judicial authorities, other state supervisory bodies and the social partners; and
- *measures to combat undeclared work need to be made more efficient* through a combination of incentives and sanctions to encourage firms to register their activities and abstain from using undeclared work. Such measures should be agreed upon through social dialogue and their implementation enhanced by the strengthening of labour inspectorates.



***Participants may wish to discuss the following questions during the thematic panel on Chapter 2***

1. In which area(s) do you see the main deficit(s) in the quality of jobs and employment in your country?
2. Is the suggested approach to strengthening employment retention measures together with active and passive labour market policies the right tool for addressing labour market segmentation and for facilitating labour market transitions?
3. Do you consider tripartite action for the transition from informal to formal and decent employment relevant and feasible for your country? In which of its components: (i) promoting higher formal jobs creation; (ii) augmenting labour inspection so as to apply labour laws effectively throughout the labour market; (iii) reducing informal employment by increasing the costs of informality; and (iv) using training and other incentives to facilitate the move out of informality, would you find ILO assistance most important?
4. How could collective bargaining and tripartite social dialogue mechanisms be strengthened in your country so that the views of social partners on economic, employment and wage policies and on their role in economic and labour market recovery are fully reflected in policy decisions?
5. What are the main impediments to stronger wage bargaining, to negotiating wages to grow in line with productivity and to setting the minimum wage so that it reflects both social and economic goals in your country? Will you continue to seek ILO help in overcoming these impediments?
6. Is national labour inspection effective enough to enforce labour legislation, ensure safe working conditions and combat undeclared work in your country and would you consider support for labour inspection as a priority for ILO assistance?



### ***3. Tackling the youth employment crisis and the challenges of an ageing society***

Youth and older people – the two groups at the beginning and at the end of the employment life cycle – are particularly vulnerable. While young people have tremendous problems in getting access to the labour market, older workers often encounter difficulties in employment and occupation because of advancement in age. These may often cause premature withdrawals from the labour market. This situation will exacerbate in view of the ageing society that will reach historic peaks in the decades ahead. Subsequently, when fewer young and older people are able to find a job or remain in employment, this may put social protection systems at risk. Lower contributions to unemployment benefit schemes, pension systems and other social security plans threaten the financial sustainability of these systems with potentially negative consequences for income distribution, inequality and poverty. This can, in turn, impact on the demand for goods and services, and adversely affect economic growth. Subsequently, the situation of young and older workers and jobseekers represents a twin challenge for labour market, employment and social protection policies.

Young people have disproportionately borne the brunt of the jobs crisis. Their average unemployment rate in the EU is twice as high as that of adults, with a tendency to increase further. This may seem paradoxical given the shrinking proportion of youth – arguably the best educated young generation ever – in the labour force and the progressively ageing population in most countries of the region.<sup>24</sup> Young people are the future of the economy and society. Youth will become a lost generation if they do not acquire at a young age the relevant skills, jobs in which they can use these skills and earnings with which they can live and lead a self-determined life. Moreover, such a situation is already contributing to mounting social unrest and undermines the European Social Model. Therefore, urgent and decisive action is needed to overcome the main causes of the youth jobs crisis.

However, attention also needs to be given to facilitating the re-employment of workers who have lost their jobs during the crisis, and to promoting or maintaining labour market inclusion of vulnerable groups, in particular older workers. This chapter therefore focuses on labour market, employment and social protection policies addressing the twin challenge of youth unemployment and the re-employment of older workers. Policies offering sustainable solutions can consist in stimulating employability through education, training and skills development, (re-)employment through job placement services and ALMPs and providing adequate income security through comprehensive and sustainable national social security systems.

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<sup>24</sup> In the ECA region, only Albania, Azerbaijan, Kyrgyzstan, Tajikistan, Turkey, Turkmenistan and Uzbekistan do not yet face the challenge of an ageing population.

Section 3.1 provides an overview of labour market developments for young, prime-age and older workers since 2008. It emphasizes, in particular, the bleak employment situation of youth. It summarizes the main obstacles to youth employment and discusses the re-employment challenges faced by other vulnerable groups, especially older workers.

Section 3.2 assesses policies to promote relevant skills development and decent employment for young people and the effectiveness of different policies and approaches. It advocates a multi-pronged strategy that combines a range of measures tailored to the specific needs of different youth groups.

Section 3.3 reviews policies implemented during the crisis across the region to stimulate the transition of redundant workers to new jobs. In particular, it examines the role of active ageing policies in tackling the demographic challenge.

Section 3.4 analyses weaknesses in national social security systems in terms of coverage, adequacy of benefits, income security in cases of temporary or permanent loss of earnings from employment, and sustainability. It considers options for ensuring social security for all.

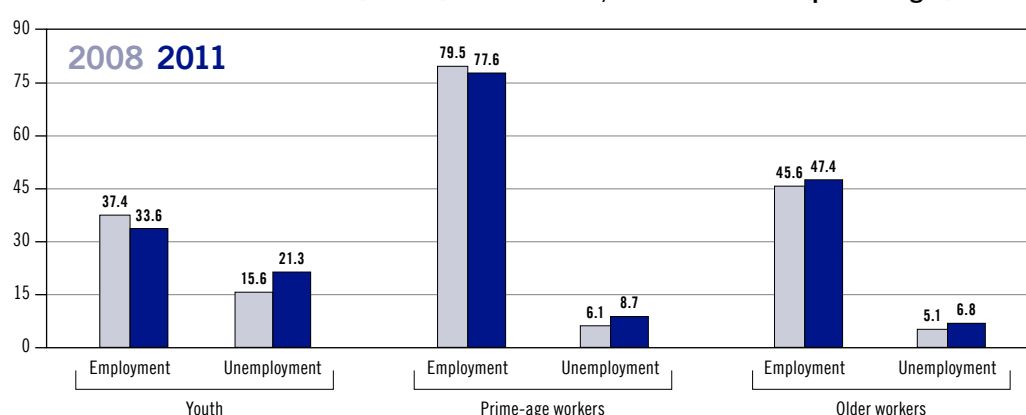
Section 3.5 concludes with policy considerations for significantly improving the employment and income prospects of youth and other working-age groups. It also provides questions intended to facilitate discussion during the thematic panel on Chapter 3.

### ***3.1. The tough labour market challenges facing mainly young people, but also prime-age and older workers***

Chapter 1 highlighted the significant job losses and sharp increase in total unemployment since the onset of the economic crisis, in particular in the EU. This affected various working-age groups in different ways (figure 3.1).

A comparison of employment and unemployment rates for the three main working-age groups in the EU shows the extreme plight of young people: the youth employment rate sharply declined by 4 percentage points during the crisis and the

**Figure 3.1. Employment and unemployment rates for youth (15–24), prime-age (25–54) and older workers (55–64) in the EU-27, 2008 and 2011 (percentages)**



Source: Calculations based on data from the Eurostat statistics database.

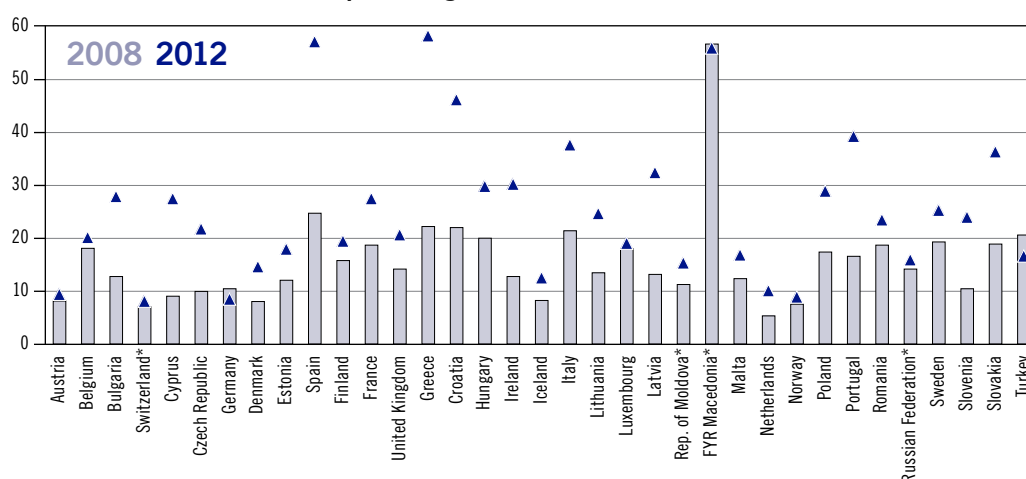
already very high unemployment rate further increased by almost 6 percentage points. This is the highest among the three working-age groups. Figure 3.1 also shows the deteriorating labour market situation of prime-age workers as a result of extensive job losses. By contrast, employment of older workers improved during the crisis, but it still remains well below the rate for prime-age workers. Unemployment for older workers also increased, but by less than it did for the other age groups. However, as most ECA societies face a fast process of ageing (see more detailed projections in section 3.3), the labour market situation of older workers will rapidly deteriorate. These trends present significant challenges to labour market inclusion for the three age groups.

### *The critical youth unemployment situation*

Young people were already facing disproportionately high unemployment rates, compared to the adult population, before the economic crisis hit. This situation has been exacerbated by the crisis. Across the EU, the youth unemployment rate jumped from 15 per cent in February 2008 to 23.7 per cent in November 2012. This regional figure, however, hides wide differences among countries, ranging from 8.1 per cent in Germany to 56.5 per cent in Spain (both figures for November 2012), 57.6 per cent in Greece (September 2012) and outside the EU to 54.8 per cent in The former Yugoslav Republic of Macedonia for 2011 (figure 3.2). The youth unemployment rate was over 20 per cent in two-thirds of the 35 ECA countries included in this graph. Greece and Spain, together with Croatia, have also experienced the sharpest rises in youth unemployment during the crisis.

The protracted growth in the number of young unemployed has also aggravated their long-term joblessness: in the second quarter of 2012, nearly one-third (32.6 per

**Figure 3.2. Youth unemployment rates in selected ECA countries, 2008 and 2012 (percentages)**



\* Data available for 2011.

Notes: October 2012 data for: Estonia, Hungary; September 2012 data for: Cyprus, Greece, Latvia, Norway, Romania, Slovenia, Turkey and United Kingdom.

Source: Data for 2008 and 2011: ILO (2012e, table 10). Data for 2012: Eurostat statistics database.

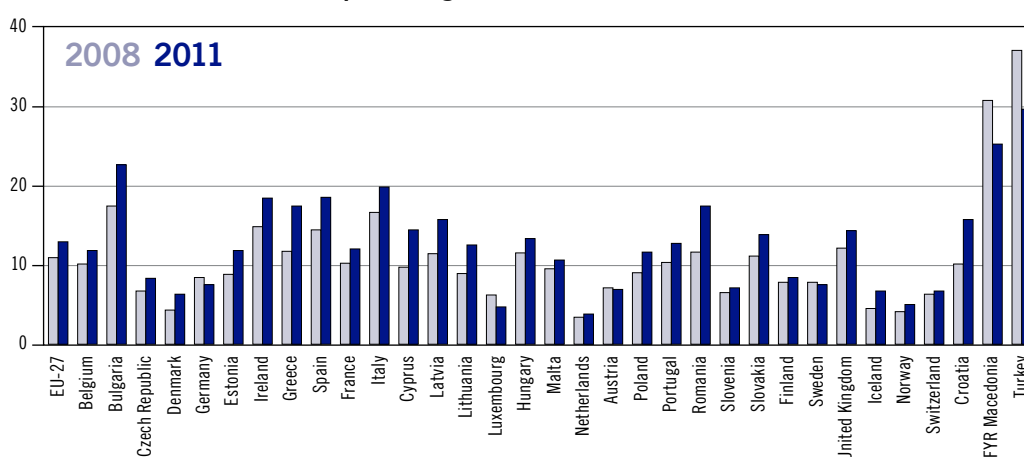


cent) of all unemployed youth in the EU were without a job for more than 12 months; however, in Bulgaria, Greece, Ireland, Italy and Slovakia, this share exceeded 45 per cent by the third quarter of 2012. Unemployment dramatically increased for all young people, regardless of their level of education. While the unemployment rate tended to be lower for those with higher education levels (16.6 per cent for university-educated youth, 19.2 per cent for youth with upper secondary and post-secondary education, and 30.7 per cent for low-skilled youth in the second quarter of 2012), the rise in unemployment among the most educated youth was particularly steep in countries such as Greece (53.2 per cent unemployment rate for tertiary-educated youth), Portugal (42.8 per cent), Spain (39.5 per cent) and Cyprus (31.8 per cent) in the third quarter of 2012. This is clearly a waste of young talent.

### *The crisis of youth not in employment, education or training (NEET)*

The crisis has also led to an increase in NEET rates across the region. Figure 3.3 shows that the NEET rate in the EU in the 15–24 age group was 12.9 per cent in 2011 (an increase of 2.1 percentage points from 2008), while in the 25–29 age group it reached as high as 19.8 per cent. There are huge cross-country differences too: in the Netherlands the NEET rate is just 3.8 per cent, while in Bulgaria almost one in four young persons is affected. A recent study estimated the economic costs (in terms of resource costs due to forgone earnings, and public finance costs due to excess transfer) of NEET in 26 EU countries at €153 billion in 2012, which corresponds to 1.2 per cent of their aggregated GDP (Eurofound, 2012). For young people, protracted unemployment or inactivity for reasons other than education/training presents a significant risk, as there is a high probability that this will negatively affect their labour market inclusion, quality of employment and income prospects over their entire career. According to one study, one year of youth unemployment can result in a 13–21 per cent reduction in annual earnings by the age of 42 (Gregg and Tominey, 2005).

**Figure 3.3. NEET rates in selected ECA countries for youth aged 15–24, 2008 and 2011 (percentages)**



Source: Eurostat statistics database.

### ***Youth in atypical forms of employment***

The incidence of atypical forms of employment is very high among youth: in the EU, in 2011, some 42.5 per cent of all young workers were working in temporary jobs (three times the proportion for the total working-age population), of which more than one third were doing so involuntarily. In Slovenia, for example, three out of every four young workers have temporary contracts. In addition, 29.7 per cent of young people worked part-time in 2011. While in some cases this is a voluntary choice, allowing them to combine work with studies or family, the share of involuntary part-time workers rose by almost 5 percentage points during the crisis. The most striking increase in the proportion of young part-time workers occurred in Ireland, by 20 percentage points since 2007, indicating a push for such employment among students but also efforts on the part of employers to save on labour costs during the crisis. A recent analysis estimates that the share of young EU workers in the informal economy is about 17 per cent, compared to 7 per cent for prime-age workers (25–54 years) (Hazans, 2011). An analysis of informality among youth living in eight selected countries in Eastern Europe and the Caucasus showed that, in 2009, one third of total youth employment was in the informal economy (ILO, 2011c).<sup>25</sup>

In order to support and strengthen the consultation processes leading to the general discussion on the youth employment crisis at the 101st Session of the International Labour Conference, in 2012, a series of 11 national events were held in Brussels (a regional event for the EU), Armenia, Azerbaijan, France, Georgia, Italy, Serbia, Spain, The former Yugoslav Republic of Macedonia, Turkey and Ukraine, and attended by young people, government representatives, social partners and civil society. Participants in these events identified five main challenges faced by young people in their pursuit of decent jobs that need to be urgently addressed by appropriate policies: (1) a low level of labour demand and a lack of decent jobs; (2) segmented national labour markets that penalize young people in terms of wages, career prospects, training provision and job stability; (3) a mismatch between the education and training that young people have received and the skills demanded by the labour market; (4) a difficult school-to-work transition often linked to a lack of work experience; and (5) a lack of knowledge among young people concerning where and how to look for work (Deganis and Künzel, 2012, p. 1). In France, for example, young people pointed out that their whole generation has had to lower its ambitions and substitute career aspirations for the search of stability (idem, p. 13).

### ***Labour market challenges faced by prime-age and older workers***

In the case of prime-age workers, the main obstacle to re-employment is also the non-availability of decent jobs, which escalated during the crisis. The re-employment chances further decrease for low-skilled workers, long-term unemployed, workers with health problems, women caring for small children and/or disabled or elderly family members, migrant workers and disadvantaged ethnic minorities such as the Roma, who are in need of targeted programmes.

<sup>25</sup> The eight countries comprise Armenia, Azerbaijan, Belarus, Croatia, Georgia, Republic of Moldova, The former Yugoslav Republic of Macedonia and Ukraine.

The unemployment situation for older workers in the EU-27, shown in figure 3.1, seems to be better, compared with other age groups. However, it does not disclose the reemployment difficulties faced by older workers who have lost their jobs, which may cause them to withdraw from the labour market prematurely or to stay in long-term unemployment. A recent European Commission report has found that older workers, once unemployed, have the lowest probability of moving back into employment, compared with other age groups, and their unemployment duration is also much longer (EC, 2011c). There are a number of reasons for this including less intensive job searching, the perceptions of employers concerning the alleged lower productivity and readiness of older workers to learn new skills and adapt to organizational and other changes, health limitations and a mismatch with the skills required by the jobs available in the labour market. For male workers, age discrimination has already started by the age of 50, and for female workers this begins even earlier. Seniority wages or redundancy costs may increase the labour costs of older workers and play a role in the hiring decisions of employers, particularly within the context of the ageing society.

### **3.2. Skills development and employment promotion policies for youth**

The mounting youth jobs crisis prompted the Governing Body of the ILO to place this topic on the agenda for discussion at the 101st Session of the International Labour Conference, in 2012. The International Labour Conference adopted a resolution entitled *The youth employment crisis: A call for action*, which affirms that generating jobs for young people is of the highest global priority, underscores the importance of strong and sustained political will and partnerships, and calls for immediate and targeted action to tackle the global youth employment crisis (ILO, 2012f).

An ILO background report prepared for this general discussion reviews the outcomes and effectiveness of policies undertaken by member States in the follow-up to the conclusions concerning youth employment that were adopted at the 93rd Session of the International Labour Conference in 2005, and in response to the recent economic crisis (ILO, 2012g). A review of the policy frameworks of 138 countries was undertaken for this report and it revealed an increasing commitment by ILO member States to prioritize youth employment in their policy agendas. However, it also concluded that this commitment was seldom translated into a comprehensive policy framework establishing a clear set of policy priorities. In many cases, the provisions of various policies resulted in conflicting measures and goals, and a lack of coherence, limiting their impact. Another problem is that national policies usually concentrate on supply-side measures, mainly promotion of skills development for youth, and demand-side interventions to stimulate employment opportunities for young people are less frequent. Moreover, programmes target the reduction of unemployment and the creation of training opportunities, with little focus being given to improving the quality of jobs and reducing the disadvantages of young people. In addition, funding is often allocated for the implementation of programmes with limited outreach, and the resources earmarked for policy implementation are mostly underestimated (ILO, 2012g, pp. 32–33).

It is important to stress that youth employment is also one of the priority areas for the EU. Within the Europe 2020 strategy, several headline targets and flagship



initiatives are directed specifically, or together with other age groups, at young people.<sup>26</sup> In December 2011, the European Commission launched the Youth opportunities initiative, requesting governments and social partners to prevent early school leaving and to help young people acquire relevant skills, gain work experience and find a first job. The EU employment package, adopted in April 2012, which complements the employment priorities of the EU annual growth survey and provides medium-term policy guidance on promoting job-rich growth, refers to the Youth opportunities initiative. It emphasizes the need to prioritize support for the transition of young people to work, through youth guarantee schemes, activation measures targeting young people, quality training and promotion of youth mobility, and mobilizing available EU funding to supplement national resources.

Using the comprehensive roadmap provided by the ILC resolution *The youth employment crisis: A call for action*, the following section reviews policies that have proven to be effective in addressing the challenges discussed in this Report.

### ***Policies promoting relevant education and skills of youth***

As previously stated, many young people across the region are facing difficulties in finding a job because their educational qualifications (in terms of both their educational and skills profile) do not match the skills demanded by employers. Within the EU-27, the existence of 4 million vacant jobs, despite high unemployment, is symptomatic of this problem (as well as of deficiencies in the dissemination of information on job vacancies) (Matsumoto and Elder, 2010). This mismatch is even more serious in some SEECA countries: on the one hand, there are not enough high-skilled jobs for aspiring young university graduates and yet high unsatisfied demand exists for technicians of all skill levels and skilled blue-collar workers; and, on the other hand, the quality of education and training is lagging behind the requirements of the labour market. Moreover, projections of skills needs undertaken in the EU underscore the current trend towards job polarization, with job opportunities concentrated in high-level professional occupations and low-skilled retail, sales and service occupations. The emergence of new “green-collar” occupations (solar energy technicians, eco-designers and biofuel technicians, among others) also require higher levels of qualifications, particularly those relating to science, technology, engineering and mathematics, as the shortage of these skills impedes the transition to low-carbon green economies.

The ECA countries thus need to adjust their education and training systems to meet current and new demands for skills in their labour markets, and to improve further the quality of education and training provided. Sustained involvement of the social partners is fundamental to this strategy. This includes their engagement in setting national priorities, designing policies and monitoring their implementation. It also comprises direct involvement through industry skills councils and other sectoral bodies where employers’ associations and trade unions determine training needs, assure quality, and match workplace and classroom learning through a variety of cost-sharing and decision-making institutions (ILO, 2012g).

<sup>26</sup> The targets include 75 per cent of the 20–64 age group to be employed by 2020, the share of early school leavers to fall below 10 per cent and at least 40 per cent of the younger generation to have a tertiary degree. The most relevant flagship initiatives include Youth on the move, Agenda for new skills and jobs, and European platform against poverty. See EC (2012c).



Looking forward, *two policy areas offer promising avenues for providing young people with the marketable skills demanded by employers.*

First, *early school leaving needs to be prevented* as it adversely impacts on the employment prospects of young people. In 2009, a mere 48 per cent of early school leavers in the EU were in employment, while 52 per cent were either unemployed or had dropped out of the labour market (EC, 2011d).<sup>27</sup> At country level, efforts are ongoing to address the problem, most notably through the increase in the number of years of compulsory schooling, the fight against school absenteeism, the establishment of second-chance schools and training facilities, the provision of financial support to households at risk of poverty, the provision of extracurricular activities to expand opportunities for learning, and the development of targeted support for young people at risk of dropping out of school (through extra support classes, for example). The Finnish “search team” project provides an example of successful practice: an early school leaver gets a personal adviser who provides the counselling he or she needs either to get back into education or to find employment. Working in tandem, the two form an effective “search team” (EEO, 2011).

Second, there are the *dual TVET schemes*, which combine school-based education with in-company training and lead to a formally recognized qualification. Unfortunately, negative preconceptions and low social prestige surrounding TVET schemes still prevail as a consequence of low investment in TVET systems (including meagre wages for teachers, obsolete equipment and curricula) and disconnection of training facilities with enterprises (resulting in poorer quality of training and mismatch of training with the skills requirements of available jobs), in particular in the SEECA subregion. Youth may therefore opt for general education, even where there is high graduate unemployment and available vacancies requiring technical and vocational skills. The value of the dual TVET model rests in its ability to simultaneously address two key challenges facing youth today: it improves their employability by closely aligning their training with the skills requirements of the local labour market, and it eases their school-to-work transition by providing them with practical work experience. Effective dialogue between national authorities, training institutions, social partners and local enterprises lies at the heart of this model’s success. Close and sustained collaboration between all parties is essential to maintaining relevant and high-quality curricula and ensuring that a sufficient number of apprenticeship places are offered by employers (EC, 2012d). Well-established dual systems in countries such as Austria and Germany, which have some of the lowest rates of youth unemployment in Europe, can inspire countries across the region to adopt and adapt this model. As establishing a country- or sector-wide dual system is a long-term undertaking, countries may also opt to introduce practical training modules into the vocational education stream (ibid.).

### ***Employment programmes for youth***

There are a number of ALMPs that have proven effective in promoting youth employment.

