



Labour market institutions and policies in the CIS: Post-Transition Outcomes

Martina Lubyova

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Martina Lubyova¹

ABSTRACT:

This paper describes the development of labour market institutions and policies in seven Commonwealth of Independent States (CIS) countries and Georgia during the transition period up to the year 2007, thus characterizing the condition of these institutions at the eve of economic crisis. It shows that in many CIS countries, public employment services lost resources, staff, and authority during the transition period, which reduced their capacity to replace lost income for unemployed workers, or to redirect them to new or better jobs. This attrition of the PESs was mainly due to policy choices made early on in the transition process with respect to their source of funding and the overall design of labour market institutions. In the early 1990s with rapidly rising unemployment and job destruction accompanied by large-scale informalization of work, these countries adopted models from well-functioning developed economies, which were ill-fitted to the national environments. After almost two decades of transition, the typical outcomes in CIS include liquidation of insurance-based employment funds and shifting of expenditures to the state or local budgets, abolition or mergers of labour market institutions, and a partial replacement of unemployment insurance with targeted social assistance. This paper will argue that an essential first step to alleviating the impact of recession-related unemployment in CIS countries is loosening eligibility criteria and improving funding for existing labour market programmes, followed by increasing the capacity of the existing national public employment services and establishing a regulatory framework for the proper functioning of private employment agencies.

¹ I would like to express my gratitude to Elaine Fultz, Peter Auer, and Makiko Matsumoto for their valuable inputs and comments.

Keywords: labour market policies, labour market institutions, employment services, decentralization, transition

Table of contents

FOREWORD	7
LIST OF ABBREVIATIONS AND ACRONYMS.....	8
INTRODUCTION	9
I. EXECUTIVE SUMMARY.....	11
II. A SNAPSHOT OF EMPLOYMENT SERVICES IN CIS COUNTRIES	14
Overview of selected indicators.....	14
Overview of institutional setup	16
III. MAIN OUTCOMES: DECENTRALIZED VERSUS CENTRALIZED	19
Decentralized outcomes – Kazakhstan and Russia: implied by large territory, regional disparities, and Russian fiscal federalism	19
Full decentralization – the case of Kazakhstan	20
Partial decentralization – unfunded mandates? Central funding of decentralized responsibilities – the case of Russia	21
Centralized outcomes: struggle for resources and frequent reforms	23
Azerbaijan and Uzbekistan – potential for state maintenance	24
Armenia, Tajikistan and Kyrgyzstan – struggle for resources	28
Liquidation of labour market institutions – Georgia	27
IV. CONCLUSIONS AND RECOMMENDATIONS.....	29
REFERENCES	32

Foreword

This paper seeks to peep into the “black box” by which government revenues generated by economic growth are redirected to poverty prevention and reduction in selected transition countries in the CIS region. In doing so, it also illustrates the considerable deterioration in working conditions across the region in the course of the economic transition.

The paper’s main findings are two-fold. It shows, first, that policy choices as to the design of labour market institutions made in the early 1990s led to serious gaps in coverage and protection of the unemployed across the region. In CIS countries, the capacity of public institutions to formulate and implement labour market policies is low, active labour market programmes are underfunded, and these programmes reach only small portions of the target populations. In several countries, unemployment insurance collapsed because of weak governance – that is, the administering institution’s inability to collect owed social insurance contributions. While this has been treated as a technical problem by the International Finance Institutions, the ILO sees weak collections as a critical social issue whose solutions must engage all three scheme constituents – not only government institutions but also trade unions and associations of employers.

Second, the paper’s account of decentralization processes in Russia and Kazakhstan sheds light on yet another tendency common for many CIS countries – a shift of authority and responsibility from central government to regional administrations. While at first glance it appears to lead to greater sharing of authority, the analysis shows that in fact this shift entails a concentration of central power, since the regional administrations are appointed and directly accountable to the presidential apparatus in these countries.

The paper also provides a useful description of labour market policies and underlying institutional developments in the CIS, pointing to several issues which merit greater in-depth analysis. First and foremost among these is the need to strengthen national employment agendas as a key means to prevent and alleviate poverty and to link such strategies effectively to existing poverty reduction initiatives.

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List of abbreviations and acronyms

ALMP	Active labour market policies
CIS	Commonwealth of Independent States
ILO	International Labour Organization
IFI	International Financial Institutions
LMP	Labour Market Policies
PES	Public Employment Service
PREA	Private Employment Agencies
PRSP	Poverty Reduction Strategy Paper
Rostrud	Federal Employment Service for Labour and Employment of the Russian Federation
UB	Unemployment Benefit

Introduction

This paper focuses on the following eight countries: Russia; three South Caucasus countries: Armenia, Azerbaijan, Georgia; and four Central Asian countries: Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan (see Chart 1). All the countries have a common Soviet past, and all face major challenges brought about by the economic transition that started around 1991. Some of the countries are still operating centralized public employment services, while others have replaced these with other approaches or abandoned the function all together. The paper describes the evolution in policy decisions and institutional design during the transition and up to the year 2007. It tries to explain the observed trends by considering both common factors that all the CIS countries faced en bloc (such as deep recession and informalization of the economy), and some distinctive factors that vary across the countries (such as the size and population density of the country and availability of energy resources).

In geographical terms, the region lends itself to an obvious classification into three groupings: Russia, South Caucasus, and Central Asia. However, when trying to explain the post-transition development in the field of labour market policies and institutions, additional criteria have to be found in order to account for the divergent outcomes. In this regard, grouping the countries according to the availability of state budget resources, as well as by the countries' relative sizes, is more revealing.

Thus we divide the countries into two groups. The first one includes Russia, Azerbaijan, Kazakhstan and Uzbekistan – the countries that are abundant in natural resources, where growth has been mainly driven by natural resources exports and the rising prices of oil and gas brought in windfall gains for the state budgets or the various national revenue funds. These countries were better positioned to absorb the rise of the labour market programme expenditures caused by the initial shocks of transition in the early 1990s. Within this group, Russia and Kazakhstan represent special cases where the large size of their territories (and the system of fiscal federalism in Russia) led to pressures for decentralization that extended to labour market policies and institutions.

The second group of countries includes Armenia, Georgia, Kyrgyzstan and Tajikistan. These are prototypical “small open economies,” not abundant in natural fuel resources. Tight budget constraints made it more difficult to fund PESs adequately under the constraint of tight budgetary resources. In these countries, the governments' ideological stance, and the resulting extent of commitment to assisting displaced workers through collective means, seems to be a key factor in determining whether the PESs survived or were dismantled.

To explore this latter set of factors, it is useful to examine the political economy of these labour market institution reforms (internal political development, liberal versus neo-conservative mentality of the governments, and economics influencing the politics), as well as external influences of the international community, lenders and donors. It is noteworthy that the process of developing Poverty Reduction Strategy Papers (PRSPs) conducted by the IFIs focused only minimally on employment or labour market policies. Granted, the IFIs did advise the CIS governments against the insurance-based employment funds. However, a question arises as to whether this was because they recognized the need for proper initial conditions for launching schemes (that depend critically on the capacity to collect social insurance contributions), or simply because they preferred to see all government programmes included in the state budget. The disregard of initial conditions by

IFIs became a distinct topic in the evaluation lessons from the transition period, e.g., their support for private pensions in countries without developed financial markets in which to invest worker savings.² The IFIs were also criticized for being “apolitical”³, basing their policy advice purely on technical criteria, for example, recommending a shift of authority to collect social contributions to the tax agency⁴, and thus sidelining worker and employer associations whose support is critical for the success of such efforts.

Of course, the various factors mentioned above are linked to each other in a complex way. For example, the countries with abundant natural resources could have afforded to borrow less, and thus to offer greater resistance to the policy recommendations of the IFIs or donors’ institutions which predicated funding on the borrowers following their reform agendas. Russia and Kazakhstan, in particular, fell out with donors relatively early in the transition period and followed their own reform paths. Kazakhstan took decisive steps towards decentralization with all its consequences, including institutional labour market reforms. Russia went down the decentralization path recently.

Kyrgyzstan and Tajikistan are in a much less advantageous position (landlocked small countries with less energy resources except for water abundance), and thus much more dependent on borrowing and the donors’ assistance. However, the peaceful change of government in Kyrgyzstan in 2003 brought significant changes to its foreign policy orientation as it started to explore more intensively the Eastern allies and trade routes (notably towards Russia and China, co-members of the Shanghai Cooperation Organization).

In the South Caucasus, Armenia and Azerbaijan fought a war in the 1990s and are still locked in a territorial dispute over the Nagorno-Karabakh region. Although both countries have some traditional bilateral alliances, they have shown general openness to the IFIs as well as many other donors. Both countries maintain centralized public employment services and operate a wide spectrum of programmes. Azerbaijan is in a better position to fund them thanks to the so-called “oil tsunami” that brought tremendous economic gains after the Baku-



Chart 1. CIS map

Tbilisi-Ceyhan pipeline was launched. The third South Caucasus country – Georgia – is an outsider in the CIS in terms of labour market institutions and policies. Due to the neo-conservative political stance of the top leadership, labour institutions and policies were assigned a low priority, and were finally practically dismantled, leaving the unemployed on their own, or at best relying on ad hoc measures or private sector arrangements.

² See, for example, F. Pickup (2003), pp. 4–5.

³ See, for example, P. Verme (2006) for the case of IFTs in Uzbekistan.

⁴ For a more detailed discussion, see Fultz, E., and T. Stanovnik (eds.), *The Collection of Pension Contributions: Trends, Issues and Problems in Central and Eastern Europe* (2005).

I. Executive summary

It is well known that the insurance-based funds that rely on worker and employer contributions tend to experience financing difficulties during recessions. They are ill-equipped to deal with the increasing expenditure burden due to rising unemployment, accompanied by a parallel decline in intake due to falling employment and thus shrinking collection base. Due to the typical features of the CIS economies, such as dual labour markets with a substantial share of informal work, these countries ended up in the course of transition in a situation where unemployment could not be considered as an “insurable risk”. Rather, it was a systemic risk to which a substantial part of population was exposed.⁵ However, most of the CIS countries created insurance-based Employment Funds early on in transition, when the conditions for the existence of such schemes – high unemployment, large informal sectors, and underreporting of wages in the formal sectors – were highly counterproductive. Such funds also placed the burden of financing directly on employers and employees, thus contributing to the drag on job creation, or shifting some jobs to the informal economy.

In all the CIS countries covered in this paper, originally the “developed countries” model (essentially a modernized PES funded through social insurance contributions⁶) was adopted without taking into account the required initial conditions or the risks of moving forward without these in place. These countries may have been inspired by the European Employment Strategy with its four pillars. However, this Strategy reflects the conditions and debates of the current period in the EU member states, which are currently in the mode of adding more flexibility to their labour markets (perceived by many as well-regulated and potentially rigid ones), and activating the people through various “into employment” measures. Quite a different approach would have been appropriate in the CIS, where labour markets do not function well and workers are in need of more protection and security, given the states’ weak enforcement of existing labour laws.⁷ While in many Central European transition countries registered unemployment was on a par with or even higher than survey-based unemployment, indicating that protection could have been excessive and people in benefit traps needed to be activated to take up jobs, in the CIS the registered unemployment (in particular unemployed with unemployment benefits) represented a tiny amount compared to the survey-based unemployment (see Section II for more details). So while the Central European countries were clearly inspired by EU models and EES in their preparation for accession, it is not as clear why the CIS would install them ahead of, and apply their principles through, their major transitional recession.

In the course of the 1990s, the CIS authorities made efforts to “trim” the labour market schemes that had quickly become overburdened due to a combination of weak contribution collections and high unemployment. This was done by tightening eligibility criteria, and by imposing restrictions on unemployment benefit amounts or replacement rates. Such measures are not unusual, and many Central European countries managed to bal-

⁵ See, for example, the discussion of the Armenian case in Schlotfeldt J., and R. Wieland (2005).

⁶ See, for example, the discussion of PES systems in Van Bekkum, R. (2007).

⁷ For the EU influence on its members national employment models see Rubery, J., Bosch, G., and S. Lehndorff (2008)

ance their schemes through implementing several rounds of similar restrictions in the course of transition. However, in the CIS the magnitude of the problem was much greater, and the tight restrictions have placed millions of citizens beyond the reach of labour market programmes. Moreover, these cuts in cash benefits had little or no effect on workers' participation in active labour market programmes, such as training and job search assistance.

When it became clear that the eligibility restrictions were resulting in a huge and persistent deficiency in the coverage of population by both unemployment benefits and active labour market programmes, many CIS countries simply abandoned the employment funds. Labour market programmes were mostly maintained, but their funding was switched to other more general social insurance funds (social protection/pension funds), or simply to the state budgets (at the central or regional level). In one CIS country, Georgia, the Government liquidated the labour market programmes altogether.

As a result, the labour market programmes ended up with large deficiencies in terms of coverage of the population. For example, in most CIS countries the eligibility of population for unemployment benefits has been seriously restricted in relation to the ownership of agricultural land. Following the land-reforms of the 1990s, many people became owners of land pies (a small subsistence plot whose dimensions are beyond a certain threshold). The owners of land pies were not entitled to unemployment benefits, even if they were not able to gain or did not gain any income from their plots.

Furthermore, with these cuts, other social protection benefits (notably pensions) crowded out labour market expenditures within the broader social insurance funds. Ministries of Labour (if they still existed) or other responsible government agencies were at "the end of the queue" when it came to distribution of state budget funds. In the cases of decentralization, local budgets were under the control of local administration that did not have the experience needed for maintaining a coherent national scheme of labour market programmes.

The cuts also resulted in a very low level of protection or assistance to the covered beneficiaries. Even in the better-funded and the more generous schemes, such as that of the Russian Federation, insurance-based principles were abandoned in the unemployment insurance scheme, and the level of unemployment benefits was compressed over time to a two-tier flat-amount system: the ceiling (maximum) benefit for those with recent employment record, and the minimum benefit for other eligible unemployed.

In some countries, such as Kazakhstan and Georgia, the unemployment benefit schemes were dismantled and unemployed were referred to the targeted social assistance scheme. However, the latter scheme is income-tested, and many unemployed who previously contributed to the insurance-based employment funds did not meet the income-test criteria. The unemployment benefit scheme, to which they previously contributed and earned the right to benefits, was abolished in their time of need.

The way forward from this situation is complicated by the global financial crisis and economic downturn. The recommendations included in the final section of this paper are formulated in the light of the urgent need to assist those thrown out of work and to address the threat of rising poverty in the short run.

In the medium term, the situation requires that CIS governments invest more heavily in labour market institutions. The knowledge and skills of the public employment services

in the CIS must be strengthened, the range of labour market programmes expanded, and their funding in proportion to GDP increased. So long as high levels of informal employment persist in CIS countries, these programmes must be funded primarily by government revenues, with reliance on social insurance contributions gradually increased only as employment is formalized and enforcement capacity is strengthened. The capacities of PESs to deliver training and retraining programmes will be of particular importance in order to mitigate the persistent skills imbalances in the labour market. Private employment agencies should be treated as full players in the CIS labour markets through defining frameworks for their operations and introducing regulation mechanisms that would guarantee standards.