*Provision of employment services to young jobseekers*, including job search assistance, career guidance and labour market information is carried out by PES. PES

<sup>27</sup> The EU defines early school leavers as those aged 18–24 with, at most, lower secondary level education and who have not progressed to any further education or training.

provide young people with up-to-date information on job vacancies, register jobseekers and facilitate their job placement by referring them to vacant jobs and organizing job-search courses and job fairs, among other things. They also offer personalized career guidance to harder-to-place youth based on a young person's individual characteristics (including level of education, gender, socio-economic background, national origin and state of health) and determinants of that person's disadvantage. They either encourage him/her to select further training or studies that lead to professions that are sought after in the labour market, or refer him/her to the most suitable ALMPs that match both the person's needs and the labour market opportunities. In the Republic of Moldova, 79 per cent of career guidance beneficiaries are young people under 29 years of age, while in Ukraine, 34 per cent of job placement services are targeted at young individuals (ILO, 2012g, p. 57). However, especially in the SEECA subregion, many young people, and in particular the disadvantaged, do not turn for assistance to PES, owing to poor staffing of these services, insufficient experience and motivation of counsellors (as a result of low wages and high staff turnover), weak links to local employers and low availability of ALMPs. PES thus need to be strengthened considerably in terms of personnel capacity and the financial resources for running effective ALMPs. In Germany, for example, according to a new law, the ratio of staff to clients among the longer term unemployed was reduced by law to 1 to 75 for youth (and to 1 to 150 for adults). PES should also work in close partnership with enterprises, as well as with local authorities, social partners and community-based organizations, in order to provide relevant services to all young jobseekers, including those that are hard to reach.

*Labour market training for unemployed youth* with low skills or skills not demanded by the labour market is essential in order to improve their employability and to equip them with the relevant skills in line with labour market requirements. For the growing number of discouraged youth, these training programmes also serve to help them remain attached to the labour market. This is the most widespread programme organized by PES for youth; in the Eurozone, in 2010, 45 per cent of all trainees were under 25 years old, while their share in all ALMPs was only 18 per cent, according to the Eurostat statistics database. However, training offered by PES is often only for the short term and may thus produce temporary, rather than sustainable, solutions. Training alone may also not be sufficient to increase the employment prospects of youth, and it should be combined with job placement assistance. Iceland's "Activating the young" programme serves as a good example: it offers young unemployed people aged 16–29 various courses in selected secondary schools, in information technology, basic clerical skills and creative arts, together with private counselling and job search assistance, and it has had very good results (EEO, 2011).

*The school-to-work transition can be facilitated by government interventions in the form of wage subsidies and other incentives* (e.g., tax or social security exemptions for a limited period) for employers who hire young people. These time-bound subsidies compensate employers for initial lower productivity of young workers, allowing particularly disadvantaged youth to be targeted and helping to raise labour demand during economic downturns, especially in countries with higher labour costs. When combined with training and work experience, time-bound wage subsidies and other incentives can improve beneficiaries' chances of transiting to permanent employment. A good example of such a policy is the "First chance" programme implemented by Serbia's National Employment Service, which gives young jobseekers (under 30 years



of age) without significant prior work experience the opportunity to enter subsidized employment with private employers at a preset wage for six to 12 months (EEO, 2011). In order for such programmes to succeed, it is essential that they target, as a priority, hard-to-place youth and that they provide additional incentives for employers to keep these people beyond the subsidized period, for example through gradual lowering of the subsidy or a one-off grant. Similarly, internships can provide valuable work experience for young people; however, as these become more common, so too does the risk of abuse, especially during periods of economic downturn. Better regulation of internships is essential so that they provide relevant experience, access to opportunities and adequate compensation.

Some countries have also introduced *lower youth minimum wage rates*, sometimes combined with public in-work benefits to compensate for the loss of income. This is intended to facilitate the hiring of young jobseekers and at the same time discourage early school leaving. Some studies show that lower wage rates, together with other ALMPs, have enabled certain countries to improve the youth labour market situation.<sup>28</sup> However, such policies must be consistent with international rules and labour standards. For instance, in the case of Greece, the cut in the minimum wage for youth under 25 years of age by 32 per cent brought young people's minimum wages below the poverty line in early 2012. In this respect, the European Committee of Social Rights of the Council of Europe decided on 19 October 2012 that the austerity measures adopted in February 2012 and pushing the minimum wage below the poverty line for all workers, including young ones, violate point 1 of Article 4 of the European Social Charter.

Another employment programme for youth focuses on *entrepreneurship* as a career option that unleashes the economic potential of young people. In general, young people have less prior work experience and fewer entrepreneurial skills, business networks and savings than older individuals. They also have greater difficulties obtaining external finance, because banks and financial institutions regard them as a high-risk group. For these reasons, entrepreneurship components of youth employment policies are most successful when they target young people with the best chance of success, and provide integrated packages that combine training, support services and access to finance. Business incubators are a valuable policy tool in this respect. The Technology Centre and Business Incubator in Brandenburg, Germany, offers a "start-up package" that comprises tax consulting, advertising and banking services, as well as a physical work location and office equipment (OECD, 2012a).

*Employment-intensive public works and community services* can help low-skilled young people to gain labour market attachment and, if combined with training, improve their employability. At the same time, they contribute to local economic development by improving the infrastructure and the environment. The Bulgarian "From social assistance to employment" programme serves as a good example of temporary employment for low-skilled youth (among other participants); however, evaluations show low transfers of these young people to regular employment, so that many remain trapped in this type of programme or return to unemployment and therefore need other forms of employment assistance.

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<sup>28</sup> See, for example, Neumark and Wascher (2004).

### ***The need for a comprehensive approach to youth employment promotion***

*Comprehensive packages of employment programmes and services* have proved to be better than single measures. These interventions usually combine remedial education and training with work experience programmes and job search assistance, as well as incentives for employers to hire disadvantaged youth, and are tailored both to the individual needs of participants and to labour market requirements. In some cases, these interventions are administered along with social protection measures (e.g., cash transfers, including transport allowances, childcare grants, housing assistance), to allow for participation in the programmes.

*Youth guarantee schemes*, first introduced by some Scandinavian countries, are examples of comprehensive programmes that endeavour to ensure that all young people are in employment, education or activation programmes.<sup>29</sup> The schemes vary in their practical modalities. In Finland, a PES has to produce, together with the young jobseeker, a joint individual plan within two weeks of his/her registration and offer a job, study place or activation measure within the following three months. In Sweden, the scheme focuses on job search activities combined with suitable ALMPs for young jobseekers that have been registered for over three months. In Austria, the Vocational Training Act guarantees vocational training for all young people until the age of 18. Other countries, including Germany, the Netherlands, Poland and the United Kingdom, have also introduced guarantees for different groups of young jobseekers. The ILO's assessment shows that youth guarantee schemes are more effective when they provide universal access to training or employment for a well-defined target group of unemployed or low-skilled persons. Well-designed programmes, with well-functioning delivery systems through employment services and/or municipalities and targeted to low-skilled and disadvantaged groups show good results, including in the medium term. The success of youth guarantee schemes has prompted the EU to announce, in its employment package of April 2012, the presentation of a proposal for a Council Recommendation on Youth Guarantees by the end of 2012. This proposal was launched in early December 2012. The ILO has contributed considerable preparatory work in this respect.

The need for a multi-pronged, comprehensive approach to youth employment promotion has triggered an increasing number of countries to launch *youth employment action plans in the ECA region*, including Albania, France, Serbia and Turkey. The Turkish plan, adopted in 2011, combines recommendations for employment-friendly economic policies with the formulation of education and training policies that are responsive to labour market needs, support youth entrepreneurship, and enhance PES capacity to promote youth employment, and act in partnership with the relevant government bodies, social partners, the private sector and educational facilities.

The *European Social Fund* (ESF) contributes to the European Commission's Youth opportunities initiative and to a number of national programmes. In Ireland and Romania, the ESF subsidizes the "Second chance" programmes for early school leavers to finalize education and acquire certification. In Cyprus and Greece, it co-finances programmes providing financial incentives to enterprises to hire young people through wage or social contribution subsidies. In Poland and Romania, it supports

<sup>29</sup> However, these schemes may be less effective in assisting hard-to-reach young people, and their success depends on the strength of PES, the overall labour market situation and cooperation with the other partners involved.

traineeships in companies and, in Bulgaria, it finances on-the-job training of young people. In Greece, Hungary and Portugal, the ESF co-finances schemes encouraging young people to become entrepreneurs (EC, 2012e).

In view of the urgent need for action stated in the ILC resolution *The youth employment crisis: A call for action*, a three-pillar ILO follow-up plan on youth employment proposed by the Office was endorsed by the Governing Body at its 316th Session in November 2012.

- A first pillar concerns continued technical and policy advisory support to ILO constituents for developing and implementing national policies and strategies that are conducive to the creation of decent work for youth.
- A second pillar aims to strengthen ILO capacity for knowledge development and dissemination so that the Office may act as a centre of excellence on youth employment.
- A third pillar underscores the ILO's leadership role in promoting partnerships and advocacy for decent work for youth at the global, regional and national levels.

In view of the widespread interest in youth development among multilateral and regional institutions, and the consequent proliferation in the number of initiatives targeting this, the ILO's 2012 call for action provides a sound, balanced and comprehensive framework for the Office and constituents to promote coherence among these multiple initiatives. As a step in the direction of global leadership on youth employment, the Office had taken up the coordination of the United Nations Inter-Agency Network on Youth Development (ILO, 2012h).



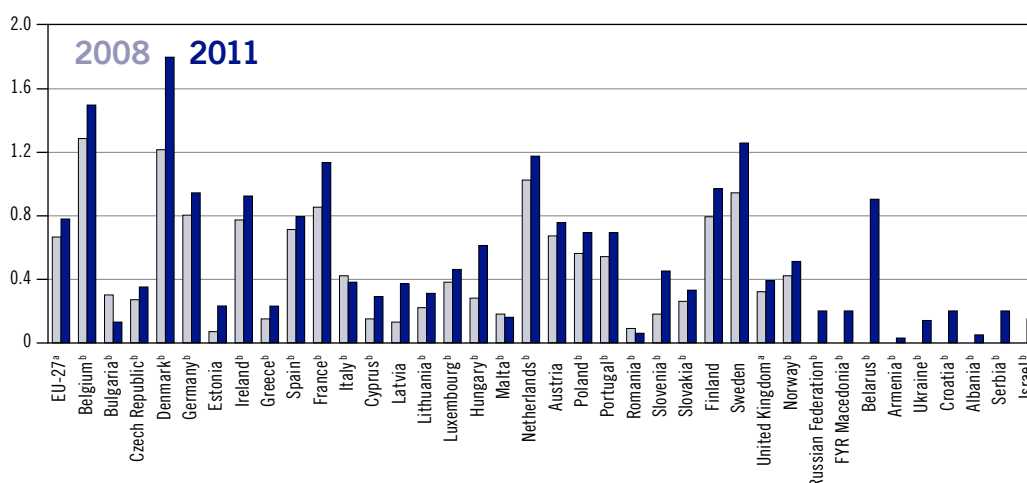
### ***3.3. Policies promoting labour market transitions and active ageing***

#### ***The role of ALMPs in promoting labour market transitions***

ALMPs have played an important role in helping to reduce the negative impact of the economic crisis on employment either by retaining redundant workers in the same enterprise or by supporting their move to a new job outside the enterprise. A number of countries introduced employment preservation measures, such as short-term working schemes (e.g., France, Germany and Italy) or cuts in social security contributions for low-skilled workers in exchange for their retention (e.g., the Czech Republic). In some cases, job-retention measures were supported by training subsidies from PES, in order to improve the skills of such workers. However, the bulk of ALMPs has been directed at promoting labour market transition of redundant workers to new jobs.<sup>30</sup> Figure 3.4 shows that the majority of ECA countries have increased funding for ALMPs during the crisis, except for Malta, Bulgaria, Italy and Romania, despite a significant rise in unemployment in the latter three countries. Nevertheless, the additional funds available for ALMPs were fairly insufficient to tackle the unprecedented upsurge of joblessness in most countries.

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<sup>30</sup> For a review of these policies, see ILO and World Bank (2012).

**Figure 3.4. Allocations to ALMPs, 2008 and 2011 (percentage of GDP)**

<sup>a</sup> 2009 instead of 2011. <sup>b</sup> 2010 instead of 2011.

Note: Data for Russian Federation include spending on both active and passive measures; data for Norway do not include spending on employment services.

Sources: Calculations based on data from the Eurostat statistics database and from the national statistical offices of Armenia, Belarus, Israel, Russian Federation, Serbia and Ukraine. Figures for EU-27 countries extracted on 15 January 2013.

Within the EU, job placement services provided by PES received the highest allocation of ALMP funds, notably for financing additional PES staff and more job search assistance measures, according to the Eurostat statistical database. Labour market training was the second most commonly used measure, followed by wage subsidies, and both policies also got more resources. By contrast, public work, measures to help people with disabilities and the other most vulnerable groups, and programmes promoting self-employment/entrepreneurship obtained no additional funding. In SEECA, and particularly in CIS countries, public works was the most widely used measure, followed by training. In the Russian Federation, 2.4 million people took part in temporary and public work schemes and 453,000 people took part in training in 2009; in Kazakhstan, 600,000 temporary jobs were created by community works schemes and 150,000 workers took part in training in 2009–10. The measures used for job placement assistance, improving employability of workers or promoting labour demand through wage subsidies, public works schemes and self-employment/entrepreneurial start-up are similar for any age group, and their strengths and weaknesses (for youth) have been reviewed earlier in this chapter.

### ***Policies promoting active ageing***

Most of Europe is undergoing a demographic transition with significant population ageing. Low fertility rates – also due to the protracted crisis of youth unemployment – combined with increasing life expectancy has dramatically transformed most ECA countries' population structures. The old-age dependency ratio, defined as the share of population over the age of 65 relative to the share of population aged 15–64, is



projected to rise in Europe from 24 per cent in 2010 to 49 per cent in 2060. In other words, there will be roughly two working-age people per elderly citizen in 2060, as opposed to the current ratio of four to one. Of particular concern is the situation in southern Europe, where this will increase from the current 27 per cent to 58 per cent. By contrast, Central Asia is much better placed as it will only reach the current ratio in Europe in 2060 (UN, 2011). This demographic challenge in Europe will gradually limit the scope for future employment growth, create labour shortages and place increased pressure on the financial sustainability of countries' social protection systems. It can partly be addressed by increasing the labour market participation of all the working-age population, including youth and older workers, by possibly postponing the retirement age in view of increasing life expectancy. The general rise in the statutory retirement age adopted in the majority of EU countries over the past decade, and now increasingly also in non-EU countries is cited as one of the main reasons for the increased employment of older workers (EC, 2011c). However, there is still the potential for greater numbers of older people to be productively employed, and active ageing policies can play an important role here.

Active ageing policies should be directed at both older workers and workers in the prime-age group as barriers to good employment prospects are already emerging at this stage. First, maintaining readiness through dynamic accumulation of marketable skills is essential to ensuring a person's employability. It should be noted that training participation declines with age across EU countries. Older workers have the lowest likelihood of participating in on-the-job training when compared with any other age group. There are a number of possible reasons for this including employers' reticence to pay for training due to the perception of a low return on this investment and older workers' reticence to undertake such training (OECD, 2012b). Second, there is a widespread perception that productivity declines with age, even though available evidence does not support this view. Older workers possess knowledge and skills acquired in the course of their working life, and the premature loss of such skills, or the failure to replace them, often entails an economic risk for a company. Qualities found in older workers include maturity, dependability, stability, reliability, better social skills, lower turnover, fewer accidents, and more positive work values (Auer and Fortuny, 2000). Finally, declining health frequently caused by ill-adapted workplace conditions may cause older workers to retire early. All these barriers have to be tackled by a comprehensive active ageing strategy.

There are several good examples of such comprehensive active ageing strategies. The Spanish Global Strategy for the Employment of Older Workers 2012–14 has the following key components: promoting good working conditions; enhancing internal flexibility within companies; bringing PES closer to the needs of older jobseekers; encouraging transfer of experience on self-employment between generations; and fighting age discrimination in the world of work. The Polish “Solidarity between generations” programme, introduced in 2008, was structured around eight key objectives in the areas of ALMPs and measures reducing dependence on social welfare. An evaluation report covering October 2008 to June 2010 underscored its positive impact on legislative reform, improved activation measures for older persons, higher uptake of training among older workers and better informed PES staff. Finland has pioneered a truly comprehensive approach to active ageing, which addresses the challenges of a long working career in general and develops the quality of working life and mobilizes the workforce as a whole (EEO, 2012, p. 21).



A comprehensive active ageing strategy should include several key components addressing the challenges faced by older workers. Underpinning these policies, social dialogue is a key element in devising effective measures for achieving increased and sustained participation among older workers. These key components include:

- *Education, training and skills development:* In order to maintain a person's employability, it is necessary to engage him/her in periodic skills upgrading, ideally through lifelong learning, which should become a long-term preventive strategy applied to workers of all ages. There is a clear link between lifelong learning and productivity: in the EU it is estimated that an increase of 5 percentage points in the proportion of employees undertaking training leads to a 4 per cent increase in a company's productivity (Lipinska, Schmid and Tessaring, 2007). Also, high educational attainment and a higher level of vocational training are positively linked with higher employment rates for older workers. Among the EU countries, Austria, Finland, Slovakia and Sweden have introduced lifelong learning strategies. In Austria, the Strategy for Lifelong Learning 2011–20 promotes more learning-friendly environments in enterprises and labour market training to secure employability. In Finland, the Opin Ovi project encourages adults to take up vocational training, and the 2011 framework agreement with social partners establishes the right of employees to take part in further training for three working days annually. Some countries, including the Netherlands and Poland, also have training subsidies specifically targeted at older workers (EEO, 2012, pp. 22–24).
- *Safe and healthy working conditions:* These are essential for promoting workers' well-being and prolonging their working lives (discussed in Chapter 2).
- *Adapting working conditions to changing needs:* This is important in order to facilitate the extension of working life, and for many older workers it represents a desirable option to downscale work commitments and retire gradually. The Older Workers Recommendation, 1980 (No. 162), provides detailed policy measures with regard to working time and work organization. While certain countries have introduced legislation to support and expand opportunities for part-time work for older workers (e.g., Austria, Italy and Lithuania), in practice, there has been very little uptake of this option in these countries. In contrast, the Institute of Occupational Health in Finland has been very active in disseminating good company-based practices on adaptation of working conditions (EEO, 2012, pp. 26–27).
- *Good access to employment services and ALMPs:* Strategies to assist older people to find re-employment are essential. The PES in many European countries formulate individual action plans for older jobseekers and, through these, provide intensive job placement assistance or offer appropriate ALMPs, such as labour market training, subsidized employment or public works. In Poland, PES staff have been trained to meet the needs of older unemployed people through individual action plans. In Austria, the “Come back” programme provides employment subsidies to disadvantaged jobseekers, including older ones. This measure has been very effective during the current recession and, as a result, the number of older beneficiaries has been significantly expanded until 2016. Under Germany's national programme “Perspectives 50plus”, employment pacts for older workers in the regions 78 regional pacts have been set up so far. The measures applied through these pacts, which include individualized counselling, job search training,



internships and wage subsidies, and outreach to employers, have had a notable impact (EEO, 2012, pp. 27–29). A number of countries, including Bulgaria, the Russian Federation, The former Yugoslav Republic of Macedonia and Ukraine, have incorporated many older workers into community work schemes.

- *Recruitment incentives:* These include supplementary payments to older workers if they take up low-paid jobs (e.g., Austria and Belgium) or reduced social security contributions for employers recruiting older persons (e.g., Norway and Spain).

Comprehensive active ageing strategies need to be well coordinated with national social security systems in order to alleviate the impacts of the economic crisis on the older workforce and to promote the full use of the human resource potential of ECA countries. The challenge of an ageing population will also be addressed in the general discussion on employment and social protection in the new demographic context at the 102nd Session of the International Labour Conference in 2013.

### ***3.4. Reforming social protection systems to close gaps in coverage, meet the ageing population challenge, and achieve adequacy and sustainability***

#### ***Recent trends and challenges faced by social protection systems***

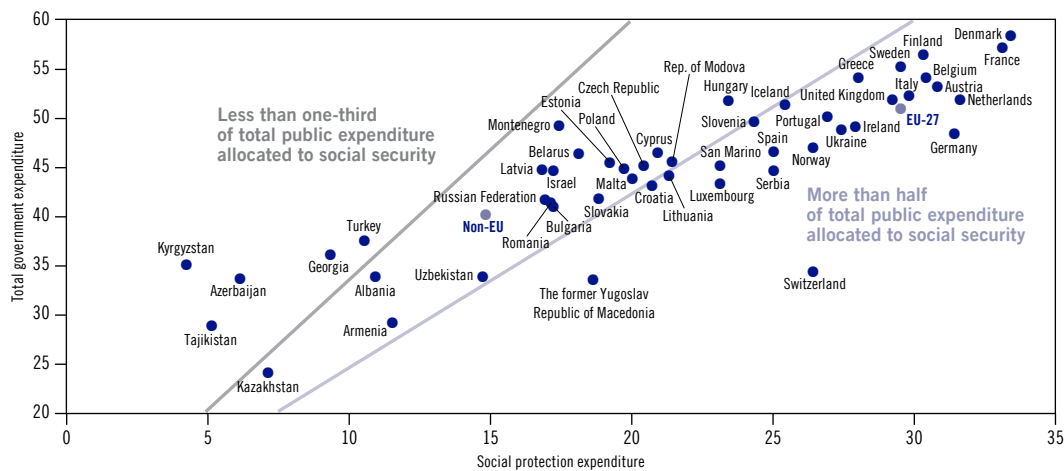
National social protection systems in the ECA region are increasingly put under strain by demographic changes, and this has been further exacerbated by the economic crisis. While reforms of the systems are necessary, they should preserve the principle of intergenerational solidarity and ensure adequate protection against the risks of unemployment, sickness/disability, including occupational disease and injury, and poverty, as well as protection in old age – all of which are crucial for building just and cohesive societies.

The expenditure on social security (measured as the ratio of expenditure to GDP) varies greatly across the region (figure 3.5). While the EU and other developed European countries redistribute, on average, 29.5 per cent of their GDP, the SEECA subregion redistributes only 15 per cent. However, cross-country differences are broad within both subregions. The variations in social security spending between countries are to a large extent correlated with the scope and levels of social security coverage. While most countries that spend more than 10 per cent of GDP on social security usually at least meet the coverage requirements laid down by the Social Security (Minimum Standards) Convention, 1952 (No. 102), and cover the large majority of their population, other countries that spend less have substantial gaps in coverage, which affect mainly rural populations, unemployed and informal workers, and some other groups. However, even in developed European countries, there are gaps in coverage that include NEET, unemployed persons with short spells of employment or informal migrant workers.

In the EU-15 and other developed European countries, policy debates around the perceived negative labour market impact of generous social security provisions and their financial sustainability as a result of demographic ageing, led to reforms that tightened the targeting of certain benefits, constrained income support entitlements



**Figure 3.5. Social protection expenditure and total government expenditure as a percentage of GDP**



Sources: ILO: Social security inquiry database; IMF: Government finance statistics database (data are for 2009, or latest available figures at time of publication).

for the unemployed and linked them to activation measures. Moreover, pension reforms strengthened links between lifetime earnings and benefit amounts, increased the statutory retirement age and reduced access to early retirement. So far, these reforms have resulted in a stagnation of social expenditure.

By contrast, in the EU-10 and SEECA countries, social security systems initially adjusted to the new social risks, such as unemployment and extreme poverty, but later, owing to rising costs, they shifted from universal benefits to targeted benefits for the poor, and lowered the level and significantly shortened the duration of unemployment benefits. This, together with large cuts in social contribution rates, was aimed at reducing direct labour costs and stimulating recruitment and led to a significant decline in social protection expenditure. A number of countries also reformed their pension systems by scaling down the size of the public pillar and partially replacing it with individual savings accounts managed by private pension funds, gradually postponing the statutory retirement age and tightening conditions for early retirement. Design flaws resulted in high transaction costs, which in the face of budgetary pressures led some countries (e.g., Hungary, Poland and Slovakia) to reconsider pension reforms and partially reverse them.

Automatic stabilizers built into social security systems, such as unemployment benefits and social assistance, have proven their efficacy during the economic crisis. They prevented or at least moderated an increase in poverty for the unemployed and their dependants and bolstered aggregate domestic demand. In 2008–09, higher income transfers in the form of higher and longer paid unemployment benefits, expansion of social assistance and indexation of benefits and pensions became part of the stimulus packages of many crisis-hit countries; however, income transfers have subsequently been reduced in fiscal consolidation packages. The result is that those who depend on income transfers – such as pensioners and recipients of unemployment benefits and social assistance – are disproportionately contributing to reducing the fiscal effects of the crisis (ILO and World Bank, 2012).

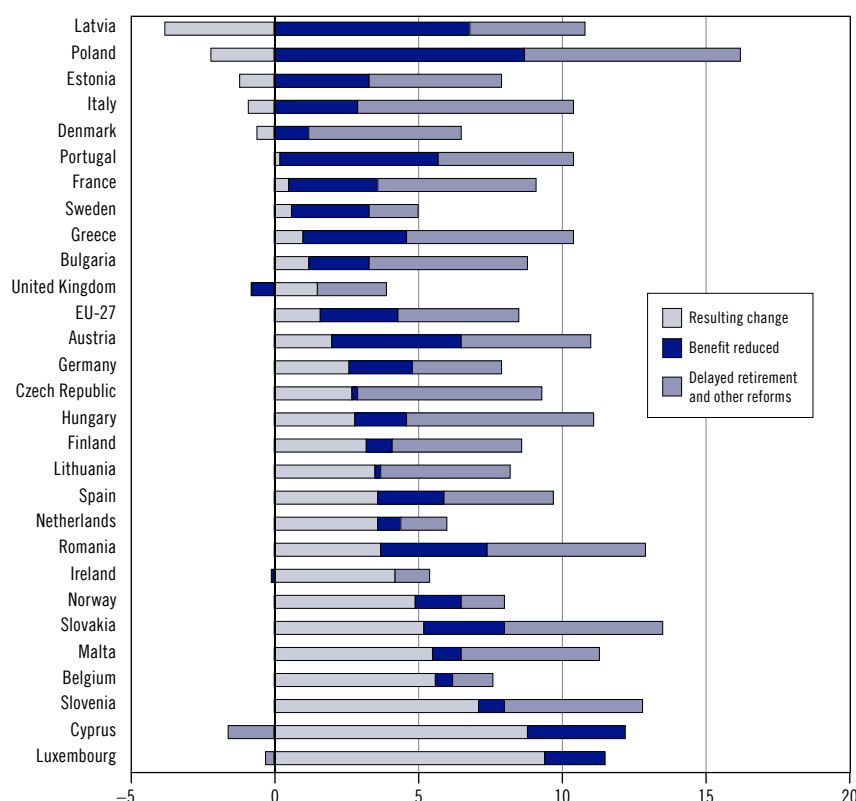
## *Social protection reforms*

Many young people fail to receive adequate (or any) income support during unemployment. In most ECA countries, first-time jobseekers or jobseekers who have not met the minimum contribution period – such as temporary workers with a contract below one year (see Chapter 2, section 2.1) – are not eligible for contributory unemployment benefits (although they may be eligible for non-contributory unemployment assistance or means-tested social assistance). Some countries (e.g., France and Italy) reduced the period of contribution required for youth eligibility for unemployment benefits. An increasing number of countries adopted a “mutual obligations” approach, where in exchange for income support, jobseekers, and among them youth, are required to participate in activation measures such as intensive job placement assistance or vocational training. Part of that approach could be that during their registration in PES and participation in activation measures their contributions to social protection systems would be covered by the State (as is the case in the Czech Republic), which could trigger the interest of NEET.

Demographic ageing certainly poses challenges to social protection systems, which will need to adjust to ensure their financial sustainability in the long run while still providing adequate levels of benefits. A recent EU report documents that, should no reforms be introduced and no changes made in labour market and retirement behaviour, pension expenditure as a share of GDP in the EU-27 will increase, on average, by 8.5 percentage points between 2010 and 2060, solely due to demographic factors (figure 3.6) (EC, 2012f). However, when appropriate reforms are undertaken, combining delayed retirement and an active ageing policy (medium blue segment) with selected reductions of replacement rates, that is, reduced benefits (dark blue segment), the projected increase of expenditure is only 1.6 points (light blue segment). The replacement rate losses may be compensated for by various mandatory and voluntary private pension schemes, but not for the poorer strata of population.

In order to delay retirement, it is important to reduce early retirement as much as possible and in particular avoid using disability retirement as an exit option for older jobseekers in relatively good health.<sup>31</sup> Some countries have discontinued early retirement or reduced it to strictly defined categories of workers whose ability to continue to work has deteriorated due to long-term exposure to a health-detrimental environment or arduous working conditions. Early retirement was often used in the past as a way to reduce job losses during economic crises. It may remain a valid option for workers with long-term exposure to arduous working conditions or where mass lay-offs affect many older workers in regions with very high unemployment. However, in general the costs of taking early retirement, for both employers and employees, should be increased in order to discourage its use. In combination with active ageing policies, including support for appropriate adaptation of workplaces to meet the needs of older persons with disabilities, this should not only contribute to successfully

<sup>31</sup> The difference between the statutory retirement age (the official age of retirement) and the effective retirement age (when people actually retire) is sometimes very high. In the majority of ECA countries, the statutory retirement age is higher than the effective age: for example, in Germany, the difference is 3.1 years for men (the statutory retirement age is 65 and the effective retirement age is 61.9), and 3.6 years for women (65 versus 61.4); in Luxembourg, it is 7 years for men (65 versus 58), and 6.4 years for women (65 versus 58.6). However, in a few countries the opposite is true: for example, in Turkey, the statutory retirement age is lower than the effective retirement age by 3.5 years for men (60 versus 63.5), and by 12.4 years for women (58 versus 70.4). All data have been taken from the OECD database.

**Figure 3.6. Projected changes in the share of pension expenditure in GDP, 2010–60 (percentage points)**

Note: No reforms/changes is represented by the whole length of the bar.

Source: EC (2012f).



keeping older people within their productive working lives, but also avoid poverty of people beyond the retirement age and prevent financial instability of pension systems.

This approach is also fully relevant to SEECA countries. However, in some EU countries, and more so in SEECA countries, the demographic and labour market changes are so large that they may not only put the pension replacement rate but also the adequacy of other benefits at risk, with regard to their compliance with the Social Security (Minimum Standards) Convention, 1952 (No. 102). Each country thus needs to reform its social protection system in such a way as to find a good balance between its financial sustainability and the social and economic adequacy of benefits. Well-informed social dialogue is the best tool to achieve this.<sup>32</sup>

Nevertheless, some SEECA countries, in particular in the Caucasus and Central Asia, have large groups of population without any protection. To avoid poverty resurgence in these areas, minimum guarantees need to be provided through some components of the social security system. The newly adopted Social Protection Floors Recommendation, 2012 (No. 202), provides guidelines to member States on establishing and maintaining basic social security for all, but aiming to achieve the range and levels of benefits set out in Convention No. 102 and in other ILO social security

<sup>32</sup> See Sarfati and Ghellab (2012).

Conventions and Recommendations. This new Recommendation calls on ILO member States to “monitor progress in implementing social protection floors and achieving other objectives of national social security extension strategies”. Such monitoring should be done by regularly convening “national consultations” with key stakeholders in order “to assess progress and discuss policies for the further horizontal and vertical extension of social security”, to meet the challenges and provide adequate income protection to all those in need.

### ***3.5. Policy considerations and the way forward***

ECA countries face significant challenges with regard to high unemployment and inactivity – young people are disproportionately affected, even in comparison with the ageing workforce in most countries. If not tackled, these challenges threaten to result in massive shortages in the labour market and high deficits in national social protection systems. Responses to these challenges can be found in well-designed educational and training policies that provide relevant skills to young people and other workers, ALMPs that support labour market inclusion, and social protection policies that guarantee adequate income for all, and that complement the economic policies formulated to stimulate job creation. All these policies should be formulated in close cooperation with the social partners and implemented within an appropriate legal and institutional framework in order to ensure that they have the desired impact and reach all people needing assistance.

***Promoting youth employment.*** The following policy considerations may be proposed to ECA countries facing high youth unemployment:

- *Formulating a multi-pronged strategy* (as set out in the 2012 ILC resolution *The youth employment crisis: A call for action*) that is consistent with the provisions of international labour standards and is also based on: (i) pro-employment macro-economic policies; (ii) the development of relevant skills of youth; (iii) broad availability of targeted labour market policies for youth including youth guarantee schemes; (iv) stimulation of youth entrepreneurship; and (v) promotion of young people’s rights.
- *Adopting time-bound youth employment plans* that implement a multi-pronged strategy developed by public authorities and social partners working together and supported by adequate resources, with measurable targets and outcomes. Implementation of such a strategy should convert youth employment priorities into concrete action.
- *Developing relevant and marketable skills of young people* by establishing or strengthening national dual TVET systems based on close cooperation of national authorities and training institutions with social partners and the enterprise sector.
- *Ensuring broad access of young people to effective ALMPs*, which will speed up their transition from school to work through early personalized assistance of PES in job placement, work experience schemes, remedial training, employment subsidies or youth entrepreneurship programmes.



***Policies promoting labour market transitions and active ageing.*** The following policy considerations may be proposed to **ECA countries** facing high unemployment and demographic ageing challenges:

- *Increasing coverage of ALMPs and access to activation programmes for all unemployed people, including discouraged people and workers threatened by unemployment*, thereby raising their employability, stimulating demand for labour, with special attention paid to vulnerable groups, and improving the match between jobseekers and jobs available.
- *Developing comprehensive active ageing strategies* that will promote skills upgrading/re-skilling of workers, ensure safe and healthy working environments, support adaptation of working conditions to the changing needs of older workers, ensure broad access to personalized job placement assistance and employment promotion programmes, and include incentives for older workers to take up employment in, and for employers to hire them for, available jobs.

***Reforming social protection systems to close gaps in coverage, meet the ageing population challenge, and achieve adequacy and sustainability.*** The following policy considerations may be proposed:

- *Providing income support to all unemployed people, including first-time jobseekers and those with short employment duration*, in order to prevent their falling into poverty, and to link this to participation in activation measures. Simultaneously, the coverage of social security contributions by the State for those registered in PES could be considered.
- *Coordinating social protection reforms with active ageing policies*, in order to encourage workers to remain productively employed for longer. This can be done by tripartite review of the statutory retirement age, considerably tightening conditions for early retirement schemes, and implementing stricter rules for disability pensions, while at the same time ensuring that older workers in need of assistance have access to active ageing strategies.
- *Finding the right balance when reforming social protection between financial sustainability of the system and social and economic adequacy of benefits*, in order to ensure the adequacy of benefits in compliance with the Social Security (Minimum Standards) Convention, 1952 (No. 102). Social dialogue, combined with comprehensive national consultation, is an essential tool to achieve broad consensus on the parameters of such reforms.
- *Establishing national social protection floors*, especially in those **ECA countries** with large unprotected groups of population, in order to ensure universal coverage of basic social security. The Social Protection Floors Recommendation, 2012 (No. 202), can provide useful guidance in this respect.



***Participants may wish to discuss the following questions during the thematic panel on Chapter 3***

1. What are the key issues that should be addressed by a youth employment strategy/policy in your country? Do you see a strong commitment of your government to launch such a strategy and to request ILO assistance in line with the recently launched ILO action plan on youth employment as a follow up to the ILO resolution *The youth employment crisis: A call for action* adopted in June 2012?
2. Strong dual TVET including apprenticeship systems and youth guarantee schemes are considered as the key tools for promoting youth employment. Would you recommend the adoption of an international labour standard that would enforce their broad implementation in the region (and globally)?
3. What are the main obstacles in your country for expanding access of unemployed and discouraged persons, in the first place youth, as well as workers threatened by unemployment to ALMPs including job placement assistance? How should such policies be designed, for example, in view of skills development, matching skills with labour market needs, anticipation of labour market needs through forecast mechanisms, as well as strengthening labour market institutions, in particular PES?
4. Do you foresee future labour shortages in your country due to the ageing population? Is a comprehensive active ageing strategy that would extend the productive use of working lives of older persons through combining lifelong learning with safe and healthy working conditions, a broad access to job placement assistance and appropriate ALMPs and that would be well-coordinated with social protection, the right answer? What is the most significant challenge for this strategy and can the ILO be of help to tackle it?
5. Does a broad consensus exist in your country on the parameters of the social protection reform that would balance financial sustainability of the system with good coverage and adequacy of benefits including first-time jobseekers and those with short employment duration? How urgent is that reform and how far has your country already progressed in its implementation and with what results?
6. In countries that do not currently have a comprehensive social protection system, can a consensus be reached on the need to establish a national social protection floor that would ensure universal coverage by basic social security? How can the ILO be of help in that regard?



## ***4. Promoting international labour standards and policy coherence in Europe and Central Asia***

While support is regularly expressed for ensuring coherence between economic, employment and social policies, the global financial and economic crisis has put these policy aspirations to the test. There appears at times to be an increasing contradiction between the goal of decent work and social justice – advocated by many countries, international organizations and institutions – and the concrete outcomes of fiscal consolidation policies as well as labour market reforms in the light of fiscal consolidation. The current disjuncture in some countries between the goals of financial, economic, employment and social policies is threatening social cohesion and political stability and thus also increasingly putting the European Social Model at risk.

This raises the question of how to reconcile economic, employment and social policy objectives. There is a need to translate economic growth into decent work and social justice and to have decent work contribute to recovery and sustainable economic growth. Policy coherence involves giving proper consideration to social and employment policies while designing and implementing fiscal consolidation measures. There is also a need to take into account the social impact of economic policies, so as to consider questions of design and sequencing of economic, social and employment policies. The present chapter therefore examines how to achieve policy coherence with a view to achieving growth, jobs and social justice.

In that light, one of the main goals of policy coherence is having economic growth and social justice go hand in hand. Therefore, policy coherence needs to be guided by the founding values of the ILO and its international labour standards. A first step towards achieving policy coherence is to ensure the centrality of the fundamental principles and rights at work (FPRW) and the recognition by all concerned that countries ratifying international labour standards have a legal obligation to apply the provisions of those standards. A second is to consider the implications for the design of integrated policies, and a third is to strive for better coordination and accountability.

Section 4.1 highlights the need for policy coherence in a common normative framework. There is a risk that current responses to the crisis will lose sight of and even reverse the effective realization of the FPRW, and the application of international labour standards more generally. International labour standards provide normative guidance for policy coherence that can steer the direction of recovery from the crisis.

Section 4.2 focuses on the need for international policy coherence to promote decent work in ECA. The crucial role of the EU is highlighted in this respect through its internal and external policies. Full observance of the Decent Work Agenda in the policies of international institutions such as the OECD, the IMF and the World Bank is also of high relevance for policy coherence and the achievement of social and economic progress in the region.



Section 4.3 discusses what can be done at the country level to achieve policy coherence. The current governance approaches of the EU, policy considerations within the G20 framework and promising country-level experiences and practices are examined. The implications of these approaches are discussed and current experiences and aims are analysed for the development of a framework of coherent policies to promote job-rich growth and decent work at the country level.

Finally, section 4.4 outlines a number of policy considerations to strengthen the rights-based approach of international labour standards and proposes elements to reinforce international, regional and national policy coherence in pursuit of decent work. It also provides questions to facilitate the discussion during the thematic panel on Chapter 4.

### ***4.1. International labour standards as a guide for policy coherence and sustainable economic growth***

International labour standards provide a normative guide for policy coherence, ensuring that economic growth can be translated into improvements in the quantity and quality of jobs, in working conditions, skills development, social protection and, last but not least, effective tripartite social dialogue. In particular, the ILO Global Jobs Pact (GJP) and the recurrent discussion on the FPRW at the 101st Session of the International Labour Conference in June 2012 acknowledged the important role of international labour standards in preventing a downward spiral in labour markets and working conditions, and therefore in building the recovery.

#### ***Fundamental principles and rights at work***

The effective realization of the FPRW is required to protect workers' rights, not only during times of crisis but also in periods of recovery and growth. As indicated in the ILO Declaration on Social Justice for a Fair Globalization, 2008, "the violation of fundamental principles and rights at work cannot be invoked or otherwise used as a legitimate comparative advantage". It should be recalled in this respect that, with a single exception,<sup>33</sup> all of the fundamental ILO Conventions have been ratified by all the countries in the ECA region and that the ratification and full implementation of the FPRW is also one of the preconditions for EU membership.

However, broader and increasing deficiencies in the implementation of the FPRW and international labour standards can be observed across the ECA region, particularly during the crisis.

This is especially the case in view of the required implementation of the fundamental Conventions on freedom of association and collective bargaining (Conventions Nos 87 and 98).<sup>34</sup> Together with the implementation of the priority Convention on Tripartite Consultation (Convention No. 144), *freedom of association, collective*

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<sup>33</sup> Uzbekistan, Convention No. 87.

<sup>34</sup> The Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98).

*bargaining and tripartite social dialogue* increase respect for the rule of law, while ensuring a more equitable distribution of rights, obligations and benefits.

In view of the importance of social dialogue, the ILO's Committee on Freedom of Association (CFA) has developed principles which should underpin policy measures adopted in times of crisis. For example, consultations on recovery measures should aim to ensure that the public authorities seek the views, advice and assistance of the social partners, particularly in the preparation and implementation of laws and regulations that affect their interests. If, as part of its stabilization policy, a government considers that wage levels cannot be settled freely through collective bargaining, such a restriction should be imposed as an exceptional measure, without exceeding a reasonable period. Moreover, such a step should be accompanied by adequate safeguards to protect living standards.<sup>35</sup> The CFA also noted that any limitation on collective bargaining by the authorities under such circumstances should be preceded by consultations with workers' and employers' organizations in an effort to obtain their agreement.

Consideration could also be given to developing adequate mechanisms to deal with exceptional economic situations so as to ensure that social dialogue and collective bargaining continue to be part of the adjustment process (Gravel, Kohiyama and Tsotroudi, 2011, p. 211). Unfortunately, in responding to the economic crisis, a number of governments, including those of Greece, Italy, Romania<sup>36</sup> and Spain, either relegated the role of social dialogue to a secondary one or ignored it altogether (ILO, 2012c, p. 28).

A high-level ILO mission to Greece raised concerns on the recovery measures recommended by the "Troika", consisting of the EU, the ECB and the IMF (ILO, 2011d). Offering assistance to reduce the social and economic costs of the structural reforms, the mission identified a number of areas within the ILO's mandate where technical assistance could be of help, including social dialogue, collective bargaining, wages, employment promotion, SME development, social security, labour inspection, equality and non-discrimination. The mission also stated that the imposition of decentralized collective bargaining and the weakening of the social partners and of social dialogue institutions has had a negative impact on the country's industrial relations system, which has come close to a collapse. At its November 2012 session, the CFA found that there were instances of repeated and extensive interference in free and voluntary collective bargaining and a lack of social dialogue. The CFA highlighted the need to promote and strengthen the institutional framework for these key fundamental rights and for Greece to bring its labour relations system back into line with fundamental rights.<sup>37</sup>

Another fundamental right is *protection against child labour*. The elimination of child labour depends, inter alia, on public policy responses, social protection and the characteristics of production (ILO, 2012i, p. 8).

Both of the ILO's fundamental Conventions on child labour (Conventions Nos 138 and 182)<sup>38</sup> place strong emphasis on the importance of education. Compulsory education up to the minimum age for admission to work remains one of the most effective means of combating child labour, and access to free basic education plays a key role in preventing child labour, including its worst forms.

<sup>35</sup> ILO: Freedom of Association, *Digest of decisions and principles of the Freedom of Association Committee of the Governing Body of the ILO*, fifth (revised) edition, para. 1024 (Geneva, 2006).

<sup>36</sup> Law No. 62/2011.

<sup>37</sup> GB.316/INS/9/, 365th Report of the CFA.

<sup>38</sup> The Minimum Age Convention, 1973 (No. 138), and the Worst Forms of Child Labour Convention, 1999 (No. 182).

In response to the crisis and the resulting tendency for child labour to increase, important policy measures have been taken in the region to improve access to education and to reach out to the categories of children who are the most vulnerable to the worst forms of child labour, including children from poor families, Roma children and street children. However, in some countries, the governments have indicated that these programmes or initiatives will not be continued due to the economic situation.<sup>39</sup>

As part of their commitment to the FPRW, the countries in the region are bound to *respect the forced labour Conventions* (Conventions Nos 29 and 105).<sup>40</sup> In periods of crisis, the vulnerability of workers to forced labour increases, as growing unemployment and poverty provide incentives to take greater risks when seeking work away from home or abroad. Large-scale lay-offs have also meant that many migrant workers have lost their legal status in their host country, making them more vulnerable to exploitation.

In relation to forced labour, a large number of countries in the region need to further strengthen their legal and institutional framework to combat trafficking in persons effectively, including punishing the perpetrators and protecting the victims. In view of the crisis, it is particularly important for governments to take adequate measures to protect migrant workers against exploitation through forced labour, regardless of their legal status, and to ensure that they can assert their rights, including through access to the competent authorities.<sup>41</sup>

In view of the economic downturn, member States are also faced with the need to maintain their commitment to *non-discrimination and equality*, particularly as new or exacerbated manifestations of discrimination are liable to come to light.

The right to equality and non-discrimination is at the heart of human rights, and the world of work is a privileged entry point to address this issue. Conventions Nos 100 and 111<sup>42</sup> form part of the overall UN human rights framework, and their ratification and implementation is key to promoting and ensuring human rights more broadly.

Many countries in the region have made progress in developing a legislative framework that prohibits discrimination and promotes equality in employment and occupation. Nevertheless, wage inequality between men and women is likely to be exacerbated by the economic crisis. Some European countries still have legislative provisions that do not give full effect to the principle of equal remuneration for men and women for work of equal value (CEACR, 2012). Moreover, austerity measures that focus on reducing employment in the public sector may disproportionately affect women (Vaughan-Whitehead, 2012).

Policies and programmes to address discrimination against the Roma may also be affected by the economic downturn, reversing the progress made through regional initiatives funded by the EU and the Decade of Roma Inclusion (2005–15) initiated by the Council of Europe (CEACR, 2012). There are indications that the marginalization of the Roma in the labour market has been exacerbated by the economic crisis.

<sup>39</sup> For example, see CEACR's direct request on the application of Convention No. 182 by *Latvia*, concerning the decision by the Government of Latvia to discontinue the programme to train teachers' assistants of Roma nationality (to facilitate school attendance by Roma students) due to the economic conditions in the country. The comments and reports of the CEACR are available through the ILO NORMLEX database.

<sup>40</sup> The Abolition of Forced Labour Convention, 1957 (No. 105), and the Forced Labour Convention, 1930 (No. 29).

<sup>41</sup> For example, see direct requests addressed to France and Italy in 2011. The CEACR drew the Governments' attention to the fact that migrant workers who are illegally resident are in a highly vulnerable situation and therefore even more prone to become exploited in forced labour.

<sup>42</sup> The Equal Remuneration Convention, 1951 (No. 100), and the Discrimination (Employment and Occupation) Convention, 1958 (No. 111).