II. A snapshot of employment services in CIS

Overview of selected indicators

This section provides a brief overview of selected performance-based indicators and institutional features of the labour market policies and public employment services in the CIS as of 2007, as summarized in Tables 1 and 2. The comparison is based on registered (or administrative) data on unemployed and vacancies. Despite serious deficiencies in data on registered unemployed, they do capture the realm of work of the public employment services and characterize their functioning.

It has to be noted that the data on registered unemployment and vacancies do not reflect the real economic magnitude of unemployment and vacancies, mainly due to the low rates of registration with the employment services by the unemployed. In particular, in most CIS countries there is a notion of the unemployed with the “status of registered unemployed”. These are in general persons who fulfill eligibility conditions for unemployment benefits or participation in some labour market programmes. Due to the very strict eligibility criteria, only a small fraction of the unemployed are given this status. Table 1 illustrates the enormity of the gap between survey-based measures of unemployment and registered unemployment in selected countries. For the various years for which census data or survey data were available, the ratio of registered unemployment to unemployment as measured in national surveys was typically below 0.2 (or 20 %). Table 1 also shows that a very small fraction of the unemployed was covered by unemployment insurance benefits. In this respect Russia reached the highest ratios going into double-digit figures, while for the other countries the ratio of unemployed receiving unemployment insurance benefit to the overall unemployment was less than 1 %.

Table 1. Registered unemployed and registered unemployed with unemployment insurance benefits (UB) as % to overall unemployment

Country	Azerbaijan		Russia		Tajikistan
Year	1999	2003	1992	2000	2004
Registered unemployed	8.2	13.6	14.9	13.8	21.2
Registered unemployed with UB	0.4	0.8	9.6	12.1	0.3

Note: Overall unemployment refers to unemployment according to the ILO definition as measured by Labor Force Surveys (LFSs) or the Population Census. Registered unemployment and overall unemployment are not necessarily overlapping categories.

Source: Data on registered unemployment and numbers of UB recipients come from PESs or the relevant Ministries. Data on overall unemployment come from Population Census (AZE 1999); LFS or similar household surveys (AZE 2003, RUS 1992, 2000, TAJ 2004).

In what follows we compare the PES functioning based on relative indicators, such as the ratio of registered job-seekers to registered vacancies, the ratio of UB recipients to total registered unemployment, and the ratio of placements to the total number of job-seekers. We include data on Belarus, Ukraine, and Moldova for purposes of comparison within a broader CIS framework.

The ratio of registered job-seekers to registered vacancies (U/V ratio) provides an indicator of the tightness of registered labour market and also reflects the conditions and functioning of the PES, which act mainly in the registered part of the labour market. As shown in Table 2 and Chart 2, the registered labour market seems to be tightest in Armenia and Kyrgyzstan where the U/V ratios were very high in 2007 (95 and 21, respectively). At the opposite end of the continuum were Belarus, Russia and Kazakhstan, with relatively low U/V ratios (less than 3 unemployed per vacancy).

Administering unemployment benefits (UB) can be partially captured by the ratio of UB recipients to the total registered unemployed. In this regard Russia (and Belarus) have substantially larger shares than any other country (84 and 54 %, respectively), while Armenia is dramatically lower, at just over 20%. The rest of the countries have very negligible shares (under 5 %), and Georgia and Kazakhstan do not provide unemployment insurance benefits.

Implementation of active labour market programmes and job mediation, notably getting job-seekers into jobs, can be captured by the ratio of placements to the number of job-seekers. In this regard, again Kazakhstan and Russia have the highest ratios (95 % and 84 %, respectively), Azerbaijan, Kyrgyzstan and Belarus are in mid-range (between 50 % and 65 %), while Tajikistan and Armenia occupy the lower end (with less than 30 %).

All in all, the snapshot contained in Table 2 and depicted at Chart 2 seems to single out Russia, Belarus and Kazakhstan as better performers in terms of the covered indicators. This can be due to “internal” factors (such as effective targeting of beneficiaries), as well as “mixed” factors (such as labour market tightness), and also “external” factors (such as availability of state budget funding). In order to better understand why labour market policies have different impacts in the various countries, one has to consider the institutional setup and funding sources. Table 2 puts together a brief summary outlook; it is followed by more in-depth analysis.

Table 2. PES characteristics as of end 2007

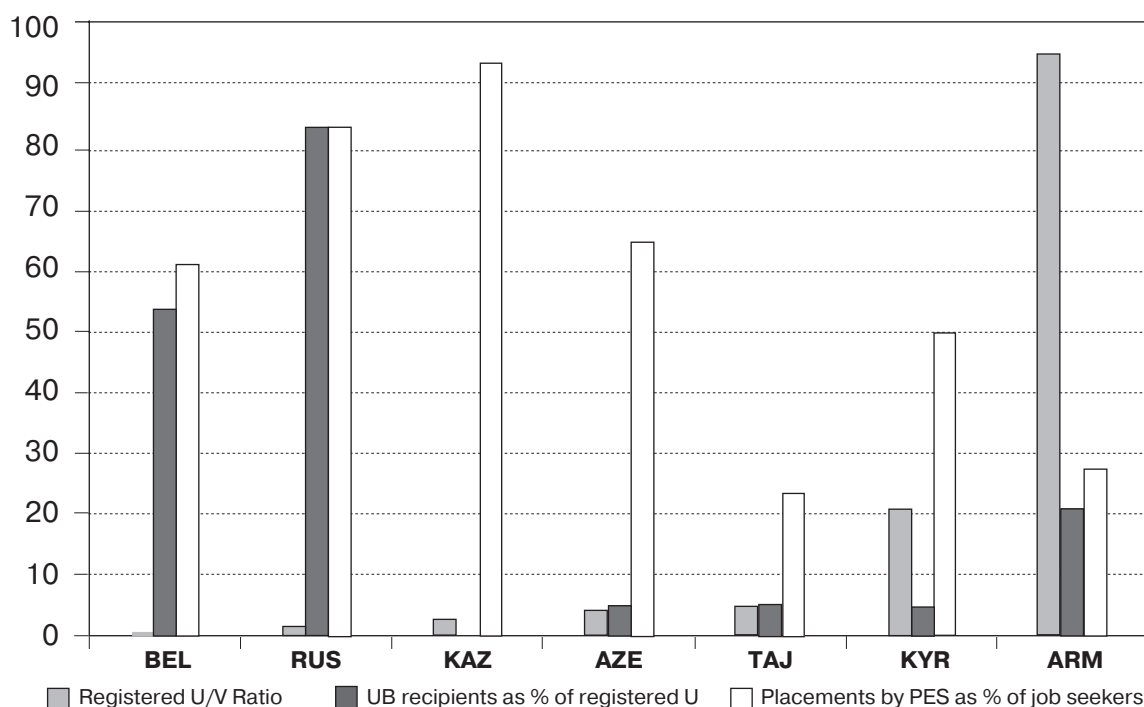
	Registered unemployed (ths. persons)	Registered U/V Ratio	Coverage of registered unemployed by UB (%)	Placements as % of job seekers
Azerbaijan	50,7	4,1	5,0	65,4
Armenia	75,1	95,1	20,1	27,8
Belarus	44,1	0,9	54,0	61,4
Kazakhstan	54,7	2,6	...	94,9
Kyrgyzstan	71,3	20,9	4,8	50,2
Moldova	18,9	2,3	10,5	48,3
Russia	1731,6	1,5	84,0	84,2
Tajikistan 1)	54,8	4,7	5,3	23,9
Ukraine	642,3	3,9	72,9	67,0

1) As of the end of November.

2) Kazakhstan does not have an unemployment benefit scheme; Georgia has not had either a PES or an unemployment insurance scheme since 2007.

Source: CIS Statistical Committee.