Concerns have also been raised regarding the impact of the crisis on migrant workers and the descendants of immigrants, with the employment rates for such workers falling faster than for other workers. For example, in countries where the financial crisis has had a significant impact on the construction industry, migrant workers, especially men, have been severely affected.<sup>43</sup>

### ***Other important international labour standards***

*The employment standards* among the international labour standards are of direct relevance to mitigating the labour market impact of the debt crisis through the generation of productive and lasting employment opportunities for the unemployed and other categories of vulnerable workers. The employment instruments require member States to take three fundamental steps to attain full, productive and freely chosen employment, in line with Convention No. 122.<sup>44</sup> First, they are called upon to make a political commitment to achieving full employment. Second, the realization of that objective requires the building of the necessary institutions, including a system of employment services, as provided for in Conventions Nos 88 and 181,<sup>45</sup> an educational and training system, as required by Convention No. 142,<sup>46</sup> and the promotion of employment through SMEs and cooperatives, as indicated in Recommendations Nos 189 and 193.<sup>47</sup> Third, the objective of full employment has to be achieved by the allocation of sufficient resources and the design and implementation of coherent and effective policies and programmes. To further “the mutual relationships between employment objectives and other economic and social objectives”, Recommendation No. 122,<sup>48</sup> which supplements Convention No. 122, indicates in its annex that “measures designed to stabilise employment may further include ... fiscal measures in respect of tax rates and investment expenditure”.

Although several countries in the region successfully relied on employment instruments to mitigate the effects of the crisis in 2008–09, in the face of fiscal consolidation some countries reduced expenditure on ALMPs (see Chapter 3). As discussed in Chapter 1, there is a need for coherence between economic policies and other policies that focus on sustainable employment outcomes. It is thus crucial for countries in the region to take the measures necessary to ensure the consistent application of the employment standards, in accordance with Convention No. 122.

The ILO’s *standards on social protection*, with particular reference to Convention No. 102 and Recommendation No. 202,<sup>49</sup> form an important basis for ensuring social protection particularly given the rise in unemployment and the increased risk of poverty in the region as a result of cuts in social benefits, including pensions.

Income security and workers’ protection can also be maintained through the consistent application of the instruments on *the protection of wages* (Convention No. 95),

<sup>43</sup> See ILO (2011e); CEACR direct request to Iceland on Convention No. 111, of 2010.

<sup>44</sup> The Employment Policy Convention, 1964 (No. 122).

<sup>45</sup> The Employment Service Convention, 1948 (No. 88), and the Private Employment Agencies Convention, 1997 (No. 181).

<sup>46</sup> The Human Resources Development Convention, 1975 (No. 142).

<sup>47</sup> The Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189), and the Promotion of Cooperatives Recommendation, 2002 (No. 193).

<sup>48</sup> The Employment Policy Recommendation, 1964 (No. 122).

<sup>49</sup> The Social Security (Minimum Standards) Convention, 1952 (No. 102), and the Social Protection Floors Recommendation, 2012 (No. 202).

*minimum wages* (Convention No. 26)<sup>50</sup> and the Conventions relating to the *protection of working time, including hours of work, weekly rest and annual leave*.

Certain countries in the region have been experiencing an accumulation in wage arrears, which has been exacerbated by the ongoing economic crisis. For example, wage debt persists in Ukraine in both the private and state-owned enterprises, especially in the industrial sector, despite a series of legislative measures and the reinforcement of the labour inspection services.<sup>51</sup>

Moreover, the negative implications of the austerity measures adopted in several European countries for the *protection of wages* are a cause of concern (e.g., the cuts in the Greek sub-minimum wages for young people: see Chapter 3, section 3.2). For example, in Romania, a 25 per cent cut was imposed by law on the salaries of public sector employees, under a loan agreement with the IMF and the World Bank. Depending on their extent and severity, the wage cuts implemented during the crisis may challenge the very object and purpose of the principles of the protection of wages (Convention No. 95).<sup>52</sup>

With regard to *working time*, a number of issues have arisen in the attempts by European countries to regain competitiveness by making labour legislation more “flexible”. In the case of Spain, for example, the rules set out in the general labour legislation fail to comply in many important respects with the limits and conditions laid down in the ILO’s Conventions on hours of work and rest periods (particularly Conventions Nos 1, 30 and 106),<sup>53</sup> especially with regard to daily and weekly limits on working hours, the averaging of weekly hours of work, limits on overtime, overtime pay and the granting of a rest day in every seven-day period.<sup>54</sup>

International labour standards have an important role to play in providing the guidance necessary to achieve policy coherence between economic and social policies. Despite the ECA region’s good ratification record, it appears that the application of international labour standards has been inconsistent during the crisis. The fiscal consolidation measures taken by governments have in some cases given rise to concerns about their impact on international labour standards. A coherent, inclusive and socially just approach to overcoming the crisis requires not only the ratification of international labour standards, but also their effective and consistent implementation. If policy-makers, confronted as they are with the need for fiscal consolidation, ignore the FPRW and the effective implementation of international labour standards ratified by those governments, it is likely that decisions taken will be one-sided, with detrimental effects for economic recovery, decent work and social cohesion.

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<sup>50</sup> The Protection of Wages Convention, 1949 (No. 95), and the Minimum Wage-Fixing Machinery Convention, 1928 (No. 26).

<sup>51</sup> See, for instance, CEACR observations to Ukraine on Convention No. 95, of 2010, 2011, and 2012. See also the conclusions of the discussion on the application by Ukraine of Convention No. 95 by the Committee on the Application of Standards at the 99th Session (June 2010) of the International Labour Conference.

<sup>52</sup> See, for instance, CEACR observation to Romania on Convention No. 95, of 2012.

<sup>53</sup> The Hours of Work (Industry) Convention, 1919 (No. 1), the Hours of Work (Commerce and Offices) Convention, 1930 (No. 30), and the Weekly Rest (Commerce and Offices) Convention, 1957 (No. 106).

<sup>54</sup> See, for instance, CEACR observations to Spain on Conventions Nos 1, 30 and 106, of 2009.

### ***The economic benefits of international labour standards: Perspectives for job-centred recovery***

International labour standards provide a normative guide for policy coherence and their application has the potential to set the stage for job-centred recovery and sustainable economic growth.<sup>55</sup>

The effective application of international labour standards can improve the link between labour productivity and wages, which can have a positive impact on aggregate demand, economic growth and job creation (see Chapter 2). By promoting collective bargaining at the central and sectoral levels, the effective application of international labour standards can increase the bargaining power of workers in relation to wages and other working conditions. Higher wages are translated into higher private consumption and higher demand for products. The positive effect of higher wages on private consumption outweighs their potential negative effect on the hiring decisions of firms. In this sense, *the full implementation of international labour standards can serve as a stimulus* for growth by boosting aggregate demand, which in turn creates employment opportunities. In particular, the effective implementation of the FPRW could attenuate pressure on public budgets. By stimulating growth and employment, it could relieve the pressure on social protection systems and reduce the need for public stimulus measures (ILO, 2012b).

As discussed in Chapter 3, social security standards are another important tool for stimulating job-rich growth. Social security benefits that are in line with the corresponding ILO standards provide a reliable framework for the development of an anti-crisis strategy. In the vicious circle of depleting resources, mounting debt, reductions in public spending and growing social unrest, social security can play a prominent role as an automatic stabilizer, mitigating the negative consequences on the population and maintaining aggregate demand.

*International labour standards are also an important instrument in boosting the skills and innovation* that are needed for a sustainable and job-rich recovery (see Chapters 1 and 3). In 2000, the OECD published a survey of empirical studies focused on all four categories of the FPRW in 75 developed and developing countries. The overall findings show that countries with stronger observance of core labour standards can increase economic efficiency by raising skills levels and creating an environment that is conducive to productivity growth and innovation (OECD, 2000). Similarly, a study by Heyes and Rainbird (2011) found a positive relationship between union presence in the workplace and employee training. This suggests that the consistent application of core labour standards can foster economic efficiency and facilitate sustainable recovery.

The application of international labour standards, *especially freedom of association and collective bargaining, help create an enterprise environment that increases the motivation of workers, employment security and enterprise productivity*. Fakhfakh, Perotin and Robinson (2011), in their analysis of the link between enterprise performance and employee representation in the United Kingdom and France, found that enterprises perform better when there is strong union representation. Similarly, Lehndorff and Haipeter (2011) show a positive link between collective bargaining, job security and internal enterprise adaptability. For example, collective bargaining systems can serve as an effective tool for facilitating agreements on the flexibilization of working time in

<sup>55</sup> Record of proceedings No. 19, Report of the Committee on the Application of Standards, International Labour Conference, 101st Session, June 2012, Geneva.

a manner that improves both productivity and job security (Lee and McCann, 2011; see also Chapter 2). These findings demonstrate the importance of strengthening bargaining institutions in the region, particularly in the context of the economic crisis.

*The effective application of international labour standards can help make societies and economies more robust during periods of crisis, as their application can reduce rising wage inequalities and the risk of social unrest.* In particular, centralized wage bargaining institutions and the practice of extending collective agreements help reduce wage inequality. Traxler and Brandl (2011) find that the centralization of bargaining generates positive effects in terms of reduced earnings inequality. The assumed negative effect of wage bargaining on employment is found to be negligible. Denmark, Finland, the Netherlands, Norway and Sweden are examples of countries with a high coverage of collective bargaining, low wage inequality and high employment. Collective bargaining also attenuates gender inequality by reducing the pay gap between men and women (Hayter and Weinberg, 2011).

By contrast, the decentralization of collective bargaining, a fall in bargaining coverage and low union membership amplifies wage inequality and contributes to a decline of the wage share in total income. For example, in the United Kingdom, single-employer bargaining systems and a large fall in union density have resulted in increased wage inequality (ibid.). In Sweden, the tendency of employers to move away from centralized bargaining in 1983 was correlated with an increase in wage dispersion within and between industries.<sup>56</sup>

A balanced distribution of productivity gains is important not only for equality, but to pave the way for growth. While the role of core labour standards in the wage–productivity relationship is well established in empirical studies (see, for example, OECD, 1996 and 2000; ILO, 2010c and 2011f), more recently both the IMF (Kumhof and Rancière, 2010) and the ILO (Torres, 2010; ILO, 2011f) have highlighted their importance in promoting output and employment recovery.

This analysis shows that the ratification and effective implementation of international labour standards is not only an end in itself, but offers prospects for recovery, and improvements in the number and quality of jobs. By contrast, the inconsistent application of international labour standards or weakening of institutions, especially collective bargaining, can contribute to growing wage inequality and social conflict and does nothing to advance economic performance (Traxler and Brandl, 2011).

## **4.2. International policy coherence**

The ILO has engaged with a very wide spectrum of international and regional organizations and institutions in its efforts to encourage policy coherence with a view to achieving broad consensus on the importance of international labour standards, decent work and social justice.

Under the terms of its Constitution, the ILO is required to review “all national and international policies and measures, in particular those of an economic and financial character” and to judge the extent to which they promote or hinder the

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<sup>56</sup> Hibbs (1990), cited in Hayter and Weinberg (2011).

fundamental objective of “social justice”.<sup>57</sup> This mandate has been reinforced by the ILO Declaration on Social Justice for a Fair Globalization, 2008.

A review of the policies adopted by certain regional and international institutions in recent years offers some insight into the level of support for decent work and social justice, and into policy coherence at the regional and international levels.

### ***Policy coherence in the EU***

The perception is growing that the European Social Model has come under serious threat during the economic crisis. The ILO’s close relations with EU institutions mean it can be a particularly important partner in the strategic policy dialogues that are necessary to shape the European Social Model and make it resilient in the twenty-first century. A newly adapted European Social Model could also be influential on similar processes in other regions. EU institutions have taken a wide range of concrete initiatives over the years, in both internal and external policy, which have been effective in contributing to the realization of the Decent Work Agenda.

*The EU’s treaties show its closeness to the founding values of the ILO and identify policy coherence as an explicit obligation.* Already in 1951, the Treaty establishing the European Coal and Steel Community called for real solidarity. Since the 1960s, the aims of the European Social Charter and international labour standards have been largely convergent. More recently, the Lisbon Treaty emphasizes the high values of social justice and solidarity and calls for a “highly competitive social market economy, aiming at full employment and social progress”.<sup>58</sup> Moreover, when defining and implementing policies, the EU has to take into account requirements for policy coherence in relation to the promotion of employment, social protection, action to combat social exclusion, education and training, measures against discrimination and the requirements of environmental protection.<sup>59</sup>

As mentioned in section 4.1, *the ratification of the Conventions on the FPRW is a prerequisite for accession to the EU. The 27 EU Member States have also been called upon to ratify and apply the other ILO Conventions* classified as up to date. Europe as a region has ratified the largest number of ILO Conventions and, although national labour law and practice can differ considerably, it is very largely based on the principles contained in international labour standards.

Moreover, the EU has taken a considerable number of initiatives in *external policy and action to promote decent work* and to reflect it more fully at both the multilateral and bilateral levels. For instance, the European Commission’s Communication on Social Protection in EU Development Cooperation strongly emphasizes the importance of national social protection floors. The EU Strategic Framework on Human Rights and Democracy also refers to the need to include ILO core labour standards in EU free trade agreements.

In terms of concrete *social and employment policy responses to the crisis*, the EU has adopted initiatives that are especially relevant to the implementation of the

<sup>57</sup> ILO Constitution, annex, Declaration concerning the aims and purposes of the International Labour Organisation (Declaration of Philadelphia), 1944.

<sup>58</sup> Amendment to the Treaty on European Union and to the Treaty establishing the European Community, 13 Dec. 2007, Article 3.

<sup>59</sup> Treaty on the Functioning of the European Union, 2010, Articles 9, 10 and 11.

Decent Work Agenda, the ILO's GJP, sustainable enterprises, the ILO's call for action on youth employment and national social protection floors. For instance, the renewed EU corporate social responsibility strategy<sup>60</sup> calls on all European-based MNEs to make a commitment by 2014 to respect the ILO's MNE Declaration (see also Chapter 1, section 1.4). Furthermore, the EU's Europe 2020 strategy<sup>61</sup> sets objectives for increased employment and greater efforts on innovation, education, poverty reduction and climate protection, with specific targets such as lifting at least 20 million Europeans out of poverty. To stimulate employment, the EC introduced an employment package<sup>62</sup> aimed at a job-centred growth paradigm in which job creation is seen as a priority and productive employment as a source of growth. To achieve these objectives, the employment package highlights the need for targeted policies in key industries, such as the green economy, the health and social care sector and the digital economy. As a further response to the continuing economic and financial crisis, a Compact for Growth and Jobs was adopted by the European Council,<sup>63</sup> calling on Member States to:

- place particular emphasis on growth-friendly fiscal consolidation;
- restore normal lending to the economy;
- promote growth and competitiveness, notably by addressing deep-rooted imbalances and going further in structural reforms to unlock the domestic potential for growth;
- tackle unemployment and address the social consequences of the crisis through national jobs plans; and
- modernize public administration.

Funding initiatives in crisis-hit countries include mobilizing €120 billion (equivalent to around 1 per cent of the EU's gross national income) under the 2012 Compact for Growth and Jobs by raising the lending capacity of the European Investment Bank from 2013 and reallocating already available EU structural and social funds.

Still, it is a cause for concern that rather than identify and re-establish the fiscal space needed to attain the EU social and employment goals, *the anti-crisis policies focus on rapid and substantial fiscal consolidation* even with the prospect of very weak growth, additional employment losses and increasing poverty. This appears to run counter to the EU's social values, its treaty-based obligation of policy coherence and its commitment to the effective implementation of international labour standards.

Fiscal consolidation measures have been implemented in a way difficult to reconcile with the requirements of employment and social policy coherence, as set out in Article 9 of the Treaty on the Functioning of the European Union. Regular reviews by the Troika linked to the release of bailout funding in crisis-hit countries have called for increased efforts to reduce budget deficits, combined with major structural reforms, in the expectation that less stringent regulation of product and labour markets will improve competitiveness and stimulate a rebound in employment and output.<sup>64</sup> In the

<sup>60</sup> Communication COM(2011) 681 final on a renewed EU strategy 2011–14 for Corporate Social Responsibility, 25 Oct.

<sup>61</sup> Communication COM(2010) 2020 final: "Europe 2020: A strategy for smart, sustainable and inclusive growth", 25–26 Mar.

<sup>62</sup> Communication COM(2012) 173 final: "Towards a job-rich growth", 18 Apr.

<sup>63</sup> European Council (EUCO 76/12), Conclusions, Brussels, 28–29 June 2012, annex.

<sup>64</sup> GB.316/WP/SDG/1.

regular EU governance system, the introduction of instruments such as the “six pack” legislation on economic governance<sup>65</sup> and the fiscal compact<sup>66</sup> are reinforcing the requirement for fiscal discipline by tightening surveillance of all EU countries and their debt to GDP ratios and fiscal deficits. This raises the question of whether the fiscal space for social and employment policies is being curbed by a focus on fiscal consolidation which, for instance, does not allow limited and clearly defined exceptions for productive investment in the real economy with a view to restoring and boosting employment, productivity and sustainable economic growth.

The manner in which a number of anti-crisis policies are being implemented also appears to be in contradiction with the principles of freedom of association, collective bargaining and tripartite consultation, as set out by international labour standards and promoted by the EU in both its internal and external policies. The EU Employment, Social Policy, Health and Consumer Affairs Council (EPSCO) has underlined that employment and social affairs institutions and actors, and particularly the social partners, should be better involved in EU governance, policies and country-specific recommendations.<sup>67</sup> The concerns raised by the European Parliament reflect the view that, in the crisis-hit countries, the functioning of the Troika and the conditions imposed on governments constitute a direct challenge to the functioning of social dialogue, as safeguarded by international labour standards and EU treaties. Successive European Parliament resolutions have therefore advocated the involvement of the ILO in the consideration of the policies and operations of the Troika.<sup>68</sup>

These concerns and calls for action show that even though there are a number of job-friendly growth policies, instruments and initiatives at the EU level, broadly reflecting ILO standards, strategies and policies, these tools need to be applied in a much more coherent manner so that policies:

- promote the adoption of job-friendly macroeconomic and financial policies and stimulate investments in the real economy, including SMEs, as the main drivers of job creation;
- promote the adoption of wage policies that are in line with productivity and conducive to a favourable consumption climate;
- stimulate a conducive environment for employment through effective labour market policies; and
- recognize the autonomy of the social partners to bargain collectively and fully acknowledge the relevance of the effective and full application of international labour standards, particularly the FPRW.

<sup>65</sup> Council Directive 2011/85/EU of 8 Nov. 2011 on requirements for budgetary frameworks of the Member States.

<sup>66</sup> Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, signed by 25 EU Member States on 2 Mar. 2012.

<sup>67</sup> EPSCO conclusions of October 2010; the social partners in the EU have also expressed concerns at the impact of EU social and economic governance and announced in their joint work programme 2012–14 that they will take this up jointly.

<sup>68</sup> European Parliament resolution of 6 July 2011 on the financial, economic and social crisis: Recommendations concerning the measures and initiatives to be taken (2010/2242 (INI)); European Parliament resolution of 15 February 2012 on the contribution to the Annual Growth Survey; and European Parliament, Towards a genuine economic and monetary union (2012/2151 (INI)).

### ***Policy coherence between international institutions for global economic, financial and employment policies***

In recent years, the ILO has been collaborating closely with international institutions that exert a major impact over global economic and financial policies.

In May 2011, the ILO signed a new Memorandum of Understanding with the OECD aimed at *intensifying existing ILO–OECD collaboration in a wide range of areas related to the world of work, including employment, social protection, green jobs and MNEs*. A good example of the type of policy coherence that is needed is given by the *OECD Guidelines for Multinational Enterprises*, which call on MNEs to contribute to the implementation of the FPRW in recommendations that echo the relevant provisions of the ILO’s MNE Declaration.

The *World Development Report 2013: Jobs* could also provide a basis for the World Bank to align itself more closely with the Decent Work Agenda. In the report, *the World Bank acknowledges jobs as the central tool in an approach that seeks equity and inclusion* (World Bank, 2012). The goal announced throughout the report is to “move jobs centre stage” in the macroeconomic, productive transformation and development debates.

Reacting more directly to the crisis, *ILO and IMF cooperation emphasised policies that can improve the capacity of economies to generate quality jobs*. This culminated in the high-level IMF–ILO Conference on the “Challenges of Growth, Employment and Social Cohesion”, held in Oslo in September 2010.<sup>69</sup> The Conference led to an understanding on intensifying collaboration between the two institutions in three areas: the implementation of national social protection floors; employment-creating growth; and effective social dialogue as a means of addressing the global economic crisis and ensuring that the social consequences of the crisis are taken fully into account.

As a follow-up to the Oslo Conference, the IMF and the ILO have started collaboration in three countries, including Bulgaria (the others are the Dominican Republic and Zambia), where they hosted a conference with the Bulgarian tripartite constituents, the International Trade Union Confederation (ITUC) and representatives of the EC in July 2012. The conference provided an opportunity for the social partners to deepen their economic and social dialogue with the Bulgarian Government and key international institutions. It was also aimed at enhancing mutual understanding between ILO and IMF staff.

Although there has been intensive dialogue and follow-up, it has so far proved difficult for the ILO and the IMF to make significant joint progress. This is certainly the result of changing circumstances. In the period following September 2010, the sovereign debt crisis intensified, and consequently the economic priorities of many governments and international institutions with primary responsibility for the macroeconomy changed. As a result, the IMF has become more cautious in identifying the necessary fiscal space at the national level to finance public investment in social protection floors and employment-generating activities.

In contrast to what has happened in the three countries referred to above, there has been no direct collaboration between the ILO and the IMF in the countries that are at the centre of the economic crisis in Europe. Yet, such collaboration would appear to

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<sup>69</sup> <http://www.osloconference2010.org/>.

be desirable in order to bring countries that are implementing economic adjustment programmes back to a more sustainable path of pro-employment macroeconomic policies.

*With the aim of durable recovery based on strong, sustainable and balanced growth, the G20 meetings also offer important opportunities for global anti-crisis policy coordination, including for the region, particularly as six European countries and the EU are members of the G20.* The G20 leaders' Pittsburgh statement in 2009 pledged to put quality jobs at the heart of the recovery and to implement "recovery plans that support decent work, help preserve employment, and prioritize job growth". The leaders also welcomed the ILO's GJP and committed themselves "to adopt key elements of its general framework to advance the social dimension of globalization".

As a follow-up to the Pittsburgh Summit, the ILO, in consultation with the OECD, prepared the G20 training strategy. Building on the ILO's conceptual policy framework, the G20 training strategy lays out ways of linking skills development to employability, productivity and social inclusion (ILO, 2010d). Based on this broad strategy, the OECD and the ILO prepared a policy note for the G20 Meeting of Labour and Employment Ministers, held in Paris in September 2011, detailing measures to tackle the youth employment crisis.

On the other hand, already at the Toronto Summit in June 2010, the G20 had abruptly shifted from the coordination of stimulus measures to the coordination of fiscal consolidation. It was hoped at the time that the nascent recovery in private sector activity would be strong enough to outweigh the contraction that would result from the simultaneous efforts to cut fiscal deficits. However, that was not the case, especially in the most exposed countries in the euro area.

A way out of this policy impasse was foreseen at the Los Cabos G20 Summit in June 2012. In the growth and jobs action plan adopted on that occasion it was agreed that, should economic conditions further deteriorate significantly, Argentina, Australia, Brazil, Canada, China, Germany, the Republic of Korea, the Russian Federation and the United States "stand ready to coordinate and implement additional measures to support demand, taking into account national circumstances and commitments". A joint ILO, OECD, IMF and World Bank report to the Summit argued that in considering "further action to accelerate the pace of job recovery, G20 countries may wish to focus on specific areas covering both the demand and supply sides of the labour market" (ILO, 2012j, p. 16).

A similar understanding *on the policies now required for crisis recovery was reached between the heads of the OECD, the IMF, the World Trade Organization (WTO), the World Bank and the ILO* at a meeting in Berlin in October 2012 with German Chancellor Angela Merkel, who has invited the heads of the five organizations annually since the G8 Summit in 2007. Together with a meeting with French President François Hollande, shortly prior to the Berlin meeting, this offered an occasion to discuss the European situation. The joint statement by Chancellor Merkel, the ILO, the OECD, the WTO, the IMF and the World Bank once again emphasized the need for macroeconomic policies to go hand-in-hand with efforts to increase employment. It also referred to the Decent Work Agenda and the GJP and underlined the need to give high political priority to youth employment.