Chart 2. PES characteristics as of end 2007



Source: CIS Statistical Committee

Overview of institutional setup

In order to assess the performance of the public employment services in the CIS, one has to understand the institutional setup and funding mechanisms by which they operate. In this regard the conditions have been highly constrained for public employment services. One worrying tendency is the gradual disintegration of labour market institutions in many CIS countries. The most typical examples of this process include liquidation of Employment Funds, abolition of labour inspections, mergers of Ministries of Labour with other Ministries to the detriment of the labour agenda, liquidation of unemployment insurance systems, as well as frequent institutional reforms.

In some CIS countries the Ministries of Labour have lost authority and jurisdiction over the labour-related national agenda, either through mergers with other Ministries that are usually to the detriment of the labour agenda⁸, or through transfer of the labour agenda to another government body (Kyrgyzstan). In some other cases they lost the relevant competencies through devolution or decentralization processes (Kazakhstan).

Mergers between Ministries of Labour and Ministries of Health occurred in Georgia and Russia. In Georgia a new Ministry of Health, Social Protection and Labour was created by merging three Ministries in 1999. In Russia a merger between the Ministry of Labour and Social Protection and the Ministry of Health occurred in the context of President

⁸ In particular when three important areas, such as Health, Labour, and Social Protection, were combined under one new Ministry.

Putin's revamping of Government agencies and reduction of the number of Ministries in 2004.⁹ Mergers of Ministries within the sphere of labour and social issues occurred in Armenia.¹⁰ In Kazakhstan the Ministry of Labour and Social Protection still includes an Employment Department. However, after full decentralization of labour market policies and liquidation of the unemployment benefits scheme, the responsibilities of the Department were limited to overall guidance for the executive regional administrations (akimats).¹¹ Currently the Ministry can influence the performance of akimats mainly through the National Employment Programmes that are developed for 3-year periods (currently 2008-10). The Programmes are approved by Presidential Decrees and stipulate certain general targets for labour market variables.

As will be seen from Table 2, the characteristics of labour market institutions vary quite widely among the countries. Georgia is an extreme case, having liquidated the public employment service and the unemployment benefits scheme. The rest of the countries can be divided into two groups based on the extent of centralization. Kazakhstan and Russia can be classified as decentralized schemes, the former being fully decentralized, the latter so far partially decentralized. A more detailed discussion of country-specific outcomes in the following section will also follow the logic of decentralized versus centralized cases.

As regards the funding options for labour market policies, most of the CIS countries have established an insurance-based employment fund, or a broader social insurance fund that supports labour market programmes and unemployment benefits. As will be argued below, this model is typical of developed countries but did not prove successful in a transitional recession that was much more severe in the CIS than in Central Europe. Several CIS countries have gradually liquidated such funding of labour market policies. As can be seen in Table 3, as of 2007 social insurance funds existed in Armenia and Azerbaijan, Kyrgyzstan¹², and Uzbekistan. Kazakhstan has decentralized the collection and disbursement of funds for active labour market programmes to the regional level. The rest of the countries eliminated the social insurance contributions to labour market programmes and transferred their funding to the central (in the case of Russia the federal) state budget.

Unemployment benefit schemes exist in all the countries examined here with the exception of Kazakhstan and Georgia. Georgia liquidated the UB scheme shortly after liquidating the PES and the employment fund. The Government of Kazakhstan in the framework of the decentralization of labour market policies, dismantled the UB scheme. Some of its beneficiaries were able to transfer to the targeted social assistance scheme.

Finally, the potential of the private employment agencies (PREA) to assist the unemployed has not yet been fully tapped by the national authorities, nor has the regulation been put in place that is needed to make these institutions function well. Georgia is the only country in this group that has ratified the ILO Convention 181 on private employ-

⁹ In this process the number of Ministries was cut from 34 to 17, and many competences and functions were devolved to the newly created Federal Services and Federal Agencies. After the Presidential elections of 2008, some Ministries were re-created, but not the Ministry of Labour and Social Protection.

¹⁰ Government Decree of 2002 combined parts of the Social Protection Ministry and Labour Ministry into the Ministry of Labour and Social Issues.

¹¹ Regional administrations (akimats) are accountable to the Presidential Administration.

¹² In Kyrgyzstan the fund as well as unemployment benefit scheme have been reviewed recently with a view to their possible liquidation.

ment agencies, but after the adoption of a new liberal Labour Code in 2006, Georgia currently lacks regulatory underpinnings for the functioning of PREAs. In most of the countries the authorities believe that the private agencies should be important players on the labour markets, mainly in the light of problems and challenges that face the PESs; however, private agencies today operate in environments that are not adequately regulated and thus allow the abuse of job seekers, notably labour migrants. The licensing or supervision of the PREA activities and the possibility of charging the job-seekers for the provided services (rather than charging the employers) are the issues most frequently discussed in the current debates.

Table 2. Summary outlook of labour market policies and institutions in CIS as of 2007

	PES	Employment/ Social Insurance Fund	Source of funding for LMP's	Unemployment insurance scheme	Ratification of C181 ^(d)
Armenia	+	+	Social Insurance Fund	+	-
Azerbaijan	+	+	Social Protection Fund	+	-
Georgia	-	-	Ad hoc, Private sector	-	2002
Kazakhstan	Decentralized ^(a)	-	Regional budgets	-	-
Kyrgyzstan	+	+	Employment Fund	+(c)	-
Tajikistan	+	+	Employment Fund	+	-
Uzbekistan	+	+	Employment Fund	+	-
Russia	Decentralized ^(b)	-	Federal budget	+	-

Notes: (a) Implementation and funding fully decentralized to regional administrations (akimats).

(b) Partial decentralization – implementation decentralized to the regional administrations, “subjects of federation”, funding provided from the federal budget.

(c) In 2008 Kyrgyz authorities considered the option of replacing UB scheme by a large-scale public works scheme.

(d) C 181 Private Employment Agencies Convention of 1997.

“+” denotes the case when an institution exists.

“-” denotes the case of absence of such an institution.

III. Main outcomes: decentralized versus centralized

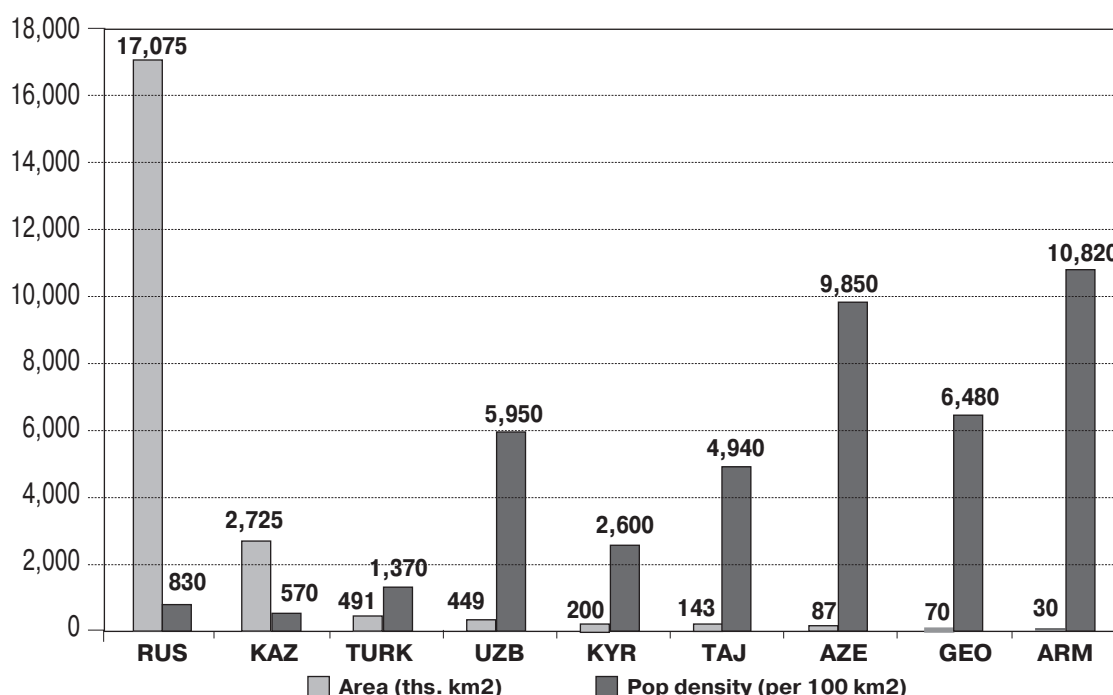
Decentralized outcomes – Kazakhstan and Russia: implied by large territory, regional disparities, and Russian fiscal federalism