### ***Policy coherence in the broader UN system***

Efforts to achieve international policy coherence are also being advanced by the UN system, particularly through the definition of new post-2015 development goals and, at the country level, through the United Nations Development Assistance Frameworks (UNDAFs).

In terms of coherent UN policy advice, *UNDAFs are the main programming tool for the UN programme countries*, which number around 100, including 17 countries from the ECA region. The United Nations Development Group (UNDG) guidance note for UNDAFs includes issues ranging from labour standards to social partners among the essential tools for programming. The vast majority of UNDAFs (97 per cent) include at least three of the following: the FPRW, employment, social protection and social dialogue strategies.

In the preparations and debates on the new *UN post-2015 development agenda*, which are currently taking place both within and outside the UN system, recognition is growing of the explicit and essential role that decent work plays and has to continue to play in the economic, social and environmental dimensions of development. For instance, the outcome document of the UN Conference on Sustainable Development in 2012 (Rio+20) calls for global initiatives on youth employment and social protection. It makes multiple references to full and productive employment and decent work. The decent work approach also plays a crucial role in the environmental dimension, where a socially just transition process towards the green economy requires social dialogue, social protection and ALMPs, including for those involved in declining and polluting industries (UN, 2012) (see Chapter 1). While decent work was still a missing link in the current Millennium Development Goals,<sup>70</sup> the 316th Session (November 2012) of the ILO Governing Body adopted a decision to “develop and implement a strategy for the adoption of full and productive employment and decent work as an explicit goal of the global development agenda beyond 2015” (ILO, 2012k).

However, in light of the above, it is clear that there is a need for a much higher level of international and regional policy coherence than has been achieved in recent years.

### ***4.3. Policy coherence at country level***

The more employment-friendly anti-crisis stimulus packages adopted in the ECA region in 2008–09 were to a large extent also the result of successful national coordination and consultation approaches between governments, employment and fiscal policy-makers, as well as the social partners. The way how these actors work together at the country level is crucial to achieving coherence between financial and economic objectives, on the one hand, and social and employment goals, on the other.

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<sup>70</sup> Only a belatedly introduced sub-target “Achieve full and productive employment and decent work for all, including women and young people” and a set of related indicators were added in 2006 to MDG 1 – “Eradicate extreme poverty and hunger”.

### ***Global and regional initiatives for policy coherence at the country level***

Recent governance instruments developed in the framework of both the G20 and the EU may offer useful options for increasing policy coherence at the country level.

In its Framework for Strong, Sustainable, and Balanced Growth, the G20 proposes an indicator-based procedure for early warning and appropriate crisis responses. As part of this so-called Mutual Assessment Process (MAP), *indicators to measure national developments have been identified in the following five areas: public debt, fiscal deficits, private savings, private debt and the external balance*. Based on these key indicators, the MAP is intended to help governments assess external and internal imbalances that could endanger growth.

The MAP framework therefore offers options at the country level to anticipate crises through indicators focusing on fiscal and macroeconomic developments. However, the selected indicators do not reflect the issues of high unemployment; gaps in working conditions and social protection; imbalances in the distribution of income, wages and wealth; and lack of social dialogue, savings and investments. They are therefore not yet sufficiently comprehensive to provide clear guidance on the action needed to re-balance macroeconomic, social and employment policies, and accordingly to bring the economy back to a sustainable growth path.

*The EU's reformed governance system also contains several instruments that can be of use for policy coherence.* The so-called European Semester suggests a step-wise process of economic policy coordination in a yearly cycle, including an annual growth survey, the adoption of fiscal and macroeconomic policy orientations, national reform programmes and recommendations for policies and budgetary planning. It covers macroeconomic, fiscal and structural areas, including employment policy.

Quantitative indicators which anticipate and monitor developments and provide an early warning also play an important role in this process. To monitor possible macroeconomic imbalances which may harm growth, a scoreboard has been established, which mostly relates to fiscal and economic development. Of the ten indicators, only one covers the emergence of high unemployment. In the area of fiscal consolidation, a 3 per cent budget deficit and/or a debt ratio exceeding 60 per cent of GDP serve as indicators of an unacceptable risk of future debt increases and financing strains. In the area of structural reforms, five specific EU headline targets serve to monitor developments in the fields of employment, research and development, climate protection, education and poverty reduction. For instance, the increase in the employment rate of 20–64-year-olds to 75 per cent by 2020 is the EU employment target.

However, while the implementation of employment and social policy is more or less reliant on the goodwill of governments, non-compliance in the areas of macroeconomic and fiscal coordination gives rise to sanctions. Implemented at the country level, a yearly cycle of coordination could provide a basis for a fixed and reliable sequence of planning, anticipation and assessment. To pave the way for a real national process of economic and social governance in pursuit of decent work, a number of other elements would, however, be needed.



### ***National practices of policy coherence***

At the country level, several interesting cases show how policy coherence can work and has been working in practice.

Sweden's reaction to its banking and economic crisis in the early 1990s might present a source of consideration for addressing the current crisis in a coherent manner (ILO, 2012c). Apart from a carefully designed rescue programme for its struggling banking sector, *Sweden's fiscal policy approach was aimed at a more long-term consolidation strategy* allowing relevant fiscal deficits to even increase during the crisis. This strategy permitted the avoidance of a contraction of the national welfare system and preserved the relevant fiscal space for important employment programmes and ALMPs. Moreover, social dialogue was key in the Swedish recovery strategy and established institutions of centralized wage bargaining allowed setting wage increases while preserving international competitiveness of the manufacturing industry. This helped avert a deepening of the impact of the crisis on workers' living conditions and domestic demand.

A more recent case worth examining is *the employment-friendly response to the crisis in Germany and its employment performance which was not only a result of short-time work programmes but goes back to its social market economy institutional framework* encompassing well-functioning automatic stabilizers, including social dialogue and social protection (ILO, 2011g). During the crisis, temporary reductions in working time were introduced through an established mechanism to determine working time based on company-level agreements or individual contracts. Significant labour market programmes and social security, both supported by workers and employers, also fulfilled the function of a crucial automatic stabilizer for the economy. Enterprises had good reasons to retain workers throughout the crisis, as they did not want to lose skilled and experienced workers in the expectation of an early recovery of exports. The close collaboration between the State, employers and workers, from the national to the enterprise levels, is also the basis for an extensive dual apprenticeship system, which provides a skilled workforce and reduces unemployment, notably among the young. A consensus-based approach is also facilitated by the fact that policy-makers and the social partners can base their action on reliable statistics and economic and business reviews provided by numerous, and usually independent, research institutes.

Such models and policies are of course not transferable in their totality to other countries, as they are built on a specific mix of long-established institutions and arise out of different national situations. For other countries, a step towards the build up of social and labour market institutions and the strengthening of policy coherence might be the adoption of long-term national social and economic strategies. For example, the Russian Federation's concept of long-term socio-economic development up to 2020 provides a framework for the formulation of social and economic goals, the determination of follow-up government activities, including for regional and sectoral development, and the planning of investment in education, science, health care and social policy. Similarly, the Strategic Development Plan of the Republic of Kazakhstan up to 2020 defines five key national development priorities, including the diversification of its economy and quality social services. In various plans and roadmaps, the Kazakh Government outlines detailed development goals, including the definition of priority sectors for industrial and business development. With ILO assistance, long-term



employment strategies have been formulated in both countries in support of the recent national development strategies.

In Bulgaria, in the aftermath of its economic and social crisis in 1996–97, *an early warning system (EWS) was established to increase policy coherence, restore public trust in the transition governance and prevent future crises*. The monitoring system offered an unprecedented comprehensive approach in a clear attempt to increase national policy coherence. The EWS was based on around 300 indicators monitoring such areas as inflation, the banking system, labour market development, the efficiency of the social security system and economic development.<sup>71</sup> Based on these indicators, monthly development reports were distributed to around 300 recipients in the Government, the private sector, academia, non-governmental organizations (NGOs) and the donor community. A United Nations Development Programme (UNDP) evaluation<sup>72</sup> noted a high degree of awareness of these analytical contributions among the various partners. Moreover, the EWS contributed to greater efforts to activate the unemployed through ALMP.

However, when the country experienced a period of rapid economic growth, the EWS was deemed no longer necessary, lost influence and was finally abolished in 2007. As a result, with a 5.5 per cent fall in GDP in 2009, Bulgaria was no better prepared for the crisis than other countries in the region. Continued application of the EWS might have supported a path of more sustainable macroeconomic growth. To improve coordination across ministries and the social partners and, for example, to stimulate discussion of the use of fiscal space for job-rich economic development, the ILO's GJP country scan for Bulgaria recommended the (re-)establishment of a mechanism that includes employment outcomes as indicators of achievement (ILO, 2011h). The joint IMF–ILO initiative also provides opportunities for social dialogue, including discussion of decent work, fiscal consolidation and economic growth between Ministers of Labour and Finance and the social partners.

### ***Elements for national policy coherence models***

In light of the above, several key components of policy coherence at the national level can be identified.

The cases referred to above show that approaches to economic governance focused on financial and macroeconomic policies are expanding progressively. However, policy coordination will not result in coherence if it is not sufficiently comprehensive in the policy fields that it covers. Approaches that focus mainly on fiscal consolidation and austerity neglect employment and social issues. *In order to reinforce economic progress and social justice at the same time, policy coordination should be at the service of both the real economy and the people, and in line with international obligations assumed by virtue of ratified international labour standards*. Models for economic and social governance are therefore needed that slow down the pace of austerity and generate and allocate funds for social and employment policies and for the real economy. New coherent policy coordination mechanisms therefore need to place social and employment goals at their core.

<sup>71</sup> UNDP Project BUL/99/021: Bulgaria Early Warning Report, May 2000.

<sup>72</sup> UNDP Country Evaluation: Assessment of development results, Bulgaria, 2003.

Reliable instruments, data and indicators are crucial to monitor developments and to anticipate risks and emerging imbalances. Sound and detailed statistics generated by instruments such as economic and business outlooks, labour market information systems and social security inquiries, as conducted by the ILO, form the basis for broad monitoring systems. Monthly data and future development projections based on trend analyses are important for continuous monitoring and timely anticipation. Quantitative and qualitative indicators should provide a basis for improved analysis and forecasts of macroeconomic developments and the national fiscal situation. However, to guarantee policy coherence, progress is also needed in developing indicators of decent work and social justice. *Any governance approach should therefore include indicators focusing on employment, unemployment, gaps in working conditions, the distribution of income and wages, possible lack of social dialogue as well as key changes in savings and investment.* The ILO's decent work indicators may be of help in the following areas: employment opportunities; adequate earnings and productive work; decent working time; combining work, family and personal life; stability and security of work; equal opportunities and treatment in employment; a safe work environment; social security; and social dialogue, employers' and workers' representation (ILO, 2012l).

In addition to data and indicators, *the broad involvement of the social partners is important in ensuring an inclusive process to enable a more equal sharing of obligations, benefits, risks and opportunities among and within countries, thereby also contributing to greater social justice.* The definition of alert thresholds to indicate risks requires the consent of a broad range of actors. For instance, when looking at debt-to-GDP ratios, a distinction could be made between “unproductive” debt and productive investments in jobs and the real economy. Moreover, once an early warning is given in areas such as employment, social security, wage development, income distribution, macroeconomic or budget developments, consultations should be held between ministries of finance and labour, as well as the social partners, to develop suitable recommendations for policy action.

The Russian Federation's G20 initiative to organize a first-ever meeting between the G20 Labour and Finance Ministers can provide a very useful orientation for national governments. Only the fair representation of key actors in economic and social governance for the shaping of employment, economic and fiscal policies can guarantee policy coherence for job-centred recovery and growth, and prevent excessive focus on a single policy area, such as austerity-driven fiscal consolidation.

To be relevant for actual policy-making, *reliable early warnings and sound recommendations require a certain commitment to action.* It is also important for the element of compulsion not to differ too much between the various policy fields. For example, if deficit reduction goals are combined with strong binding obligations for action but employment and social targets are not, there is an increased risk that fiscal consolidation will prevail over all other issues, with employment and social justice being neglected.

Finally, many of the approaches discussed above are either at an early state of development, were terminated after a short period or were only initiated on an ad hoc basis once the crisis had set in. It must therefore be concluded that *policy coherence requires continuity* to make the best use of monitoring and early warnings, and to create commitment among the participating actors.



#### 4.4. Policy considerations and the way forward

This chapter has illustrated the essential need for a rights-based approach to international, regional and national policy to promote strong economic and labour market recovery and social progress simultaneously, and therefore to reconcile the different policy areas. The crisis has seen the inconsistent application of international labour standards, in some cases even involving the neglect or violation of the FPRW, and particularly the right to freedom of association and collective bargaining. International and regional policy coordination has struggled to implement strategies for sustainable job-rich growth. The European Social Model needs to be restored in order to avert a massive social crisis and a political backlash. Policy decisions that focus narrowly on economic policies and the need for fiscal tightening and lack of respect for the FPRW and social dialogue have contributed to deteriorating labour market conditions and contributed to poverty. These developments pose impediments to sustainable economic growth. Moreover, they have also led to a loss of trust in policy-makers. The chapter has demonstrated that international labour standards and particularly the FPRW can serve as a driver for social *and* economic development and thus for sustainable economic growth.

To increase the coherence of social and economic policies in accordance with the principles of international labour standards in the ECA region through international, regional and country level approaches, the tripartite constituents could consider the following policy recommendations:

**All ECA countries should ensure that their laws and policies are consistent with the FPRW**, in particular by:

- taking the necessary steps to *guarantee freedom of association and collective bargaining*, and to ensure that consultations between governments and social partners are part of any anti-crisis policy responses;
- *effectively combating forced labour and trafficking* by strengthening the legal and institutional framework for their prevention, punishing perpetrators and protecting current and potential victims, including migrant workers;
- *combating child labour through specific policy measures* targeting the most vulnerable categories of children, such as children from poor families, Roma children and street children, and improving access to education; and
- *addressing non-discrimination and promoting equality*, including through the design of fiscal consolidation measures in a manner that prevents disproportional hardship for disadvantaged groups.

To further trigger the economic and social benefits of a rights-based approach, **other important international labour standards should be ratified and properly enforced**, including:

- *promoting full, productive and freely chosen employment while taking into account the mutual relationships between employment objectives and other economic and social objectives*, in accordance with Convention No. 122 and the related ILO employment standards;
- *ensuring social protection for all*, in line with Convention No. 102 and Recommendation No. 202;



- *securing the incomes of workers and stimulating consumption and demand* through the application of international labour standards for wage protection, wage-fixing mechanisms and the protection of working time; and
- *combating undeclared work* through the application of the labour administration and labour inspection Conventions.

For international, regional and national policies to be consistent with the principles underpinning international labour standards and obligations assumed by virtue of their ratification and decent work, **international and regional organizations and institutions** could consider:

- *taking the FPRW and decent work into consideration systematically in their policies in areas that affect the world of work;*
- *reconciling the goals of fiscal consolidation and the promotion of inclusive job-rich growth* through a new job-centred approach which recognizes employment as a source of growth and targets employment goals alongside economic objectives.
- *intensifying and broadening cooperation at the country level on economic, social and employment policies* in all countries, and particularly the crisis-hit countries, including through tools such as the G20 training strategy and the ILO's GJP; and
- *giving full recognition to the crucial role of decent work in the economic, social and environmental dimensions of development* by making it an explicit goal of the UN post-2015 development agenda.



For regional and national policies to be more in line with international labour standards and decent work, **EU institutions and countries** could consider the following steps:

- *promoting more coherence between employment and social objectives and the economic targets of EU governance mechanisms on the basis of the foundational values of the EU and the ILO.* Of particular importance is the *need for genuine social dialogue at the level of the EU and on national reform programmes and economic adjustment programmes*, such as those in Greece, Ireland and Portugal;
- *providing stronger guidance on, and mandatory adherence to, employment and social policies based on decent work within the European Semester process.* Labour market reforms in the framework of economic adjustment programmes should be based on full respect for ILO standards, and particularly the FPRW and social dialogue.

These principles are equally relevant for **non-EU countries in the region**.

**All the countries in the ECA region** could also consider the following as important elements of ***national policy coherence*** directed towards achieving job-intensive growth, quality jobs and crisis recovery:

- *the establishment of mechanisms and strategies for the coordination of economic, social and employment policies, and placing social and employment goals at the centre of such initiatives* to achieve sustainable job-rich growth; and
- *the use of monitoring, anticipation and early warning mechanisms* through the establishment of labour market information systems and the selection of key national

indicators to detect economic risks, labour market deficiencies and inequalities, as well as shortcomings in relation to the FPRW and social dialogue. The objective would be to alert governments when imbalances arise between macroeconomic, employment and social goals.

The **ILO** itself has the capacity to increase its assistance to countries undergoing crisis and reform, as the Officers of the Governing Body emphasized in their statement of 15 November 2012. Among other actions, at the invitation of national constituents the ILO could:

- undertake policy-relevant comparative analysis and research into different sets of policy mixes addressing the economic, employment, labour and social challenges faced by countries in the region;
- contribute its expertise to national policy debates on the financing of social protection, including actuarial analysis of the longer term impacts of reforms introduced to meet short-term fiscal consolidation objectives;
- provide evidence-based comparative policy analysis of short- and medium-term policies, programmes and other measures to address the acute youth employment crisis, straddling supply and demand sides of the labour market, including apprenticeships, dual training schemes and entrepreneurship;
- assist the social partners in contributing and participating in national policy debates on adjustment and reform, including on the role of social dialogue in designing balanced economic and social policy responses; and
- contribute its experience and expertise in order to involve all social partners, the actors of the real economy, in policy debates so as to foster wide consultations and participation in designing national reform and recovery programmes.

These actions are of equal relevance for achieving policy coherence at the international level and could also feed into the cooperation of the ILO with regional institutions and international organizations.



***Participants may wish to discuss the following questions during the thematic panel on Chapter 4***

1. In your experience, what role have the FPRW and other international labour standards played in shaping policy responses in your country, and how could such a role be enhanced to achieve balanced macroeconomic policies aiming at job-rich growth and quality jobs? What should be the role of social dialogue in this respect?
2. In which areas do you see main gaps in the proper implementation of international labour standards in your country? How could the ILO assist your country in strengthening policy coherence through the implementation of the FPRW and other international labour standards?
3. Many strategies, initiatives and policies favourable to employment and social goals have been launched by EU institutions. At the same time, the fiscal consolidation



measures in crisis-hit countries have not addressed social and employment challenges and have therefore had largely negative effects on industrial relations, employment including youth employment, as well as on wages and social protection. How can national and EU policies of an economic and financial character be reviewed to assess the degree to which they promote or hinder sustainable economic growth and social justice? Should labour ministries and social partners have a stronger say in such policy-making processes? What role can the ILO play in this respect? To what extent would you like to see ILO assistance, including its involvement in the concrete Troika decisions?

4. Policy coherence in the pursuit of decent work is also a matter of coordination and cooperation between international organizations and regional institutions, particularly the IMF, the OECD, the World Bank, the ILO and the EU. How can international coordination reconcile the goal of fiscal consolidation with continuous investment in employment and social policies? How can the ILO and the IMF resume the momentum of the 2010 Oslo Conference and translate it into broader and more intensive cooperation, particularly in countries adopting highly controversial labour market reforms? Has the policy advice provided by these organizations and institutions to your country facilitated the placement of social and employment goals at the core of national economic policies?
5. In order to put in place timely, preventive and remedial policy responses, the Report suggests the establishment of national early warning and monitoring systems based on a number of key indicators as an option to anticipate and detect economic risks, fiscal imbalances, high unemployment and underemployment, inequalities, as well as shortcomings with regard to the compliance with the FPRW and social dialogue. Do such mechanisms exist in your country? If not, do you think they would be useful and would you seek ILO assistance in this respect?



# Part II

## ***5. A review of ILO work in Europe and Central Asia from 2009 to 2012***

Part II of this report reviews the main elements of the ILO's work in the European and Central Asian region since the 8th ERM, held in Lisbon in February 2009.

Section 5.1 very briefly describes the field structure and instruments at the ILO's disposal to assist constituents to address the challenges facing the region. Section 5.2 then reviews the ILO's work between 2009 and 2012,<sup>73</sup> in particular but not exclusively in the 29 countries covered by the Decent Work Teams/Country Offices (DWT/COs) in Moscow and Budapest and the Country Office in Ankara. ILO activities, achievements and the lessons learned are described under each of the 19 outcomes set out in the ILO Strategic Policy Framework (SPF) 2010–15.



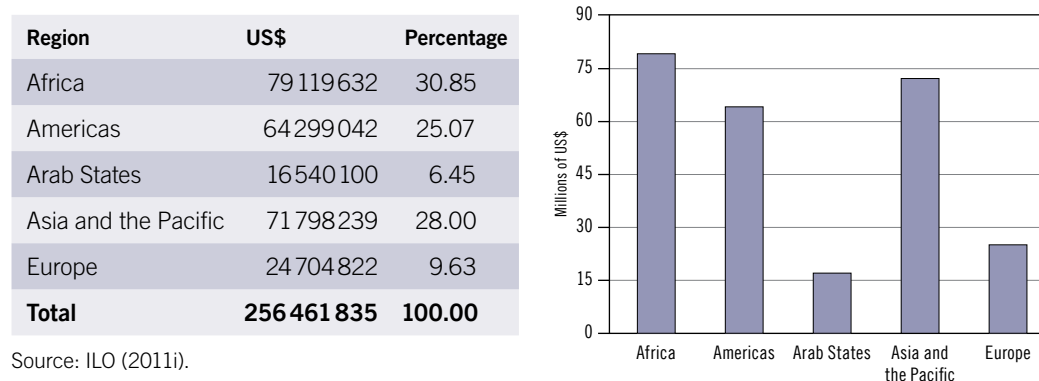
### ***5.1. ILO presence in Europe and Central Asia***

The ILO's assistance to constituents in the 51 countries of the region is channelled through its field structure of offices and national coordinators, under the leadership of the Regional Office. Based at the ILO headquarters in Geneva, the Regional Office is also directly responsible for relations with all the countries in the region not covered by its field offices.<sup>74</sup> Figure 1 offers a breakdown, by region, of ILO regular budget resource allocation in 2012–13.

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<sup>73</sup> Information concerning the ratification of ILO Conventions and Recommendations covers the period from 2009 to August 2012.

<sup>74</sup> Austria, Cyprus, Denmark, Finland, Greece, Iceland, Ireland, Israel, Malta, Norway, Sweden, Switzerland and United Kingdom.

**Figure 5.1. Regular budget resource allocations by region, 2012–13**

### *Country offices in Western European countries*

The ILO runs country offices in a number of Western European countries. These offices broadly have four strategic functions, described below with examples of corresponding work:

- (i) *Communication/visibility*: ILO visibility in France, for example, is strengthened by an annual barometer on workplace discrimination (*Baromètre sur les perceptions des discriminations au travail*) undertaken in partnership with the *Défenseur des Droits*. Another example, this time in Italy, is the Decent Work Italian Web Portal, designed and regularly updated by the Rome Office, which has now become a reference for information on the ILO and the world of work for Italian media, journalists and civil society.
- (ii) *Representation/partnerships*: through the Lisbon Office, greater awareness of human trafficking for labour exploitation, forced labour and gender discrimination has been achieved in Portugal through new partnerships, including with the Portuguese Observatory on Trafficking in Human Beings and the Portuguese Committee for Gender Equality.
- (iii) *Resource mobilization*: one priority for the ILO Brussels Office is strengthening partnerships with the EU as an ILO donor. Through the Madrid Office, co-operation with the private sector has continued through public–private partnerships (PPPs), for example a collaborative programme with the Spanish multinational company Inditex based on joint actions with employers and trade unions to promote corporate social responsibility by Spanish companies with operations in third countries.
- (iv) *Policy advice*: the ILO Brussels Office has worked to ensure core labour standards and decent work are reflected in many EU instruments and communications including in both free trade agreements and unilateral instruments, such as the Generalized System of Preferences (GSP) and GSP Plus in the area of trade policy. The Berlin Office has helped to create greater awareness in Germany of human trafficking for labour exploitation, forced labour and gender discrimination.