It should be noted that decentralizing the labour market policies in Russia and Kazakhstan was part of a broader decentralization process in both countries. There are several common factors that contributed to the decentralization. Both Russia and Kazakhstan are large in terms of territory, both as compared to the other countries of the region and in relation to the sizes of their own populations. Russia is, of course, the largest country in the world in terms of territory. However, it is less well-known that the territory of Kazakhstan is 3 times larger than that of Germany, Italy, and the United Kingdom taken together, while its population is less than 15 million. More concretely, the territory of Russia is 17,075 thousand km² and the population density slightly more than 8 inhabitants per km², while the territory of Kazakhstan is 2,725 thousand km², and the population density is 6 inhabitants per 1 km².¹³ Certainly, such relations pose challenges for management of centralized schemes for several reasons including large regional disparities, high transaction costs (communication and transportation), and the presence of a large number of nationalities and ethnic groups concentrated in different regions within the countries.

Another serious factor underlying centrifugal pressures is regional income differences, which are particularly large in Russia. The Russian Federation consists of 88 “subjects of the federation”. There is a large differential in labour market characteristics as well as other socio-economic characteristics amongst these “subjects”. It has been always a challenge for the federal authorities to come up with a unified formula stipulating budget allocations for labour market policies to the federal subjects based on several key variables. Furthermore, the variations in regional output and, in Russia, in well-being, have shown no sign of diminishing. There have been increasing pressures from the richer subjects of the federation to limit the degree of redistribution, which increased the tensions within the Russian fiscal federalism mechanism. Decentralization was a natural reaction in this situation, notably the liquidation of the autonomous Employment Fund with continued funding of labour market programmes from the federal budget.

¹³ For comparison, the territory of France, Germany and Italy combined is 900,000 km².

Chart 3. Area and population density



Source: CIS stat

Memorandum items: Germany – area is 357 ths. km², population density per 100 km² is 23,200

United Kingdom – area is 243 ths. km², population density per 100 km² is 25,000

Full decentralization – the case of Kazakhstan

In Kazakhstan the first Employment Act of 1990 established an autonomous insurance-based State Fund of Assistance to Employment, which functioned until the end of 1998. A new Employment Act of 1998 and a subsequent Government Decree of January 1999 liquidated the Fund, as well as the public employment centers. The latter were transformed into municipal labour exchanges. Funding of labour market policies was transferred to the state budget. Soon afterwards in 2001 a new Employment Act diversified the funding sources for active labour market programmes (re-training, public works) to include both the central state budget and local budgets (regional administrations – the so-called akimats), as well as employers and other sources (donors or private sector). Since then, in practice the ALMPs have never been funded by the central budget but rather by local budgets and to some extent by employers. During the five-year period of 1999-2003, 99.2 % of LMP funding came from local budgets, while employers covered some 0.8 % and a very tiny contribution of 0.01 % came from other sources (such as international organizations or private donors). It is noteworthy that during that period LMP funding as a percentage of GDP tripled, increasing from 0.02 % in 1999 to 0.06 % in 2003.

In Kazakhstan, funding varied from region to region, in terms of both volume and composition. Employers provided funding in only a few regions (5 out of total 16), and their contribution was sporadic in four of these. Only in one region did it develop into a more regular voluntary participation (Pavlodar).

Furthermore, the decentralization of active programmes, after 2002, resulted in the development of public works that were applied very heavily to the exclusion of other measures (at some stages numbers of participants equaled those of registered unemployed), while training and retraining programmes did not gain much from the decentralization.

Passive labour market policies were also decentralized both in terms of funding and administration, which led to the liquidation of the unemployment benefit scheme. It was partially replaced by the newly introduced scheme of targeted social assistance (also decentralized and funded by the local budgets). Of course, this meant that insurance-based benefits were replaced by income-tested social assistance benefit, thus excluding from the coverage those unemployed who did not meet the income-test criteria.¹⁴

Partial decentralization – unfunded mandates? Central funding of decentralized responsibilities – the case of Russia

Russia is among the best performers in this group of countries in the various aspects of the PES and labour market programmes. Yet compared to OECD countries and also to Central Europe the expenditures on labour market programmes in relation to GDP are extremely low.¹⁵

The case of Russia is reminiscent of the Kazakh experience but with the key “milestones” of decentralization being more spaced over time. Insurance-based unemployment benefits were abandoned by the Russian authorities in 2001 when the social insurance contribution (at the rate of 2 % of the total wage bill) was replaced by a “unified social tax”. This change occurred at the time when the insurance-based Employment Fund was in surplus.

The PES was a separate structure under the Ministry of Labour and Social Protection (its Employment Department). During the 2004 reorganization of Government agencies, the Ministry of Labour and Social Protection was merged with the Ministry of Health into one Ministry that retained mainly legislative and regulatory functions. Executive functions pertaining to the administration of labour market policies were passed on to the newly created Federal Service for Employment and Labour (the so-called Rostrud). LMPs continued to be financed from the federal budget. A reform of 2006 decentralized the administration of the labour market programmes, including active measures, to the local administrations (the “subjects of the federation”), but the funding for the programmes is still provided from the federal budget. This meant that the federal giant Rostrud lost most of the staff and competencies to the federal subjects and started to focus mainly on the supervision/control and information gathering functions.

A key difference between the Kazakh and Russian decentralization of labour market policies relates to the source of funding of the decentralized mandates. While in the Kazakh case the 2001 Employment Act stated that the decentralized mandates would be funded by the central budget, regional budgets, employers, and other sources, in reality the central budget has not contributed since then to the funding of labour market programmes,

¹⁴ In fact as of 2005 a special insurance-based benefit was introduced for the case of loss of job, but the scheme was not used in practice, owing also to the low awareness of its existence.

¹⁵ O-Leary, Nesporova and Samorodov (2001) for comparison as of 1998/9: total expenditures as percentage of GDP for Russia were around 0.2%, while in Poland, Hungary and Slovakia they reached over 1% and in several OECD countries they were close to 5 %.

and during 5 years following the decentralization, 99 % of expenditures were borne by the regional budgets. In Russia a new Federal Act of 2006 decentralized responsibilities for administration of both passive and active labour market programmes, while maintaining funding at the federal level (to be provided to the subjects of federation through “subventions”). A methodology for determining the volume of such subventions for separate federal subjects was approved by the Government in early 2007. This immediately provoked a discussion on unfunded mandates, a recurrent issue in the history of the Russian fiscal federalism.¹⁶

The methodology for determining the volume of subventions is rather detailed. It involves dividing the expenditures into passive payments, active measures, administrative costs of the local administrations, and administrative costs of the Federal Service (Rostrud). Within these categories, it further distinguishes expenditures by different types of measures and activities, yielding a complex set of formulas. Expenditures are pre-determined using region-specific parameters (for example, the regional wage adjustment coefficient and regional registered unemployment), but also federal averages (for example, coverage of registered unemployed by the various measures during the previous year for the entire Russian Federation, or federal average expenditures per registered unemployed during the previous year for the various types of active measures). Thus the methodology utilizes backward-looking pegs on expenditures, and regional variation is dampened through pegging to federal averages rather than region-specific variables. A more detailed scrutiny of the formulas is provided in Box 1 below.

Box 1. Method of calculating subventions to the federal subjects: pegging to federal averages, inertia, and locking in low shares of active expenditures

A detailed scrutiny of the set of formulas shows that there are several features that will inevitably create tensions within the system:

- (i) In some cases the rules rigidly peg current year expenditures to previous ones through a set of parameters derived from federal averages for the previous year;
- (ii) Some allocations are pegged to region-specific expenditures over the previous year, which makes it difficult to ensure adequate funding if the situation within a particular region worsens suddenly;
- (iii) In general, it seems that the use of federal averages for a number of parameters (for example, coverage of the unemployed population by a particular measure, average duration of benefit payment, or the length of participation in a programme) penalize those subjects experiencing a worse than average situation, and favor those where the situation is better than average. Thus the degree of redistribution of federal means will be lowered over time, notably in the field of passive labour market policies and public works;
- (iv) Because of pegging the target expenditures to the federal average for active measures (other than temporary jobs – public works), the regions with higher than federal average price level would be penalized.

¹⁶ See Martinez-Vazquez and Boex, 2001.

Another serious consequence of this method of funding is a built-in disincentive for local initiatives to increase the ratio of active to passive measures. This is not only because the total volume of subventions is set ahead of time at the federal level, but also because its breakdown is fixed, including total amounts for passive measures, active measures, and administrative costs. Judging by the planned allocation of means for labour market policies for 2007, the share of active measures in overall expenditures was about 8 %, while the share of passive payments was almost 68 %, with the administration costs comprising the remaining 24 %¹⁷. The low share of active expenditures was also characteristic of particular regions. Thus the prospects for increasing the share of active measures are not very good, especially for the subjects with worse-than-average parameters and for those where the registered unemployment increases over time.¹⁸

Overall, the current structure of labour market programmes in Russia seems transitory, a step in an evolution to some more stable arrangement, be it re-centralization of certain responsibilities, or the more likely partial or full decentralization of funding for labour market programmes to the local budgets. The latter would pose a serious threat to the social cohesion of the Federation, given the large regional variation in economic development among the federal subjects. An obvious solution would be keeping the passive payments centralized in terms of both administration (at least eligibility checks) and funding, which would eliminate the risk of unfunded mandates and strengthen social cohesion by securing unemployment benefits to all citizens. The already weak active measures could eventually be fully decentralized to the federal subjects, both in terms of their administration and funding. A critical and necessary condition for this step would be strengthening the functions and responsibilities of the competent federal institutions (Ministry and Rosstrud) in terms of co-ordinating active measures and monitoring their implementation, in order to prevent a disarray of active labour market policies across the country. The active programmes could be eventually partially out-sourced by the federal subjects, notably in the areas where there is sufficient infrastructure of private agencies and similar organizations that could perform these tasks efficiently and effectively.

Centralized outcomes: struggle for resources and frequent reforms

Aside from Russia and Kazakhstan, the other countries run their PESs as centralized schemes¹⁹. The following sections describe the main trends and developments in these countries with a special focus on the PES structure and the potential for expanding the volume of the labour market programmes. Azerbaijan and Uzbekistan²⁰ are considered in

¹⁷ This is high by international standards and deserves further investigation. The co-existence of dual – federal and regional – administration may contribute to the high administrative costs.

¹⁸ An additional concern relates to the mixed situation where the local organs determine the eligibility for unemployment benefits that are to be paid out of the federal resources, while other social benefits are paid from the local budgets. This creates a financial incentive to shift part of the latter burden to the federally funded unemployment benefit scheme. In this regard, the experience of some countries (e.g., Netherlands) shows that such perverse incentives led to re-centralization of certain responsibilities related to eligibility determination for, and administration of, passive labour market policies.

¹⁹ With the exception of Georgia which has liquidated its national PES. Also, as will be described below, Uzbekistan where part of the collected income can be kept by the regions.

²⁰ Russia and Kazakhstan of the first group were discussed in the section dedicated to decentralized outcomes.

one group, and Armenia, Georgia, Kyrgyzstan and Tajikistan in the other. In the latter group, Georgia stands out as a special case because it has totally dismantled its public employment service.

Azerbaijan and Uzbekistan – potential for state maintenance

Both countries have insurance-based funds (State Employment Fund in Uzbekistan, and Social Protection Fund in Azerbaijan) that finance labour market programmes. Centralized public employment services are in place, and they operate a relatively wide array of various labour market programmes (both passive and active). There is a larger degree of state paternalism towards labour market institutions in these countries, notably in terms of institutional setup and centralized top-down management, as well as state contributions to the insurance-based funding of labour market programmes. However, in terms of the total volume of funding for the programmes, or the coverage of population by the programmes, the results are extremely modest.

As noted in the introduction, these countries have in common a relative abundance of exportable resources (oil, gas, cotton), which brings into the state budgets (or various state funds) a wealth of resources that can be used by the authorities for various social policies. Therefore, there is a potential to beef up the labour market programmes in these countries, should their authorities wish to do so.

Uzbekistan

The Employment Act of 1992 and subsequent amendments stipulate quite a complex array of protection and assistance for the unemployed through both passive and active programmes. The state assumes an active posture towards labour market programmes with a strong degree of centralization of labour market institutions. The State Employment Fund is an extra-budgetary fund that provides funding for both passive and active labour market programmes. The fund is insurance-based, collecting contributions on the basis of enterprises' total wage bills, but it can also receive subventions from the central state and local budgets. The system exhibits certain decentralized features, as according to the Employment Act, 70 % of the insurance-based intake is retained by the regions (and the Tashkent city and Karakalpak Republic), while 30 % is centralized at the republican level. There is no land-ownership restriction on eligibility for UB (private land ownership is remarkably less developed than in other Central Asian "Stans"). As in other Central Asian countries, there has been a tendency towards mergers, which in Uzbekistan led to the combining of the Employment Department, Social Protection Department, and Labour Inspection Department into one agency under the auspices of the Ministry of Labour and Social Protection. Vocational Education and Training (VET) is under the jurisdiction of the Ministry of Education. Uzbekistan has implemented several educational reforms. In the context of labour market integration, it is noteworthy that obligatory VET has been introduced at all secondary schools in the country: in VET schools (professional colleges) students are supposed to obtain training in two professions, and in general secondary schools (lyceums), in at least one profession.

Azerbaijan

Azerbaijan runs a centralized public employment service scheme under the auspices of the Ministry of Labour and Social Protection. Funding for the passive and active labour market programmes comes from the insurance-based Social Protection Fund. The collected contributions are pooled in the Fund and used for financing pensions, as well as other insurance-based benefits including unemployment benefits. This leads to the situation where current pension expenditures crowd out substantial amounts of resources and little is left for labour market measures. Eligibility for unemployment benefits in Azerbaijan was also restricted in relation to land ownership. Although quite a broad array of labour market programmes is in place, the degree of coverage is generally low. In the framework of the Government's focus on job creation, relatively more weight was placed recently on public works programmes. There is considerable state intervention in the labour market and social issues. The PES was involved in setting up smaller state enterprises that would provide jobs for unemployed, in particular in the regions. Other government agencies also play a certain role in boosting job creation (for example, a subsidized entrepreneurial start-ups programme was delivered through the economic ministry). The Government's focus on the physical development of infrastructure and economic development of the regions (notably, rural areas), as well as building housing for people displaced as a result of the armed conflict with Armenia (around 1 million persons or one-eighth of the population), provides potential for massive job-creation through employment-intensive approaches. However, this opportunity has not been tapped.