In addition, the country offices in Western Europe perform an important role in facilitating high-level political attendance at meetings such as the International Labour Conference – for example, President Sarkozy in 2009, Chancellor Merkel in 2011 and President Napolitano in 2012.

The host governments in Western Europe, as well as in Hungary and Turkey, subsidize the rent and/or provide detached civil service staff for the offices.

### ***Decent Work Teams/Country Offices in Moscow and Budapest***

The technical assistance and advisory services provided by the two DWT/COs, covering both policy and practical issues, are implemented in partnership with constituents through technical cooperation projects in the framework of Decent Work Country Programmes (DWCPs) or other cooperation agreements. DWCPs, which are crucial for the provision of effective services, are based on targets that take the form of a limited number of country programme priorities and outcomes. DWCPs are owned by the constituents and reflect their priorities.

The DWT/CO in Budapest is responsible for 18 countries in CEE,<sup>75</sup> while the DWT/CO in Moscow covers ten Eastern European and Central Asian countries.<sup>76</sup> Both these Offices have six National Coordinators reporting to them and who, amongst other things, facilitate technical assistance and form part of UN country teams, which allows the ILO to play a critical role within the UN reform process.

Like the country offices in Western Europe, the DWT/COs in Moscow and Budapest also engage in communication work, policy advice and resource mobilization. But their overarching priority is direct assistance to constituents, in line with the DWCPs and the SPF 2010–15.

### ***Country Office in Ankara***

The functions of the Ankara Office bridge those of the DWT/COs and the Western European country offices and consist of: (i) representing the ILO; (ii) promoting ILO policies/programmes and international labour standards; (iii) developing, implementing and monitoring technical cooperation programmes and projects; (iv) administering fellowship programmes; and (v) collecting and analysing information.

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<sup>75</sup> Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Republic of Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, The former Yugoslav Republic of Macedonia and Ukraine. The DWT/CO in Budapest is also responsible for coordinating ILO activities in Kosovo (as defined by UN Security Council Resolution 1244).

<sup>76</sup> Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Russian Federation, Tajikistan, Turkmenistan and Uzbekistan.

## ***5.2. Activities and achievements in the region***

This section highlights the major achievements and the challenges and lessons learned from the provision of technical assistance and advisory services in the region. In so doing, it mainly covers the ILO's work in the countries that fall under the responsibility of the DWT/COs in Moscow (10), Budapest (18) and the Country Office in Ankara. While most ILO programmes and projects are carried out in these 29 countries, some technical assistance and advisory services are also delivered in other countries in the region, such as the advisory services provided by the DWT/CO Budapest on social security to Greece and the activities related to the MNE Declaration. This section also includes region-specific information on the training activities of the Turin Centre, through its regional programme for Europe.

The ILO's services span 19 outcomes, which form the results architecture set out in the ILO SPF 2010–15. The Regional Office for Europe and Central Asia and its field structure have aligned their operations with these 19 outcomes to ensure consistency with ILO programming and reporting systems and processes.<sup>77</sup> An exact account of the region's performance against the measurement criteria of the 19 outcomes can be found in the ILO's biennial programme implementation reports (particularly for 2008–09 and 2010–11).



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<sup>77</sup> In this Report, ILO achievements are defined as any progress made within the 19 outcomes framework resulting from ILO activities in a country, a subregion or the region as a whole.

## Outcome 1. More women and men have access to productive employment, decent work and income opportunities

*The ECA is one of the regions that has been most negatively affected by the crisis. Since 2008, a bleak economic situation has led to new job losses and a further increase in unemployment, particularly among youth.<sup>1</sup> The increase in unemployment has been particularly marked in the EU and south-eastern Europe. Labour markets in the region have also been affected by several other trends, including a decline in labour market participation, growing informal employment and rising temporary and part-time employment.*

### ILO achievements

- National and local employment frameworks developed in 11 countries.
- Policy initiatives and reforms to facilitate the formalization of informal activities introduced in five countries.
- Microfinance institutions strengthened in four countries.
- Build-up of labour market information and analysis systems in two countries.
- Pilot project on ALMPs and decent employment for women implemented in Turkey.
- Bosnia and Herzegovina Employment Strategy established for 2010–14.
- GJP country scan in Bulgaria (2010).

### ILO activities

- Training on employment promotion policies delivered to 400 participants through the Turin Centre.
- In 2011, the ILO and the Russian Federation organized a conference on employment and labour market strategies in the context of an innovation economy.
- Tripartite follow-up activities to the GJP included an impact analysis of crisis responses in Turkey (2010), a subregional conference in Split (2011) and an international conference in Sofia (2012).

<sup>1</sup> Activities to promote youth employment are addressed under Outcome 2.

## ILO assistance and outcomes

The systematic development of employment policy involves several steps, including situation analysis, strategy development, adoption, implementation and evaluation. The ILO provided extensive support for the *development of national and local employment frameworks* in Central Asia, the Caucasus and south-eastern Europe. In **Armenia, Azerbaijan, Bosnia and Herzegovina, Kazakhstan, Kosovo,<sup>78</sup> Kyrgyzstan, Republic of Moldova, Montenegro, Russian Federation, Serbia and Tajikistan**, policy advice and technical and financial support were provided for policy background analysis, strengthening the capacities of constituents and facilitating tripartite consultations to set employment priorities. ILO assistance also resulted in the setting up *and strengthening of labour market information and analysis systems* in **Albania and Serbia**. In **Turkey**, where the labour force participation rate of women is considerably lower (28.8 per cent in 2011) than that of men (71.7 per cent in 2011), a pilot project on ALMPs to advance gender equality through decent employment for women was successfully implemented in 2009.

With ILO support, a number of national public authorities have *established micro-finance institutions* to encourage job creation and the provision of services to the working poor through local financial institutions. The concept of microfinance was introduced and piloted in **Serbia**. The microfinance for decent work project in **Tajikistan**

<sup>78</sup> As defined by UN Security Council Resolution 1244.

and **Kyrgyzstan** aims to identify work-related challenges among microfinance clients and implement tailor-made innovations with microfinance institutions. The Turin Centre worked with GIZ (the German technical cooperation agency) in **Tajikistan** in 2009–10 and with UNDP in **Uzbekistan** in 2010–11 to train managers of microfinance institutions and prepare local trainers for accreditation.

Countries, particularly in Eastern Europe, have scaled up investment in employment-intensive infrastructure as part of their countercyclical measures to mitigate the effects of the crisis. In **Azerbaijan**, ILO assistance promoted participatory local development strategies for employment creation, livelihood improvement and infrastructure development for rural and urban women and men.

The ILO has also assisted in the introduction of policy initiatives and reforms to facilitate the *formalization of informal activities*. In **Kazakhstan**, a set of gender-sensitive policy initiatives to facilitate access to formal employment for vulnerable groups is a core component of the new Employment Programme 2020. In **Albania, Bosnia and Herzegovina, Republic of Moldova and Montenegro**, the ILO provided technical advice on policies to address the problem of undeclared work.

Finally, in south **Serbia**, steps were taken to include the promotion of productive employment in a peace-building and inclusive development programme (a joint UN programme).

### Challenges/lessons learned

The integration of strategies for productive employment in country-level macro-economic and investment policies remains a key challenge, as does building reliable labour market information systems and better monitoring and evaluation instruments to assess the impact of national employment policies. In response to demand from constituents, the ILO needs to increase both human and financial resources to consolidate experience in establishing new policy tools and monitoring mechanisms. Sectoral employment targets for growth-driving sectors and target groups should also be promoted.



## Outcome 2. Skills development increases the employability of workers, the competitiveness of enterprises and the inclusiveness of growth

*The mismatch between skills and labour market opportunities, inadequate education and poor training are significant obstacles to job-rich growth, increased productivity and socio-economic development. Young people, who are particularly affected by the skills gap, have been the hardest hit by the crisis, resulting in youth unemployment rising to historically high rates in some countries and reaching a level over twice that of the adult population in the EU. In many countries in Southern and Eastern Europe and Central Asia, there is therefore a pressing need to upgrade vocational training systems and other skills development mechanisms to match labour market needs.*

### ILO achievements

- National vocational training systems enhanced in seven countries.
- The capacity of PES strengthened in three countries.
- Youth entrepreneurship programmes promoted in two countries.
- National action plans or similar ALMP initiatives on youth employment established in four countries.

### ILO activities

- Training on policies and programmes for skills development delivered to 405 participants through the Turin Centre.
- Skills development e-learning campus established for Eastern Europe and Central Asia.
- Reports prepared on skills policies for economic diversification (Mojsoska-Blazevski et al., 2012) and advisory report on vocational rehabilitation and the employment of persons with disabilities in Eastern Europe and Central Asia (Nesporova and Koulaeva, forthcoming).
- 11 national/regional youth employment events in 2012 in the region to prepare the discussion on the youth employment crisis at the 101st Session of the ILC, leading to the publication of a regional report on young people as agents of change (Deganis and Künzel, 2012), which was an input for the 2012 Annual Ministerial Review of the UN Economic and Social Council (ECOSOC).



## ILO assistance and outcomes

Faced with a mismatch between the skills of the labour force and those required by employers, labour market information systems have been enhanced and *PES strengthened* in several countries with a view to improving their labour market responsiveness. In **Albania** and **Republic of Moldova**, the ILO trained PES staff to conduct local labour market and training needs analyses and refine ALMP design. In **Ukraine**, national capacity was strengthened to analyse how skills shortages and skills over-supply affect migration flows, with a view to improving migration management and ethical recruitment programmes. In **Turkey**, the ILO has trained officers of the national employment agency on effective outreach, matching and placement services.

Similarly, ILO assistance *improved the quality, accessibility and relevance of national vocational training systems* (**Kyrgyzstan, Russian Federation**). In **Kyrgyzstan**, modular training packages were developed with local training institutions for integration into national curricula. Education and training for disadvantaged groups has been an important focus of ILO action (**Albania, Armenia, Belarus, Serbia, Turkey**). In **Serbia** and **Turkey**, vocational training was made more accessible to people with disabilities, and in **Serbia** the capacity of institutions and the social partners was strengthened to give effect to the legislation on vocational rehabilitation and employment of persons with disabilities. In **Albania** and **Belarus**, joint ILO–UNDP action promoted increased

access to vocational education and training for marginalized groups through skills needs analyses and capacity building of PES. In **Armenia**, wage subsidies and reasonable workplace accommodation for persons with disabilities were successfully tested, resulting in the job placement of disabled jobseekers.

With regard to youth employment, technical advice was provided and the capacity of a wide range of ministries and government agencies was strengthened, including inter-institutional committees. *National action plans on youth employment* were developed in **Albania**, **Serbia** and **Turkey**, and support was provided to national statistical offices to strengthen statistical data on youth employment, thereby contributing to sound policy and programme design. An analysis of the youth labour market was carried out in the **Russian Federation** at the federal and regional (North Caucasus) levels. *Youth entrepreneurship was promoted* in **Azerbaijan** and **Kyrgyzstan** through the Know About Business (KAB) programme. A package of active labour market measures for disadvantaged youth was also developed with ILO assistance in **Azerbaijan**.

### Challenges/lessons learned

The successful formulation of national and sectoral skills development policies requires effective coordination among ministries and partnerships with workers' and employers' organizations, including youth representatives. ILO experience and feedback from constituents have shown the value of fully estimating and assessing the quantitative and qualitative effects of programmes for disadvantaged jobseekers. As emphasized by the evaluation report of the programme in **Kyrgyzstan**, the KAB training package requires accompanying programmes, such as financing or mentoring for youth entrepreneurship education, to have a more substantial impact. Finally, throughout the region the implementation of ALMPs has often been hampered by the prolonged effects of the financial and economic crisis.

#### The National Youth Employment Action Plan in Turkey

In November 2011, Turkey adopted its first National Youth Employment Action Plan 2012–15 within the framework of the UN Joint Programme on Youth Employment and Migration. A national technical team coordinated by the national employment agency and made up of representatives of line ministries, the national statistical office, academia and the social partners, supported by ILO capacity building, played a central role in formulating this strategic document. The capacity-building services provided to the employment agency also resulted in the formulation of a gender-sensitive strategy for the social inclusion of disadvantaged youth, including young migrants and youth with disabilities.



### Outcome 3. Sustainable enterprises create productive and decent jobs

*Although the employment creation potential of SMEs is high, they still face a number of barriers in the region, including adverse institutional frameworks, burdensome regulations and limited access to finance. To promote sustainable enterprises, further cooperation is needed between governments and the social partners for the integration of the three components of sustainable development – economic, social and environmental.*

#### ILO achievements

- New country-level assessment tools applied in four countries to improve the environment for sustainable enterprises.
- Entrepreneurship and business development promoted in three countries.
- Sustainable and socially responsible workplace practices promoted in two countries and in four bilateral development financial institutions.
- A European Commission Communication invites all European-based MNEs to make a commitment by 2014 to respect the ILO MNE Declaration (EC, 2011a).

#### ILO activities

- Turin Centre training on the promotion of sustainable enterprises delivered to 1,539 participants, particularly through the annual Sustainable Enterprise Academy.
- Joint UN publication with an ILO chapter on green jobs (UN, 2012).
- Skills forecast for green jobs in 21 countries worldwide, including six EU countries (Strietska-Ilina et al., 2011).

### ILO assistance and outcomes

The assistance provided has focused on supporting an enabling environment for sustainable enterprises based on *country-level assessment tools*. In 2012, the new enabling environment for sustainable enterprises assessment methodology was introduced in **The former Yugoslav Republic of Macedonia**. Similarly, a new country-level assessment tool, Skills for Trade and Economic Diversification, was applied in **Kyrgyzstan**, **The former Yugoslav Republic of Macedonia** and **Ukraine**, in the metallurgy, tourism, food processing and garment sectors.

Emphasis has also been placed on *entrepreneurship and business development*. In **Albania**, a joint UN project, led by the ILO, promoted the development of SMEs through the training of trainers, business training and support for business start-ups, particularly for young people. In **Azerbaijan** and the **Russian Federation**, the KAB tool was adapted to local conditions and trainers were trained, thereby strengthening the capacity of organizations to adopt entrepreneurship and business creation as a business model.

The ILO also *promoted sustainable and socially responsible workplace practices*, primarily by supporting the integration by MNEs of the principles of the MNE Declaration in their programmes, operations and organizational policies. In **Turkey**, a joint UN programme to enhance the international competitiveness and sustainability of SMEs in the textile and clothing sector has been implemented in a number of provinces. The ILO Helpdesk for Business and a series of webinars for companies and constituents on international labour standards and the MNE Declaration are innovative mechanisms to raise awareness and build capacity. Similarly, the investment officers of bilateral development financial institutions in **Belgium**, **Finland**, **Norway** and **Switzerland** were trained on the integration of the principles of the MNE Declaration in their investment practices. In the **Russian Federation**, an analysis was undertaken of the integration of the principles of the MNE Declaration in skills development practices of MNEs.



## Challenges/lessons learned

There is a significant need to continue promoting sustainable enterprise creation in the region, particularly in view of the crisis. Integrated, policy-focused and multi-level interventions addressing different facets of sustainable enterprises are more effective and lead to greater economies of scale.

## Outcome 4. More people have access to better managed and more gender-equitable social security benefits

*The countries of SEECA face major challenges in achieving adequate social security coverage for everyone, although this is also increasingly true for some crisis-hit EU countries. These challenges include the effective adaptation of social security systems to new economic and political conditions, their financial sustainability, the rapid growth of informal employment and the ageing of the population.*

### ILO achievements

- Constituents in ten countries gained better knowledge of social security programmes and policies which provide adequate coverage for all.
- The statistical basis of national social security systems expanded in 14 countries.
- Governance of social security institutions improved in 14 countries.
- The Social Security (Minimum Standards) Convention, 1952 (No. 102), ratified by Romania.

### ILO activities

- Eight country studies on pension reform published (Hirose, 2011).
- Advisory services on social security systems delivered to 21 countries.
- Training in social security issues delivered to 204 participants through the Turin Centre.



## ILO assistance and outcomes

ILO assistance contributed to an improved knowledge base, broader coverage and better management of social security in the region.

Incomplete *statistics* pose a major obstacle to sustainable and gender-sensitive social security policies. A principal tool used by the ILO in this respect is a social security inquiry, which contributed in numerous countries to improved data on the coverage, expenditure and receipts of national social security schemes. The range of accessible data now increasingly matches international standards in **Azerbaijan, Estonia, Greece, Hungary, Latvia, Republic of Moldova, Poland, Romania, Russian Federation, Slovenia, Spain, The former Yugoslav Republic of Macedonia, Ukraine and Uzbekistan.**

Legal, actuarial and management services were also provided to further improve the *governance of social security institutions*. A series of capacity-building seminars strengthened the role of the social partners on social security governing boards (**Albania, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Serbia, Tajikistan, The former Yugoslav Republic of Macedonia**) and *increased technical knowledge* of the social protection floor (**Armenia, Kyrgyzstan, Tajikistan**), employment injury insurance schemes (**Armenia, Georgia, Kazakhstan, Republic of Moldova, Serbia, Tajikistan**) and pension schemes (**Serbia, The former Yugoslav Republic of Macedonia**). The actuarial

capacities of social security systems were strengthened in **Albania, Cyprus, Greece, Kazakhstan and Serbia**.

The pension reforms introduced in countries in CEE to reduce government deficits run the risk of lowering pension entitlements and payments and increasing poverty in old age. A comparative study was carried out to analyse the main challenges of sustainable pension reform in eight countries in CEE. Policy advice was provided as a contribution to the national policy debate in **Bulgaria, Czech Republic, Greece, Poland, Serbia and Ukraine**.

### **Challenges/lessons learned**

An integrated approach is key to social security capacity building, especially in times of crisis. Technical cooperation projects in the Caucasus, Central Asia and **Serbia** contributed to increasing the capacity of constituents to reform social security systems, including through more effective coordination with employment and OSH policies, and with labour administration reforms. However, broad national commitment is required to develop the full potential of such approaches, as shown in **Serbia**. The exchange of national experience between countries was found to be very useful and could be intensified.

#### **ILO assistance to Greece**

Since the beginning of the crisis, long-standing ILO technical assistance to Greece has evolved into a fully fledged peer review of Greek social security reforms. In May 2010, Greece requested the ILO to provide an independent estimate of the financial development of its pension schemes. The ILO costing of draft Law No. 3863 showed that the reform would trigger substantial long-term savings for the pension system and add to its stabilization. In January 2012, following a high-level ILO mission to Greece, the issue of social security was addressed at a workshop organized jointly by the Greek Government and the EU.



## Outcome 5. Women and men have better and more equitable working conditions

*The real wage increases during the years of economic growth prior to 2008–09 have been halted by the crisis. The region has also witnessed a long-term trend towards a decline in the share of wages in GDP. These trends have implications for the development of equitable working conditions for men and women, despite improvements in gender issues and work–family reconciliation.*

### ILO achievements

- Eight countries ratified the Maternity Protection Convention, 2000 (No. 183).
- The Protection of Wages Convention, 1949 (No. 95), ratified by Slovenia.
- The Workers with Family Responsibilities Convention, 1981 (No. 156), ratified by Azerbaijan.
- Statutory minimum wage introduced in The former Yugoslav Republic of Macedonia.
- The Protection of Wages Act adopted in Cyprus.

### ILO activities

- 28 constituents trained in wage policy by the Turin Centre.
- In 2009, a high-level tripartite seminar “Wage policy in the Caucasus and Central Asia: Assessment and policy answers to the economic crisis” held in Nicosia.
- UNDP–ILO study on maternity protection in Iceland, France and the Czech Republic (Steinhilber, 2011).

## ILO assistance and outcomes

ILO Conventions and services offer a portfolio of policies that countries can draw on for effective wage-fixing mechanisms and policies, particularly during periods of crisis. In **Cyprus**, ILO recommendations led to the adoption of the *Protection of Wages Act*. ILO assistance on minimum wage issues led, for example, to the introduction of a *statutory minimum wage* in **The former Yugoslav Republic of Macedonia** in 2011. A number of sub-regional workshops were held on wage-fixing and policy responses to the economic crisis, such as the Sarajevo Subregional High-Level Conference and the high-level tripartite seminar on wage policy in the Caucasus and Central Asia in 2009. At the national labour conference on wage trends and the wage gap in **Albania** in 2011, the social partners articulated the need for a balanced and more comprehensive national wage policy.

The crisis and the declining wage share of GDP have exacerbated wage inequalities and stalled progress in the closing of the gender wage gap. Technical assistance has been provided to **Albania**, **The former Yugoslav Republic of Macedonia** and **Ukraine** to improve the knowledge base on the dimensions of the gender wage gap and its causes. In **The former Yugoslav Republic of Macedonia**, a tripartite conference on gender equality at the workplace was organized in partnership with the ECOSOC. Technical assistance on wage policy was provided in **Armenia** and **Tajikistan**.

As protecting both women and men with family responsibilities from job discrimination is a precondition for equitable working conditions, assistance has been provided for the implementation of measures to enable workers to balance work and family responsibilities. *Convention No. 183* was ratified by eight countries in the region (**Azerbaijan**, **Bosnia and Herzegovina**, **Kazakhstan**, **Latvia**, **Montenegro**, **Netherlands**, **Serbia**, **Slovenia**). Technical assistance was provided on work and family reconciliation measures in the **Republic of Moldova** and the countries of the CIS, and a subregional seminar on improving maternity protection systems was organized in Central Asia in 2011.



## Challenges/lessons learned

The GJP urges governments to avoid the damaging consequences of deflationary wage spirals and worsening working conditions in their response to the crisis. Further efforts are required to address these challenges through improving the legal and tripartite framework of wage setting and building constituents' capacity to shape wage policies in line with productivity and with consideration for closing the gender pay gap. Also, continued efforts need to be made for promoting measures to reconcile work and family responsibilities.

## Outcome 6. Workers and enterprises benefit from improved safety and health conditions at work

*The countries of SEECA face the challenge of replacing the practice of "hazard pay" for those working in unsafe conditions with modern OSH systems that promote risk prevention. In the CIS countries alone, some 12 million men and women are still victims of employment accidents every year.*

### ILO achievements

- National OSH profiles, programmes or legislation adopted in 11 countries.
- New or revitalized tripartite OSH institutions and the enhanced capacity of government authorities and/or social partners contributed to improved OSH services in 12 countries.
- The Occupational Safety and Health Convention, 1981 (No. 155), ratified by three countries (Belgium, Tajikistan, Ukraine).
- The Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187), ratified by 11 countries (Austria, Bosnia and Herzegovina, Cyprus, Faroe Islands, Denmark, Germany, Republic of Moldova, Russian Federation, Serbia, Slovakia, Spain).
- The Asbestos Convention, 1986 (No. 162), ratified by Kazakhstan.
- Creation of the Regional Alliance of Labour Inspectorates for CIS countries and Mongolia (Regional Alliance of Labour Inspectorates (RALI) CIS and Mongolia) in 2011.
- Tripartite OSH councils established in Azerbaijan.

### ILO activities

- Advisory services on OSH systems delivered to 19 countries.
- Training on OSH issues delivered to 200 participants through the Turin Centre.

## ILO assistance and outcomes

ILO assistance contributed to the development of modern OSH systems in the region, based on both strong legal and policy frameworks, and effective institutions guaranteeing the implementation of OSH standards in enterprises.

At the policy level, ILO legal and technical advice contributed to *improvements in national OSH programmes and laws*. New national OSH profiles were completed in **Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Ukraine and Uzbekistan**, while governments, in consultation with the social partners, further developed OSH legislation, policies and programmes in **Albania, Armenia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan and Ukraine**.



ILO assistance also *strengthened the institutions* needed to establish practices in enterprises that prevent OSH risks, including more effective labour inspection services (**Albania, Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Serbia, Tajikistan, The former Yugoslav Republic of Macedonia, Ukraine**). OSH centres which instruct enterprises in improving working conditions were created in **Albania, Armenia, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Serbia and Tajikistan**. Campaigns to increase awareness of OSH issues were undertaken, particularly in **Armenia, Georgia, Kazakhstan, Kyrgyzstan, Russian Federation, Serbia, Tajikistan, The former Yugoslav Republic of Macedonia and Uzbekistan**. Another significant step was the creation of tripartite OSH councils in **Azerbaijan**.

### Challenges/lessons learned

Despite the progress achieved, OSH systems often remain incomplete, as they lack either a strong national legislative basis or fail to develop crucial implementation mechanisms, for example due to insufficient local oversight or the lack of involvement of the social partners. The most promising approaches have been those in which constituents have engaged in more comprehensive efforts to introduce OSH systems, notably in **Azerbaijan, Kazakhstan and Russian Federation**.



#### OSH programme in the Russian Federation

Aiming to establish a preventive approach, the target-oriented OSH programme in the Russian Federation has several components. Following the ratification of Convention No. 187 in 2011, a modern definition of an OSH risk assessment and management system was included in the Labour Code. A systematic training programme and the practice of training of trainers have now been established in all Russian regions. The aim is to establish local OSH centres with proper OSH skills and systematic local training capacities. Also, with ILO assistance, two major state OSH agencies have been reorganized with a view to upgrading legislation, practices and training in line with international standards. The Russian Federation also initiated the Regional Alliance of Labour Inspectorates of CIS and Mongolia (RALI CIS and Mongolia).

## Outcome 7. More migrant workers are protected and more migrant workers have access to productive employment and decent work

*The ECA region accounts for 36 per cent of the world's migrant population. While the demand for foreign labour and skills is increasing in some parts of the region, the crisis is aggravating the lack of decent employment opportunities in others. The effective management of labour migration is therefore necessary to protect migrant workers and optimize the benefits of labour migration.*

### ILO achievements

- New labour migration policies or legislation adopted in five countries.
- National databases on labour migration improved in five countries.
- One bilateral agreement on circular migration finalized between France and Georgia.
- The capacity of migration services strengthened in two countries.
- Bilateral agreements for the protection of labour migrants signed between trade unions of four countries.
- Social security agreements signed between the Republic of Moldova and six EU Member States.

### ILO activities

- Two country studies published on migrant workers (Alimbekova and Shabdenazi, 2009; ILO, 2010e).
- 342 constituents trained in migration governance and policies by the Turin Centre.

## ILO assistance and outcomes

In the framework of its UN mandate to protect migrant workers, the ILO has assisted in improving labour migration management in the region through the design of effective monitoring systems, the creation of sound regulatory environments and bilateral agreements, the build-up of reliable migration services and social dialogue.

The *creation and development of databases to monitor labour migration* patterns are crucial. With ILO assistance, national databases on migrant workers were upgraded in **Armenia**, **Azerbaijan** and the **Russian Federation**. A migration module was included in the labour force survey in **Ukraine** and the existing migrant survey was improved in the **Republic of Moldova**. One innovative aspect has been to insert skills-related questions to improve policies on qualification recognition and the prevention of the brain drain.

*Labour migration policies and legislation* strongly influence migration patterns. Based on ILO recommendations, the registration period providing regularization opportunities to migrant workers was extended by law in the **Russian Federation**, and migration policies and legislation were developed in **Armenia** (Migration Strategy, 2010), **Azerbaijan** (Migration Code, 2012), **Georgia** (Migration Concept, 2012), **Kazakhstan** (revision of the National Migration Law, 2009), **Tajikistan** (National Labour Migration Strategy, 2011–15) and **Kyrgyzstan** (draft Law on private employment agencies). Assistance was provided to the Government and the social partners in drafting the new Law on the employment of the population in **Ukraine** (2012), which contains a chapter on private employment agencies that provide services for employment abroad. Also in **Ukraine**, the ILO commented on the bill on external labour migration.

Support was also provided for the development of *bilateral labour and other agreements* at the national and regional levels. Bilateral agreements were concluded by trade unions in the **Russian Federation** and **Azerbaijan**, and in **Georgia** and **France**.



A bilateral labour agreement on circular migration was finalized between **France** and **Georgia**. Following the strengthening of government capacity in the **Republic of Moldova** and **Ukraine** to conclude and implement bilateral social security agreements, the **Republic of Moldova** signed social security arrangements with six EU Member States and negotiations were completed with five other countries.

ILO assistance also helped to *strengthen the capacity of migration services*. In **Tajikistan**, support was provided for the restructuring of the new migration service, including training on administrative and legal mechanisms for its staff and the representatives of private employment agencies. In **Kazakhstan**, technical support was made available to the National Committee for Migration Policy.

The ILO mobilized the social partners to participate in the management of migration. Employers' organizations were offered guidance on recruiting and employing migrants in **Armenia, Kazakhstan, Kyrgyzstan, Russian Federation** and **Tajikistan**. In the **Republic of Moldova**, a national association of private employment agencies was established, a pre-migration training module developed and trainers were trained.

### Challenges/lessons learned

The current crisis poses challenges for the rights-based approach to labour migration. Many governments and other actors, focusing on the situation of local workers, tend to take a more reticent and sometimes even repressive stance on migration, which increases the risk of discriminatory practices and exploitation. The shift in authority for labour migration issues in some countries from labour ministries to ministries of the interior can also make it more difficult to focus on enhancing the rights of labour migrants.

#### Employment creation and improved migration management in Tajikistan

The massive displacement of people caused by Tajikistan's civil war (1992–97) has led men in particular to seek work abroad. While family members who remain risk severe impoverishment, migrant workers often face serious abuses and insecurities abroad. A joint ILO–UNDP project has assisted the Government and the social partners to empower communities through income-generating activities, training and awareness raising and to protect Tajik migrant workers and their families through better migration management. The outcomes included job fairs, providing jobs for 5,000 potential migrants, increased tripartite capacity and studies on labour migration flows and stocks.



## Outcome 8. The world of work responds effectively to the HIV/AIDS epidemic

*The countries of Eastern Europe and Central Asia have the fastest-growing HIV prevalence in the world, with the numbers of people living with HIV in this subregion reaching an estimated 1.5 million in 2010. Access to HIV treatment remains lower than in any other region and there were an estimated 90,000 AIDS-related deaths in 2010.*

### ILO achievements

- National tripartite workplace policies on HIV/AIDS established in eight countries as part of the national AIDS response.
- HIV/AIDS workplace programmes implemented by constituents in seven countries.
- National Tripartite Cooperation Strategy on HIV/AIDS and the World of Work adopted in Ukraine.
- Regional trade union meeting on HIV/AIDS and OSH in 2011.

### ILO activities

- Advisory services on HIV/AIDS policies and programmes provided to ten countries.
- Training on HIV/AIDS in the world of work delivered to tripartite constituents and labour inspectors at the country level and to 20 participants through the Turin Centre.

## ILO assistance and outcomes

The ILO supported the development of workplace policies in national AIDS responses and their implementation at the enterprise level.

In accordance with the principles of the HIV and AIDS Recommendation, 2010 (No. 200), technical assistance was provided to **Albania, Armenia, Azerbaijan, Kazakhstan, Republic of Moldova, Russian Federation, Tajikistan and Ukraine** to establish gender-responsive *national tripartite workplace policies on HIV/AIDS*. Governments, in consultation with the social partners, included anti-discrimination, prevention and coping strategies for the workplace in national HIV/AIDS laws and policies. With ILO support, constituents in **Ukraine** adopted a National Tripartite Cooperation Strategy on HIV and AIDS and the World of Work, and a tripartite working group in **Bosnia and Herzegovina** reviewed existing legislation and workplace policies to address gaps and conflicts in relation to HIV prevention, treatment and care.

A range of technical advisory services were provided for the implementation of *workplace programmes* to facilitate access to prevention, treatment, care and support in relation to HIV/AIDS. In **Azerbaijan, Bosnia and Herzegovina, Estonia, Kazakhstan, Republic of Moldova, Russian Federation and Ukraine**, large enterprises, the social partners and public institutions initiated HIV/AIDS campaigns in core sectors (oil, metallurgy, road construction, tourism, food, education and health). In **Bosnia and Herzegovina, Tajikistan and Ukraine**, the capacity of constituents was strengthened to raise funds for HIV/AIDS workplace programmes. Assessments show that ILO support, including mass prevention campaigns, workshops, the identification of target enterprises and training of focal points, led to an enhanced knowledge of HIV/AIDS in the world of work for managers, employees, educators, labour inspectors and labour judges.



## Challenges/lessons learned

The successful implementation of HIV/AIDS strategies depends on strong workplace involvement. This requires additional efforts by all the actors involved, including more training and broader distribution and translation of the relevant ILO instruments. Approaches at the sectoral level or through the management of large enterprises appear to have the greatest leverage effect.

## Outcome 9. Employers have strong, independent and representative organizations

*Following the transition from centrally planned to market economies, free and independent employers' organizations remain a relatively new phenomenon in Eastern Europe and Central Asia. These organizations face the dual challenge of expanding their membership and improving their services, while strengthening their competencies in the fields of negotiation and advocacy to be able to represent more effectively the business voice in economic, labour and social policies.*

### ILO achievements

- Stronger employers' organizations in 14 countries, most notably through the delivery of new or improved membership services (ten countries) and the improved capacity to influence policy development (four countries).
- OSH centres established by employers' organizations in two countries.
- Two new sectoral employers' organizations created in Armenia.
- Three new regional offices set up by the National Confederation of Employers of the Republic of Moldova.

### ILO activities

- Training package and training of trainers on dispute prevention and resolution through better people management delivered to six countries, and training in the strengthening of employers' organizations delivered to 828 participants through the Turin Centre.
- Publication on macroeconomic concepts for negotiators (ILO, 2009b) adapted for use in CEE countries.
- Studies on the costs and barriers to business published for three countries.
- Guides for employers on labour law published for four countries.
- Various publications translated into Russian for use by employers' organizations in Eastern Europe and Central Asia.

## ILO assistance and outcomes

The ability of employers' organizations to provide quality services is crucial in attracting and retaining membership. ILO assistance has therefore focused on tools and training to *improve the membership services* provided (**Albania, Bosnia and Herzegovina, Republic of Moldova, Montenegro, Serbia, The former Yugoslav Republic of Macedonia, Ukraine**). In the **Republic of Moldova**, workshops were conducted in three regions on the role and functions of employers' organizations, with emphasis on local economic development. In **Montenegro**, training of trainers workshops were organized on human resources management, taxation and inspection obligations and rights. ILO support also included the promotion of OSH services by employers' organizations (**Armenia, Georgia, Republic of Moldova, Serbia**). Assistance was provided to the Republican Union of Employers of **Armenia** and the **Georgian Employers' Association** for the establishment of OSH



centres and the creation of a network of OSH consultants and trainers. In the **Republic of Moldova**, a training of trainers workshop was organized and eight regional workshops were held on OSH risk assessment in agriculture and construction.

ILO action has also significantly contributed to the institutional strengthening of employers' organizations. Technical support was provided in **Armenia** to set up two new sectoral employers' organizations, through cooperation and knowledge exchanges with the national employers' organizations of **Cyprus** through the ILO's employers' organizations twinning project. Three regional offices of the National Confederation of Employers of the **Republic of Moldova** were established. The **Montenegrin** Employers' Federation undertook a study tour to **Malta** and the ILO supported a partnership programme between the **Russian** Union of Industrialists and Entrepreneurs and NORDMETALL (a north German employers' association for the metal and electronics industries) with a view to consolidating regional and branch employer structures in the **Russian Federation**.

*Capacity building and improved expertise* helped national employers' organizations to analyse the business environment and have a more effective voice in national and international policy-making (**Albania, Azerbaijan, Bosnia and Herzegovina, Serbia**). Technical and financial assistance was provided to employers' organizations in **Albania, Bosnia and Herzegovina** and **Serbia** for in-depth surveys on costs and barriers to business at the national, regional and sectoral levels. Three subregional workshops were held for employers' organization representatives in south-eastern Europe on developing responses to the economic crisis and strengthening social dialogue to meet post-crisis opportunities and challenges. The Bureau for Employers' Activities (ACT/EMP) toolkit on developing an enabling environment for sustainable enterprises and transposing EU directives into domestic legislation was used to support a business-friendly environment.



## Challenges/lessons learned

The economic, social and political changes linked to globalization and the ongoing economic crisis pose a challenge for employers' organizations, not only in Central Asia but also in Europe. In particular, the question of contributing to effective crisis responses remains a major issue and the ILO will need to draw on the lessons learned to renew and refine its assistance to employers' organizations throughout the region.

### Strengthening the institutional capacities of employers' organizations in Serbia

Support was provided for a study tour by Serbian employers' organizations to Croatia to learn how to establish a training centre. A training of trainers workshop on human resources management and six regional workshops on dispute prevention and resolution were held, resulting in the Serbian Association of Employers expanding its services by establishing a formal education and training centre for members and potential members on a range of legal and human resources management topics.

## Outcome 10. Workers have strong, independent and representative organizations

*Static or declining membership is affecting almost all trade unions throughout the region, limiting their resources and weakening their voice in social dialogue institutions. The fast pace of recent economic and social transformations has placed increasing pressure on workers' organizations to improve their management structures and procedures, and to develop expertise and services that respond more closely to the needs of their members. Moreover, trade unions in certain countries still face serious restrictions on freedom of association, collective bargaining and other fundamental rights.*

### ILO achievements

- Workers' organizations were strengthened, most notably through the delivery of more relevant services (nine countries), improved internal structures and procedures (ten countries), better expertise and a more effective voice in national discussions and policy-making (nine countries).
- Strategic action plans on strengthening trade unions developed in two countries.
- Women's participation in collective bargaining processes strengthened in eight countries.
- The capacity of trade unions to organize in the informal sector enhanced in four countries.

### ILO activities

- Research and seminars on crisis response in eight CEE countries.
- Technical inputs and training seminars on non-discrimination in 27 countries.
- Training to strengthen workers' organizations delivered to 1,456 participants through the Turin Centre.

## ILO assistance and outcomes

Continuous technical support was provided to strengthen the capacities of trade unions, resulting in the *delivery of more relevant services*. In **Albania, Bosnia and Herzegovina** and the **Republic of Moldova**, trade unions established OSH training programmes. Moreover, the ILO assisted trade unions to deepen the knowledge base needed to respond effectively to the crisis, particularly in **Bulgaria, Croatia, Lithuania, Republic of Moldova, Romania, Serbia** and **The former Yugoslav Republic of Macedonia**.

The advisory services provided to **Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Georgia, Kyrgyzstan, Republic of Moldova, Montenegro, Serbia** and **The former Yugoslav Republic of Macedonia** *improved internal union structures* and procedures. In **Armenia** and **Georgia**, technical advice and strategic planning workshops offered essential tools to carry out analyses of strengths, weaknesses, opportunities and threats of union structures and policies and *develop strategic action plans*. The *capacity of workers' organizations to organize in the informal sector* was enhanced in **Albania, Bosnia and Herzegovina, Kazakhstan** and **Montenegro**.

Examples of the *improved expertise and more effective voice* of trade unions in national discussions and policy-making include trade union comments on the revision of labour legislation on the right to strike in the **Russian Federation**, the increased involvement of trade unions in **Azerbaijan** and **Kyrgyzstan** in designing, monitoring and evaluating national employment and socio-economic policies, and the improved capacity of workers' organizations in **Albania, Bosnia and Herzegovina, Republic of Moldova, Montenegro, Serbia** and **The former Yugoslav Republic of Macedonia** to engage in bipartite social dialogue on the effects of the economic and financial crisis.

Assistance focused on the needs of women and specific categories of workers. Technical support and capacity-building workshops *strengthened the participation of*



women in collective bargaining processes at all levels (**Albania, Armenia, Bosnia and Herzegovina, Republic of Moldova, Montenegro, Russian Federation, Serbia, The former Yugoslav Republic of Macedonia**). Training on anti-discrimination policies, in co-operation with the ITUC's Pan-European Council, contributed to strengthening the role of trade unionists heading women's committees in SEECA. Assistance also covered the protection of migrant workers (**Armenia, Republic of Moldova, Russian Federation, Ukraine**). Transnational cooperation on the issue of migrant workers has been encouraged. For example, with Office support, trade unions in **Armenia** cooperated with **Russian** trade unions to protect workers from human trafficking.

### **Challenges/lessons learned**

The response to the current crisis quickly became the first priority of the trade union movement. A crucial measure in this respect was the setting up of a crisis helpdesk in 2009 by the Bureau for Workers' Activities (ACTRAV) to assist trade unions in managing their response to the crisis and uphold workers' rights. Nonetheless, sustained and greater efforts are needed in view of the depth of the crisis and the scale of the problems faced by workers' organizations throughout the region.

#### **Strengthening the institutional capacities of trade unions in the Republic of Moldova**

With ILO support, the National Trade Union Confederation of Moldova developed an action plan to enhance collective bargaining and social dialogue at the sectoral and regional levels. The assistance included a study identifying legal gaps in the area of social dialogue, as well as an expert workshop and two training seminars for trade union officials and negotiators from selected sectors and regions. The strengthening of negotiators' skills has enabled them to contribute more constructively and substantively to collective bargaining.



## Outcome 11. Labour administrations apply up-to-date labour legislation and provide effective services

*Labour inspection and administration services continue to be underfunded, with responsibilities divided between various ministries, particularly in several Eastern European and Central Asian countries. Recent fiscal tightening has further contributed to the weakening of labour market governance and the enforcement of labour legislation, and to a decline in the inspection of enterprise working conditions. A trend towards the liberalization of labour market regulation accelerated during the crisis.*

### ILO achievements

- Two countries reformed their Labour Codes to comply with international labour standards.
- Five countries developed national action plans on labour inspection.
- Trilateral cooperation agreement on combating undeclared work signed between Bulgaria, Greece and Romania.
- The Labour Inspection Convention, 1947 (No. 81), ratified by the Czech Republic, Iceland, Slovakia and Tajikistan.
- Belgium ratified the Labour Administration Convention, 1978 (No. 150).
- The Labour Inspection (Agriculture) Convention, 1969 (No. 129), ratified by the Czech Republic, Iceland and Slovakia.
- An estimated 30 per cent reduction in work-related fatalities in agriculture in the Republic of Moldova as a result of ILO awareness-raising campaign.

### ILO activities

- Labour inspection systems profiled for 21 countries and data collected for 37 countries.
- Comments on proposed Labour Code reforms in three countries.
- Labour inspection audits in five countries.
- 22 reports and papers published on the development of labour inspection systems.
- International conference on tackling undeclared work in the EU held in Sofia in 2010.
- 198 constituents trained in labour administration and inspection issues by the Turin Centre.
- 289 labour inspectors trained in Ukraine.



## ILO assistance and outcomes

The crisis has led a growing number of States to request assistance in strengthening their labour administrations and inspectorates. The 2009 Labour Administration and Inspection Programme addresses emerging global phenomena, such as new forms of employment, increased outsourcing and the growing complexity of supply chains.

Strong and appropriate Labour Codes serve the essential functions of establishing minimum standards and defining the parameters of the employer/worker relationship. Support was provided for the *reform of Labour Codes* in **Armenia** and the **Republic of Moldova**, and comments were made on draft amendments to Labour Codes in **Albania**, **Hungary**, **Kazakhstan**, **Kyrgyzstan**, **Romania**, **Serbia**, **Slovakia**, **The former Yugoslav Republic of Macedonia**, **Turkey** and **Ukraine**.

Labour inspection audits were carried out in **Armenia**, **Republic of Moldova**, **Montenegro**, **The former Yugoslav Republic of Macedonia** and **Ukraine**, and *national action plans* on capacity building for labour inspection systems were developed in **Albania**, **Armenia**, **Republic of Moldova**, **The former Yugoslav Republic of Macedonia** and **Ukraine**. A project was launched in 2009 on labour inspection systems in **Albania**, **Armenia**, **Kazakhstan**, **Republic of Moldova**, **Montenegro** and **The former Yugoslav Republic of Macedonia**, which included the development and provision of training for

labour inspectors. The *signature of a trilateral cooperation agreement* between **Bulgaria, Greece and Romania** in 2010 represented major progress in cross-border efforts to combat undeclared work and the informal economy.

Thematic projects were also undertaken, such as the provision of training for labour inspectors in the **Republic of Moldova** and **Ukraine** to improve their capacity to promote gender equality, for example by preparing enterprise equality plans. Similarly, assistance on amendments to the Labour Code resulted in an improved legal framework for gender equality and non-discrimination at work. In the **Republic of Moldova, The former Yugoslav Republic of Macedonia** and **Ukraine**, communication and inspection campaigns focusing on undeclared work, the prevention of occupational risks and gender equality were introduced or enhanced to strengthen the effectiveness of labour inspectorates, promote social dialogue and improve working conditions. The national authorities in the **Republic of Moldova** estimate that work fatalities in agriculture fell by 30 per cent as a result of one campaign.

### **Challenges/lessons learned**

It is crucial to analyse positive examples of labour administrations in EU countries and, where appropriate, to facilitate the transfer of best practices to address occupational accidents and ill health at work, undeclared work and other work-related problems. Effective labour administration systems can also be promoted by encouraging inclusive approaches based on coordination between key ministries, the judiciary, state supervisory bodies and the social partners. However, such efforts face financial and human resources challenges in many countries, aggravated by the impact of the financial and economic crisis.



## Outcome 12. Tripartism and strengthened labour market governance contribute to effective social dialogue and sound industrial relations

*Despite sustained efforts by governments over the past decade to establish sound tripartite systems, industrial relations systems in CEE and Central Asia remain fragile and fragmented. In these countries, the barriers that prevent social dialogue from functioning soundly include inadequate legal frameworks, the weakness of the social partners and the lack of influence of social dialogue institutions in policy design and law-making.*

### ILO achievements

- New or revitalized economic and social councils or similar institutions in six countries.
- New or reformed collective bargaining institutions and dispute resolution mechanisms in nine countries.
- Following an ILO subregional tripartite conference on economic and social councils in the Western Balkans and the Republic of Moldova (2010, Ohrid, The former Yugoslav Republic of Macedonia), tripartite constituents in The former Yugoslav Republic of Macedonia agreed to strengthen the social partners' role in the national economic and social council.
- Agency for Peaceful Settlement of Labour Disputes established in The former Yugoslav Republic of Macedonia in 2010.
- In Serbia, the law on peaceful settlement of labour disputes was amended and the competencies of the relevant agency expanded.
- The Collective Bargaining Convention, 1981 (No. 154), ratified by the Russian Federation and Slovakia.

### ILO activities

- Training on social dialogue practices delivered to 311 participants through the Turin Centre.
- ILO subregional tripartite conference on labour dispute prevention and amicable resolution in the Western Balkans and the Republic of Moldova (2009, Montenegro).
- European Social Dialogue Workshop in Geneva in 2012.



## ILO assistance and outcomes

Support was provided to revitalize *economic and social councils* and similar bodies as forums for tripartite consultations on economic and social matters. In **Albania**, **Montenegro** and **The former Yugoslav Republic of Macedonia**, emphasis was placed on revising their regulations and representation criteria. In **Montenegro**, a new law on trade union representativity was adopted and the 2007 law on social councils amended. In the **Republic of Moldova**, **Serbia** and **Ukraine**, the functioning of national tripartite institutions was improved by strengthening the technical capacity of their secretariats through study visits and training on social dialogue.

Nine countries *established or strengthened collective bargaining institutions and dispute resolution mechanisms*. The institutional and legal foundations of social dialogue were consolidated and an effective culture of social dialogue promoted in the Western Balkan countries and the **Republic of Moldova**. Operational mechanisms for the peaceful settlement of labour disputes were created or enhanced in **Bosnia and Herzegovina** (Republika Srpska), **Serbia** and **Montenegro**. In **Montenegro**, the newly created Agency for Peaceful Settlement of Labour Disputes became operational in 2010. In **Serbia**, the law on peaceful settlement of labour disputes was amended and the competencies of the agency were strengthened. In **Armenia**, **Azerbaijan** and **Kyrgyzstan**, national social dialogue institutions and mechanisms have also been strengthened in line with international labour standards.