Armenia, Tajikistan and Kyrgyzstan – struggle for resources

As discussed, these three countries have in common their position as small open economies, land-locked locations, and relatively small natural resources (notably limited oil and gas reserves, unlike their neighbors). Armenia and Tajikistan experienced armed conflicts in the early-to-mid 1990s, which had a negative impact on their economic and social development. In Kyrgyzstan the “orange revolution” of 2003 and the subsequent political turmoil also impacted negatively on economic growth.

Public and centralized PESs exist in all three countries, but they are permanently short of resources and, as a result, they provide little protection to the unemployed, as documented by the small coverage of registered unemployed by unemployment benefits (notably in Kyrgyzstan and Tajikistan less than 5 %). Armenia is also noted for the very high registered U/V ratio (about 95 registered unemployed per vacancy). Kyrgyzstan is characterized by frequent reforms of its labour market institutions.

Another interesting tendency observed in Tajikistan and Kyrgyzstan (as well as Uzbekistan) is the gradual convergence of the employment agenda with migration affairs, which has manifested itself in the recent mergers between the state migration services and the public employment services. The newly created agencies either remained under the auspices of the Ministry of Labour and Social Protection of the Population (in Tajikistan), or were moved away as independent institution on a par with the Ministry of Labour and Social Protection (Kyrgyzstan). This convergence is of course understandable in countries where a huge part of the labour force migrates for work abroad, notably to the Russian Federation and to an extent to Kazakhstan.

Armenia

The country's most severe economic downturn took place during 1991-1993, and economic growth resumed as of 1995. The Armenian Employment Service Agency (ESA) was constituted in 1992. Currently it operates under the Ministry of Labour and Social Affairs. Its main responsibilities include job mediation, counseling, training, and other active programmes. It administers the state's unemployment benefit (UB) programme and other social safety net programmes. Labour market policies are funded through the Social Insurance Fund (SIF), which collects contributions based on employers' total wage bill.²¹ The funding level is inadequate, enabling the ESA to place only about 5% of the unemployed in jobs (though this is better than the rates achieved in Tajikistan and Kyrgyzstan).²² At the same time, the SIF is perceived as a drag on job creation due to the contributions. The registered U/V ratio is extremely high, and many unemployed are excluded from coverage. One of the main restrictions on coverage is that anyone owning agricultural land is considered employed, even if s/he does not earn any income from its cultivation.

Tajikistan

Tajikistan experienced a civil war and depression between 1991 and 1996, causing the GDP to fall sharply year after year. Like in its other Central Asian neighbors, Tajikistan has combined the labour agenda with that of migration and social protection. In 2007 the State Migration Service, the Centre for Employment of the Population, and the Department of Social Protection were merged into the newly created State Agency for Social Protection, Employment, and Migration. The State Agency remained under the auspices of the Ministry of Labour and Social Protection of the Population; however, responsibility for VET was transferred to the Ministry of Education. The State Agency retains its centralized features and public service character. It also runs labour market programmes, such as the unemployment benefit scheme, and training and support to business start-ups, including through micro-credit. However, the reach of these programmes is very limited (for example, as of 2007 only about 5 % of registered unemployed received unemployment benefits, the monthly amount of which was basically tied to the minimum level (about 56 somoni, i.e. about 15 USD)). Since 2007 the migration agenda was put under a separate agency.

Kyrgyzstan

In Kyrgyzstan labour market institutions have been reorganized frequently, notably since the political shake-up of the so-called Orange Revolution in 2003. The Ministry of Labour and Social Protection that originally covered the labour agenda, including public employment services, as well as the segment of basic vocational

²¹ Schlotfeldt and Wieland (2004).

²² According to CIS Statistical Committee, the placement rate as of 2007 was close to 30 % (Chart 2) and according to ESA's own statistics as reported by Schlotfeldt and Wieland (2004), the agency has placed about 5 % of the total unemployed workforce in jobs over the period 2001–2004.

education, remained in existence, but lost both the labour agenda and the employment services to the newly created State Committee for Migration and Employment. Vocational training was further separated and placed under the newly created autonomous State Vocational Training Agency. In the aftermath of the so-called Orange Revolution, the new authorities were inclined to accept the advice of international financial institutions to liquidate the Employment Fund and shift funding of employment programmes to the state budget. However, this step has not been implemented through proper legislative revisions. The State Committee continues to run a centralized Public Employment Service that provides both the passive and active labour market programmes. As in the case of other countries in this group, the coverage and level of protection of the unemployed is low. There has recently been suggestions of disbanding the unemployment benefit scheme and replacing it with a new scheme of public service jobs or community works.

Liquidation of labour market institutions – Georgia

Georgia deserves special attention as a country which, on the one hand, is noted internationally for being a top reformer and a world champion in terms of “the ease of doing business”²³, while on the other hand provides the starkest example of labour market retrenchment – liquidation of labour market institutions and programmes. In successive steps, the government abolished both the State Labour Inspection and the State Employment Fund, followed by a de-facto abolition of the Public Employment Service (by merging it with the Social Protection Service and dropping the functions pertaining to active labour market programmes). Unemployment benefits that were guaranteed by law, and in principle could be claimed as an earned right by the individuals, ceased to exist under these conditions. Thus, in 2006, the unemployment benefit scheme was also liquidated.

The Georgian PES and labour market programmes were scaled down in late 1990s. In 1998 the Georgian PES was still in existence as an integral part of the State Unity Employment Fund, with 780 employees. In 1999 a new Ministry of Health, Social Protection and Labour was created by merging three separate Ministries. In February 2001, the PES was re-established as a new entity by a Presidential Decree. In May 2001 the PES (still under the Employment Fund) was trimmed down to 441 employees in 12 regions and 75 offices across the country. The Employment Department within the new Ministry of Health, Social Protection and Labour was supposed to become responsible for PES as of the autumn of 2001. The number of staff was to be reduced to 240 and the PES functions were reduced basically to registration of job seekers.

Funding for labour market policies was also contracting over time, as back in 2000 the Ministry of Finance proposed to sequester the surplus of the Employment Fund preventing it from being carried over to the next year’s budget. This illustrates that the tripartite partners did not have effective control of the Employment Fund. Furthermore, the rate of contribution to the Fund at 1 % of the total wage bill as of

²³ Number one reformer in the World Bank 2007 Doing Business Survey (moving from 112-th to 37-th ranking).

2001 allowed for limited coverage of unemployed by the active programmes.²⁴ The Fund's total annual budget was 5 million lari (roughly 10 million USD), of which about 38 % was used for active measures.²⁵

A serious problem was the insufficient coverage of the unemployed by the unemployment benefits scheme. The eligibility criteria for the scheme were very tight, excluding a substantial part of the population (for example, those possessing a certain amount of arable land – a condition applied in most of the CIS countries). Under the financial crunch the benefits were practically transformed into flat-rate payments that were so low as to be meaningless compared to the minimum living standard.²⁶

The phasing out of the PES and the more traditional labour market programmes in Georgia took place against the background of increasing laissez-faire sentiments and deregulatory reforms by the authorities, who also adopted a new Labour Code in 2006. Given that Georgia liquidated public employment services, private employment agencies (PREA) might hopefully have provided a viable alternative for job-seekers. However, this does not seem to be the case. Although Georgia is the only one among the covered countries that has ratified the ILO Convention 181 on Private Employment Agencies (in 2005), and originally the Act on Employment of 2001 provided for some regulatory mechanism for PREAs, the Employment Act was abolished by the New Labour Code of 2006.