Technical comments on draft legislation and capacity building for constituents were provided for the establishment of national social dialogue frameworks in ten countries (**Albania, Armenia, Bosnia and Herzegovina, Kazakhstan, Kyrgyzstan, Republic of Moldova, Serbia, The former Yugoslav Republic of Macedonia, Turkey and Ukraine**).

The use of social dialogue institutions and processes as a forum for action in specific areas has also been promoted, for example through the development of inter-institutional coordination mechanisms and a more conducive legislative environment to promote the transition from the informal to the formal economy in **Albania, Bosnia and Herzegovina and Montenegro**.

### **Challenges/lessons learned**

The importance of timely responses to unforeseen demands throughout the region became evident, particularly for the “urgent advice” requested by the social partners on suggested labour law reforms and crisis responses. Moreover, the ILO has worked to ensure that tripartism and sound industrial relations are part of the solution to the economic, employment and social challenges caused by the crisis by increasing the outreach of its policies to key ministries (beyond ministries of labour) and other international bodies, such as the EU and the IMF. However, despite some progress, tripartite social dialogue still encounters legal, organizational and political obstacles, particularly in SEECA.

#### **Negotiating out of the crisis**

The Turin Centre identified best practices and proposed solutions to the social partners in 27 EU Member States and three candidate countries through Negotiating out of the Crisis: Forum on Social Dialogue and Industrial Relations in the midst of Economic Crisis in Europe. The social partners analysed processes and means of overcoming the effects of the crisis by using various components of industrial relations systems. Actors, outcomes and impacts were discussed and publications produced on the subjects of labour market flexibilization, labour migration, atypical forms of employment, changes in work content and working conditions. Measures to be taken in response to the crisis were outlined, such as strengthened national tripartite social dialogue, negotiated ways out of the crisis through collective bargaining, public policies in response to the crisis and the role of labour administration.



## Outcome 13. A sector-specific approach to decent work is applied

*Various sectors in the region are facing a range of challenges, including changing conditions of work, lack of collective bargaining and problems in the prevention or resolution of labour disputes. In an effort to capitalize on the complementarities between all four pillars of the Decent Work Agenda, support was provided for the implementation of sector-specific standards, codes of practice and guidelines, and technical advice was provided, upon request, to sectoral social dialogue committees.*

### ILO achievements

- Maritime Labour Convention, 2006 (MLC, 2006), ratified by 14 countries.
- Eight other sectoral Conventions ratified by 12 countries.
- ILO/UNESCO/WIPO Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (1961) ratified by Bosnia and Herzegovina and Cyprus.
- A project on working conditions in the agricultural sector developed in Kyrgyzstan and Tajikistan.
- Sectoral social pact for recovering from the crisis established in the textile and clothing industries in Romania.

### ILO activities

- 134 constituents trained by the Turin Centre.
- Publications include a paper on the impact of the crisis on the Romanian textile and clothing sector (Leucuta, 2009).
- Sectoral country profiles compiled for three countries.

## ILO assistance and outcomes

A sectoral approach, based on the ILO's sectoral labour standards, is more effective in promoting decent work in specific sectors. The *MLC, 2006*, is unique in requiring 30 ratifications to come into force, which was achieved in August 2012. Since 2009, 14 countries in the region (**Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Denmark, Latvia, Luxembourg, Netherlands, Norway, Poland, Russian Federation, Spain, Sweden, Switzerland**) have ratified the Convention.

Promotional activities have led to the *ratification of sectoral Conventions*, including: the Labour Inspection (Agriculture) Convention, 1969 (No. 129), by the **Czech Republic, Iceland and Slovakia**; the Safety and Health in Agriculture Convention, 2001 (No. 184), by **Bosnia and Herzegovina and Ukraine**; the Safety and Health in Construction Convention, 1988 (No. 167), by **Serbia**; the Safety and Health in Mines Convention, 1995 (No. 176), by **Bosnia and Herzegovina and Ukraine**; the Labour Relations (Public Service) Convention, 1978 (No. 151), by **Slovakia and Slovenia**; the Private Employment Agencies Convention, 1997 (No. 181), by **Bosnia and Herzegovina and Slovakia**; the Seafarers' Identity Documents Convention (Revised), 2003 (No. 185), by **Bosnia and Herzegovina, Croatia, Luxembourg, Russian Federation and Spain**; and the Work in Fishing Convention, 2007 (No. 188), by **Bosnia and Herzegovina**.

Technical assistance was provided to strengthen social dialogue at the sectoral level in ports (**Bulgaria, Croatia, Romania**), road transport (**Bulgaria, Romania**) and metallurgy (**Kazakhstan**). Studies were conducted on the civil aviation, oil and gas, ports and textile industries. Training was provided on OSH in construction (**Azerbaijan**) and oil and gas (**Kazakhstan**). In **Kyrgyzstan and Tajikistan**, a project was developed to *promote working conditions in the agricultural sector*. In **Bosnia and Herzegovina, Serbia and The former Yugoslav Republic of Macedonia**, support is being provided to



promote collective bargaining and the prevention and resolution of labour disputes in the public sector.

Assistance has also been provided to foster social dialogue in sectors particularly affected by the crisis. For instance, in the textile and clothing sector in **Romania**, assistance was provided to develop and implement a *sectoral social pact* for recovery from the crisis and a tripartite workshop was held on training and retraining in the recovery context.

### Challenges/lessons learned

The closer integration of sectoral activities into DWCPs has served to establish effective sectoral action programmes and should be strengthened in the future. Priority should be placed on the ratification of up-to-date sectoral Conventions and on supporting countries' new industrial policies, aimed at promoting productivity, competitiveness and technological catching up in particular in the crisis-hit sectors, and diversification into sectors with higher value added.

## Outcome 14. The right to freedom of association and collective bargaining is widely known and exercised

*There is a trend towards the decentralization of collective bargaining across the region and collective bargaining remains weakly developed in the eastern part of the region. However, collective bargaining is key in finding balanced crisis responses.*

### ILO achievements

- Turkey altered its Constitution to improve compliance with the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98).
- Tripartite consultation on crisis responses resulted in the adoption of anti-crisis packages in a number of EU and non-EU countries.
- Tripartite Social Partnership Commission established in Georgia.

### ILO activities

- Nine constituents trained on the protection and promotion of freedom of association rights and collective bargaining strategy at the Turin Centre.
- One publication (Hayter et al., 2011) and six working papers<sup>1</sup> published on collective bargaining.

<sup>1</sup> See, for example, Glassner and Keune (2012).

### ILO assistance and outcomes

Freedom of association and collective bargaining are a fundamental human right and one of the ILO's four fundamental principles for the achievement of decent work and a fair globalization. Despite the region's good record in ratifying freedom of association instruments, there continue to be problems of application. Workers' organizations still face difficulties in **Belarus** and **Georgia**. In **Belarus**, support was provided for tripartite seminars organized by the Government on anti-union discrimination



and the implementation of the recommendations made by the Commission of Inquiry. In **Georgia**, the ILO assisted in establishing and strengthening the Tripartite Social Partnership Commission and in improving workers' rights by amending the labour legislation. Support was provided to **Turkey** to make meaningful progress in bringing its law and practice into line with Conventions Nos 87 and 98, which it has ratified. A referendum, held in 2010, has improved the compliance of the Turkish Constitution with these Conventions.<sup>79</sup>

Full respect for freedom of association is particularly important in times of financial and economic crisis. In 2010, the General Confederation of Greek Workers complained that certain policies proposed in the context of the bailout package directly violated Conventions ratified by **Greece**, including the Conventions on freedom of association and collective bargaining. The ILO Committee of Experts on the Application of Conventions and Recommendations noted in this respect that the changes to the industrial relations system in the country were likely to have a significant and potentially devastating impact, and that the entire foundation of collective bargaining in the country might be vulnerable to collapse. A high-level ILO mission in September 2011 concluded that the changes risked having a spill-over effect on collective bargaining as a whole, and subsequently on social peace and society at large (see Chapter 4).

### Challenges/lessons learned

At the beginning of the crisis, collective bargaining played a key role in the crisis response at all levels in many countries in the region. Creative collective agreements enabled workers and enterprises to save jobs, while at the same time maintaining income and securing enterprise sustainability. However, starting in 2010, the austerity policies inherent in financial assistance programmes have led to reforms of industrial relations systems in several countries, such as the decentralization of collective bargaining from the sectoral to the enterprise level and collective bargaining through “associations of persons” instead of trade unions, which all undermine the role of the social partners, freedom of association and collective bargaining.

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<sup>79</sup> Specifically, public employees and retired persons have been given the right to collective bargaining; and restrictions on the right to strike for blue-collar workers have been removed.

## Outcome 15. Forced labour is eliminated

An ILO global estimate in 2012 showed that ECA accounts for 14 per cent of the world's forced labourers. Moreover, Eastern European and CIS countries suffer from the highest frequency rate globally, with 4.2 victims per 1,000 inhabitants.

### ILO achievements

- National anti-trafficking action plans adopted in four countries.
- Strengthened capacity of law enforcement agencies to prosecute activities of human trafficking in one country.
- Employer codes of conduct on forced labour adopted in three countries.
- Increased capacity of trade unions to act against forced labour in four countries.

### ILO activities

- More than 300 labour inspectors and law enforcement agency staff trained.
- Guidance provided to national rapporteurs on the use of ILO indicators of forced labour and trafficking for data collection purposes.
- Seven studies published on forced labour.<sup>1</sup>

<sup>1</sup> See, for example: ILO (2009c).

## ILO assistance and outcomes

Forced labour in Europe and Central Asia is an outcome of human trafficking and irregular migration. Moreover, the crisis has exposed increasing numbers of workers to the risk of exploitation. National strategies are essential to facilitate a coordinated response. As part of the EU–ILO project “Strengthening of comprehensive anti-trafficking responses”, *national action plans* were adopted in **Armenia, Azerbaijan and Georgia**. An anti-trafficking action plan was also adopted in the **Republic of Moldova** and endorsed by trade unions.

Many CIS States suffer from insufficient enforcement capacity. In **Armenia**, a project strengthened the *capacity of law enforcement agencies* to detect, investigate and prosecute activities related to the trafficking of human beings. Law enforcement practitioners and labour inspectorates were trained in the prevention of human trafficking, a test database was installed and 15 seminars were conducted on the amendment of the Criminal Code. There has been an increase in prosecutions and convictions for the trafficking of human beings as a result of this project.

Improving awareness and cooperation among employers' and workers' organizations is crucial to combat forced labour. With ILO assistance, *codes of conduct for employers' organizations* were developed and adopted in **Armenia, Azerbaijan and Georgia**. An ILO–ITUC partnership has *increased the awareness and capacity of trade union members to follow-up alleged forced labour cases* and strengthened the organization of vulnerable workers, for example in **Azerbaijan, Georgia, Germany and Ireland**.



## Challenges/lessons learned

The Committee of Experts on the Application of Conventions and Recommendations has encouraged a large number of countries to strengthen their legal and institutional frameworks to prevent trafficking, punish the perpetrators and protect victims. Awareness-raising programmes both in countries of origin and destination countries, such as the two knowledge-building events held during the launch of the Berlin Alliance against Human Trafficking into Labour Exploitation are essential, and efforts need to be stepped up to provide training and guidance adapted to local situations and languages.

## Outcome 16. Child labour is eliminated, with priority being given to the worst forms

*The crisis has threatened to endanger progress in the region in reducing child labour. Urgent action is needed in several countries seriously affected by the worst forms of child labour, such as trafficking for labour and sexual exploitation, street work, illicit activities (begging, petty theft and drug peddling) and hazardous work in agriculture.*

### ILO achievements

- New or amended legislation against child labour in 11 countries.
- National action plans on child labour in four countries.
- National roadmaps on child labour in two countries.
- Increased awareness, capacity and knowledge base on the protection of children's rights in 13 countries.
- The Minimum Age Convention, 1973 (No. 138), ratified by Turkmenistan and Uzbekistan and the Worst Forms of Child Labour Convention, 1999 (No. 182), ratified by Turkmenistan.

### ILO activities

- Technical assistance to combat child labour provided to 15 countries.
- Workshops and training on child labour issues delivered to 1,586 participants.

## ILO assistance and outcomes

Guided by the ILO Global Action Plan and the Roadmap for Achieving the Elimination of the Worst Forms of Child Labour by 2016, adopted at the Hague Global Child Labour Conference in 2010, the ILO's strategy in the region has combined upstream policy-related interventions to create a conducive environment for combating child labour with downstream service-oriented activities at the community level. Governments in **Armenia, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova and Ukraine** have made use of ILO methodologies to assess the extent of child labour at the national and sectoral levels (e.g., in agriculture).

With ILO guidance, *several countries adopted legal provisions* prohibiting child labour (**Albania, Kyrgyzstan, Tajikistan, Ukraine**) and revised lists of hazardous occupations for working children (**Albania, Belarus, Kosovo,<sup>80</sup> Republic of Moldova, Romania, Ukraine**). The mainstreaming of child labour measures into penal, migration, social

<sup>80</sup> As defined by UN Security Council Resolution 1244.

or labour market legislation strengthened prevention in several countries (**Albania, Croatia, Czech Republic, Kosovo,<sup>81</sup> Republic of Moldova, Tajikistan, Turkey**). *National roadmaps* (**Albania, Kyrgyzstan**) and *national action plans* on child labour (**Kazakhstan, Kosovo,<sup>81</sup> Republic of Moldova, Turkey**) were adopted and child labour concerns were mainstreamed into socio-economic development policies (**Kazakhstan, Kosovo,<sup>81</sup> Kyrgyzstan, Republic of Moldova, Tajikistan, Ukraine**). Constituents in **Albania, Bulgaria, Kosovo,<sup>81</sup> Republic of Moldova, Romania** and **Ukraine** benefited from training on various aspects of child labour through ILO materials translated into local languages. Subregional workshops were conducted on child labour monitoring systems and education for **Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan** and **Uzbekistan**, and on good practices in eliminating child labour for **Albania, Bulgaria, Kosovo,<sup>81</sup> Republic of Moldova, Romania** and **Ukraine**.

Awareness-raising activities are organized each year in around 25 countries to mark the World Day against Child Labour and partnerships have been forged with UNICEF in **Kosovo,<sup>81</sup> Romania, Tajikistan** and **Ukraine**, and through UNDAFs in **Albania, Kosovo,<sup>81</sup> Kyrgyzstan** and **Ukraine**.

### Challenges/lessons learned

Tackling child labour in the informal economy and in agriculture remains a challenge in the region, along with the forging of linkages between child labour and youth employment. Moreover, given repeated complaints about the widespread occurrence of child labour in the cotton harvest in **Uzbekistan**, the ILO will continue its efforts to get access to the country in order to monitor the cotton harvest.



#### ILO–IPEC programmes in Kazakhstan, Kyrgyzstan and Tajikistan

In 2010, the ILO–IPEC programme launched the third phase of the regional project “Combating child labour in Central Asia: Commitment becomes action” in Kazakhstan, Kyrgyzstan and Tajikistan. The project supports the implementation of national action plans on the worst forms of child labour through the combination of policy-related interventions and service-oriented activities at the community level. It focuses on preventing and withdrawing child labourers in hard-to-reach pockets with a high incidence of the most hazardous forms of child labour, testing new instruments to combat child labour and establishing best practices.

<sup>81</sup> As defined by UN Security Council Resolution 1244.

## Outcome 17. Discrimination in employment and occupation is eliminated

*Discrimination in employment in the region particularly affects workers with disabilities, older workers, women, Roma and migrant workers. In all countries, fewer women are in secure paid employment than men, and even in EU countries the gender pay gap remains high, with women earning 16.4 per cent less than men in 2010.*

### ILO achievements

- Measures, including new laws, policies or national bodies established or strengthened to eliminate discrimination at work in 12 countries.
- Large-scale gender equality campaigns in Turkey and Ukraine served to raise awareness on combating discriminatory practices at work.

### ILO activities

- Advisory services on gender equality and sex-based discrimination, equal pay for work of equal value, discrimination against migrant workers and workers with HIV/AIDS, and discrimination based on race or political opinion provided to 12 countries.
- Constituents in six countries trained in participatory gender audit methodologies.
- Training in discrimination issues delivered to 303 participants through the Turin Centre.

## ILO assistance and outcomes

To counteract discriminatory practices at work, ILO assistance contributed to *new laws, policy action, knowledge building and awareness raising* in the region. All the countries in the region have ratified the Equal Remuneration Convention, 1951 (No. 100), and the Discrimination (Employment and Occupation) Convention, 1958 (No. 111), and they continued to strengthen legal regulations in specific areas. Compliance with ILO standards was facilitated through legal advice, the promotion of social dialogue and the introduction of specific policies and programmes against discrimination. For example, in **Ukraine**, several enterprises pioneered a national project on gender equality and received the industry award “Best employer: Equal opportunities”.

ILO assistance also focused on generating accurate knowledge and broad awareness of the complex facets of discriminatory practices. Support was provided for large gender equality training campaigns in the **Ukrainian PES** and the **Turkish** textile industry. In **The former Yugoslav Republic of Macedonia**, long-term cooperation was initiated with the State Statistics Office to generate detailed gender statistics. In the **Republic of Moldova**, officials in ministries and national employment services were trained in participatory gender audit methodologies. Moreover, constituents in the region campaigned to raise awareness of discrimination. For instance, **Belarus** launched a recommendation to promote the social integration and employment of persons with disabilities.

## Challenges/lessons learned

Knowledge building, particularly on the concepts of diversity, non-discrimination and equal pay for work of equal value, remains key to addressing the complex manifestations of discrimination, together with the launching of appropriate anti-discrimination strategies.



## Outcome 18. International labour standards are ratified and applied

*International labour standards are both an outcome in their own right and key instruments for the ILO to deliver its mandate. They define the preconditions for combining economic progress with social justice, prosperity and peace for all. The main challenge is to encourage constituents to prioritize the ratification and application of standards, particularly during the current economic and jobs crisis.*

### ILO achievements

- Two ratifications of fundamental Conventions; ten ratifications of governance Conventions.
- 79 ratifications of technical Conventions, including 14 ratifications of the MLC, 2006, and 11 ratifications of the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187).
- 61 cases in which the Committee of Experts on the Application of Conventions and Recommendations expressed satisfaction at measures taken to improve compliance with ratified Conventions.

### ILO activities

- 789 constituents trained on international labour standards by the Turin Centre.

## ILO assistance and outcomes

With the latest ratifications of the Minimum Age Convention, 1973 (No. 138), by **Turkmenistan** and **Uzbekistan**, the number of countries in the region that have ratified all eight *fundamental Conventions* is now 50 out of 51, as **Uzbekistan** has yet to ratify the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87).

Promotional activities led to ten further ratifications of the four so-called “*governance*” *Conventions*, all four of which have now been ratified by 29 of the 51 countries in the region. In response to the campaign to promote the labour inspection Convention, three countries ratified both the Labour Inspection Convention, 1947 (No. 81), and the Labour Inspection (Agriculture) Convention, 1969 (No. 129) (**Czech Republic**, **Iceland** and **Slovakia**), and **Tajikistan** also ratified Convention No. 81. The Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144), was ratified by **Israel** and **Slovenia**, and the Employment Policy Convention, 1964 (No. 122), by **Albania**.

With regard to *technical Conventions*, the MLC, 2006, received 14 ratifications,<sup>82</sup> giving the region the leading role in its entry into force. Technical assistance in the field of OSH contributed to 11 ratifications of Convention No. 187 as a major policy instrument. The eight ratifications of the Maternity Protection Convention, 2000 (No. 183), mostly replacing the earlier Convention No. 103, show the importance attached to updating maternity protection. Given the already high ratification rate among Western European countries, the bulk of new ratifications were by countries from CEE and Central Asia.

In its three sessions over the period under review, the Committee of Experts on the Application of Conventions and Recommendations noted significant improvements in the *application of ratified Conventions*, noting with satisfaction 61 cases of progress by 28 countries. These included cases of progress in the field of freedom of association

<sup>82</sup> See Outcome 13.



(**Republic of Moldova, Romania, The former Yugoslav Republic of Macedonia and Turkey**), the elimination of child labour (**Albania, Azerbaijan, Croatia, Cyprus, Romania and The former Yugoslav Republic of Macedonia**), forced labour (**Republic of Moldova and Turkey**), and discrimination (**Romania**), as well as other standards, such as those on paid leave (**Czech Republic**). In many instances, progress was facilitated by assistance on standards-related reporting obligations and legal advice on legislative amendments.

### Challenges/lessons learned

The almost universal ratification of the fundamental Conventions in the region has yet to extend to other priority Conventions, and particularly Convention No. 144, which is instrumental in the operation of ILO standards at the national level. Progress in the application of ratified Conventions confirms the effectiveness of reporting procedures. Especially with regard to new problems in the application of ILO standards caused by the crisis (see Chapter 4), this should encourage governments to report fully and regularly, and incite employers' and workers' organizations to make full use of their right to comment on the effect given to Conventions in their countries.

ILO technical support will therefore continue to focus on providing advice and training to the constituents on reporting procedures. Two countries, the **Republic of Moldova** and **Tajikistan**, are covered by a special time-bound capacity-building programme designed to improve compliance with reporting obligations and to reduce the implementation gap with specific ratified Conventions.



## Outcome 19. Member States place an integrated approach to decent work at the heart of their economic and social policies, supported by key UN and other multilateral agencies

*Unless policies change course in a concerted manner, the economic and jobs crisis in the region will lead to increasing unemployment and inactivity, the deteriorating quality of employment and rising poverty and income inequalities (see Chapter 1).*

### ILO achievements

- ILO–UN regional conference on the social impact of the crisis in Almaty (2009).
- Decent work session at the 5th Astana Economic Forum (2012).
- ILO–IMF conference in Oslo (September 2010) and follow-up meetings in Sofia (2012).
- DWCPs in operation in nine countries and cooperation based on Decent Work Agendas in two countries.
- Decent work mainstreamed into UNDAFs in nine countries.

### ILO activities

- Active policy dialogue conducted with EU, IMF and other international bodies.
- Decent work indicators and country profiles developed for five countries.
- Tripartite workshops and training to develop decent work indicators and country profiles at the country level and training on policy coherence for 218 participants through the Turin Centre.

## ILO assistance and outcomes

In response to the crisis, the ILO has been advocating for job-rich growth strategies focusing on decent work in national policies and regional cooperation. The GJP offers a portfolio of policies that can continue to be drawn on.

*New or renewed DWCPs* were launched in **Kazakhstan, Republic of Moldova, Tajikistan, The former Yugoslav Republic of Macedonia and Ukraine**, and *decent work priorities have been mainstreamed in UNDAFs* in **Albania, Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Serbia, Tajikistan and Ukraine**. A GJP scan was undertaken for **Bulgaria**, and decent work indicators and country profiles were elaborated for **Armenia, Austria, Azerbaijan, Republic of Moldova and Ukraine**. A subregional DWCP workshop was held in Baku in 2009 for **Azerbaijan, Kazakhstan, Kyrgyzstan, Russian Federation and Tajikistan** to exchange country experiences.

The ILO has also promoted job-rich growth and decent work in its relations with the EU, the Council of Europe and the IMF. In 2011, decent work was incorporated into the guiding principles for EU external development policies. The ILO–IMF Oslo conference stimulated high-level follow-up meetings in Bulgaria. Multilateral co-operation has also led to several joint technical cooperation initiatives with other UN agencies and the EU.

## Challenges/lessons learned

One lesson learned from the crisis is that fiscal consolidation should not come at the expense of job-rich growth and quality jobs. ILO efforts to promote decent work are therefore increasingly accompanied by requests to strengthen the capacities of constituents, not only in Central Asia and Eastern Europe, but also in Western Europe.





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