The new Code does not include a definition of a private employment agency, nor does it elaborate on the PREAs' functioning. Thus, crucial issues of licensing are not addressed by law, nor has any supervisory mechanism for PREAs been put in place. In practice, any private employment agencies would operate under the general entrepreneurship clause of the Code, and there are no statistical data regarding their activities. The general public can use several website-based online databases for job vacancies and CVs. However, the website owners do not take any responsibility for the information provided.²⁷ Thus the job-seekers are left on their own, or at best to some ad hoc initiatives.²⁸

²⁴ For example, out of 120 thousand registered unemployed only 3 thousand were retrained during 1999/2000.

²⁵ 17 % were spent on administration costs, 35 % on unemployment benefits, 20 % on special public works, 18 % enhancing workers' employability and job subsidies, and 10 % on labour market monitoring.

²⁶ For example, the monthly unemployment benefit was 11 lari (about 5.5 USD), as compared to the monthly old-age pension benefit of 14 lari (about 7 USD), and the minimum living standard of 167 lari (about 83.5 USD).

²⁷ ILO (2007).

²⁸ For example, a large scale programme was implemented by the authorities in 2006/7 by subsidizing employers to employ youth as a part of on-the-job training.

IV. Conclusions and recommendations

As shown in the preceding pages, the mix of institutions and policies that were adopted in the examined CIS countries early on in the transition process was largely inadequate. Notably, insurance-based employment funds did not prove adequate as a source of funding for labour market policies in the early 1990s, under the conditions of steeply rising unemployment and shrinking employment, accompanied by the slow pace of enterprise restructuring and the rapid growth of the informal economy. Essentially, the unemployment insurance systems in the CIS collapsed because of a shortage of collection revenues – in other words, inability of the authorities to collect social insurance contributions. This issue was treated as a technical problem by IFIs, which called for unifying all collections under one government agency as a way of achieving economies of scale in enforcement. However, this represents a serious social and economic problem that goes beyond the “capacity to collect” issue.

The European model of a modern integrated public employment service did not make it through the transitional recession that was in many aspects much more severe in the CIS than in the Central Europe. As a result, in some CIS countries public employment services were fully dismantled (Georgia) or decentralized to the regional administrations (Kazakhstan, Russia). In the rest of the countries examined here, the public employment services and labour market policy programmes still exist, but after numerous reorganizations, curtailments of authority, and shrinkage of revenues, they look more like Potemkin villages rather than functioning institutions. Even in the countries that are better positioned for budgetary funding of such policies (Azerbaijan and to an extent Uzbekistan), the authorities do not allocate such funds to the extent necessary to provide meaningful assistance to unemployed workers.

The observed trends with labour market institutions and policies reflected the general political development in the countries. Notably the move towards more concentration of power and centralized decision-making led to quick enactment of various labour market changes with limited public discussion.²⁹ Decentralization of labour market policies is one manifestation of broader decentralization processes in the societies. Furthermore, the term “decentralization” has to be interpreted in the CIS context, where the new recipients of the labour market policy functions – the regional administrations – are not elected local organs accountable to their own constituencies. Rather, they are appointed by the Presidential Administrations and subordinated to them. So in an important sense the processes that were labeled decentralization in Kazakhstan and Russia actually involved handing the labour market policies from one centralized institution (Public Employment Service) to another centralized network that was beholden to and operating under the auspices of the Presidential.³⁰

²⁹ Once again, this feature constitutes a major difference between the CIS and Central European transition countries. See, for example, ILO (2002) for the discussion of pension reforms in CE/SEE in the context of broad consensus-building by coalition governments.

³⁰ Most of the CIS have strong Presidential Administration that supersedes the Government in all aspects. It is not unusual that in the Presidential Administration there are departments that mirror the structure of Government agencies, the final say being reserved for the former.

What is the way forward?

As this paper was being completed in December 2009, ripples from the global financial crisis had reached the CIS countries, causing rising unemployment, non-payment of wages, and bankruptcy of enterprises. Thus, the recommendations provided here are shaped not only by the issues and problems revealed in the preceding analysis but also by the need to mitigate the crisis' labour market impacts. The recommendations that follow can be considered as a minimalist set of measures. Given the specific situations in Russia, Kazakhstan and Georgia, we will suggest more concrete measures for these countries. Other country-tailored solutions can be of course designed in all the covered countries in terms of both labour market programmes, as well as other complementary segments, in particular in the field of social assistance.

In the face of the unfolding global crisis the CIS countries will need simple and effective solutions in order to prevent displaced workers and their families from falling into unemployment-related poverty. Thus in the short term it is advisable to use and expand the existing labour market programmes rather than introducing new ones to provide quick alleviation to the emerging unemployment and the related poverty risks.³¹ The interventions will of course require increased fiscal commitment on the part of governments.

In the mid-term horizon the recommended measures should be aimed at mitigating persistent structural imbalances, notably the skills mismatch, and introducing a sounder framework for the operation of private employment agencies. These measures too require political commitment and a higher allocation of public resources than has been provided in past years.

Short-term recommendations

- i. *Expansion of UB coverage and benefits* – Improving the targeting of the existing social assistance schemes is a costly and administratively complicated task – not likely to yield the results in the short term. Thus simple benefit schemes would be more effective, possibly at flat rate amounts. As discussed in this paper, many unemployment benefit schemes have converged over time to almost flat benefit systems, and the distinction between the insurance-based schemes and the social assistance schemes is being blurred. Therefore the existing unemployment benefit schemes could be used to alleviate unemployment-related poverty. In order to do this, the coverage of the unemployment benefit schemes should be expanded by relaxing eligibility conditions (notably eliminating the ownership of land clause) and the level of benefits should be increased. In those countries where the benefit schemes are still funded by purely social insurance-based funds, injections from the budgetary resources would be required.
- ii. *Active labour market programmes* – Public works should be used on a more massive scale to provide alternatives for those laid-off in depressed areas or sectors (such as mono-industrial cities, rural areas, construction, etc.).

³¹ See ESCAP (2003) for the discussion of unemployment in the wake of the Asian Economic Crisis and some responses.

Mid-term recommendations

- i. In all the countries covered in this paper, the capacities of PESs to deliver training and retraining programmes should be increased and the programmes scaled up in order to mitigate skills imbalances at labour market. As the collection of social insurance contributions is not yet a viable financing option in the countries, this will require a higher level of political commitment and resources than witnessed in past years. Such a commitment is essential for achieving a fair distribution of resources in the countries and the resulting benefits of political stability and social peace.
- ii. Likewise, in all the covered countries, private employment agencies should be recognized as legitimate players that can assist workers in finding better jobs. Regulatory mechanisms should be introduced that would set the framework for their functioning and protect workers from potential abuses (for example, registration or licensing of the agencies and limiting fees-taking from job seekers, notably migrants).

Country-specific recommendations

- i. In Russia and Kazakhstan the social insurance principles for insurance against unemployment should be reestablished. Only through linking benefits with contributions can the stability of the system and adequacy of benefits be ensured over the long term. This change should be preceded by an extensive public information campaign on the benefits of social insurance for workers and the payment of contributions as a key element in corporate social responsibility for employers. The re-institution of social insurance contributions should be coupled with new and stronger arrangements for tripartite governance of institutions administering the benefits and increased resources for enforcement of the contribution requirement.
- ii. Russia should consider keeping both the funding and implementation of the passive labour market policies (unemployment insurance) at the central (federal) level, which would contribute to the social cohesion of the Russian Federation. It could eventually decentralize the funding for active labour market programmes to the regional budgets and strengthen the co-ordination and monitoring mechanism for their implementation.
- iii. Georgia should use part of its international aid package to gradually revive the public employment service and labour market programmes.

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