

Promoting decent employment in Eastern Europe, Central Asia and Turkey

Background paper for the UN Conference on Social Impact of the Economic Crisis in Eastern Europe, Turkey and Central Asia, Almaty, 7-8 December 2009

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Abstract

The period since 2000 has seen very rapid economic growth, an improving labour market and social situation and considerable progress in the reduction of poverty throughout Eastern Europe, Central Asia and Turkey. Nevertheless, structural imbalances have persisted which threaten the sustainability of development in these countries in the longer term. Structural challenges have also exacerbated the negative impacts of the global financial and economic crisis on national economies and populations in the region, although the degree of impact on each country varies according to the local context. Many governments have launched measures to address the recession and stabilize and improve the labour market situation. However, it is important to ensure that these measures are consistent with and prepare the ground for policies that address structural imbalances with the aim of placing the countries concerned on the path of long-term sustainable development. The present paper is intended to contribute to the attainment of this goal.

The paper starts with an analysis of macroeconomic developments in the 2000s and the impacts of the global crisis on the economies of the 13 countries in the region. It examines employment and unemployment trends and the challenges faced by labour markets before the outbreak of the global crisis. Special attention is given to the specific characteristics of labour markets in the region, with particular reference to widespread informal employment, labour migration, high un- and underemployment, the increasing flexibility of employment relations and low levels of employment security, due to the weakness of the labour market institutions, which are serving to deepen the negative impact of the crisis on national labour markets. The paper provides a brief review of the anti-crisis measures adopted by national governments in the field of employment. While making a positive assessment of the general direction taken by these measures, it also points to certain weaknesses. The paper offers policy recommendations, guided by the ILO Global Jobs Pact and aimed at strengthening the employment dimension of national anti-crisis and development policies. The recommendations focus on employment-centred recovery, time-bound employment retention measures, support to enterprises and assistance for product and export diversification, labour-intensive infrastructure works, labour market policies, skills development and social dialogue, taking into account the time dimension of the proposed measures.

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Introduction

Throughout Eastern Europe, Central Asia and Turkey,² the period since 2000 has seen very rapid economic growth, an improving labour market and social situation and considerable progress in terms of poverty reduction. Nevertheless, structural imbalances have persisted, threatening the sustainability of development in these countries in the longer term. The structural challenges have also exacerbated the negative impact of the global financial and economic crisis on national economies and populations in the region, although the degree of impact varies depending on the local context. Many governments have launched measures to address the recession and to stabilize and improve the labour market situation. However, it is important to ensure that these measures are consistent with and prepare the ground for policies that address structural imbalances with the objective of placing the countries concerned on a path of long-term sustainable development. It is the objective of the present paper to contribute to this goal by proposing for discussion policy recommendations to help promote decent employment in the region based on international good practices.

The paper is structured as follows: Chapter 1 analyses macroeconomic developments in the 2000s and the impact of the global crisis on the economies of the 13 countries in the region. Chapter 2 examines the employment and unemployment trends and challenges faced by the labour markets of the 13 countries before the outbreak of the global crisis. The third chapter shows how the global crisis has reversed certain positive achievements and deepened structural problems in national labour markets. Chapter 4 reviews the anti-crisis measures and development policies adopted so far by governments in the region in the field of employment. Chapter 5 discusses the initiatives launched by the ILO in the global and regional contexts in response to the crisis to stimulate labour market recovery. The last chapter offers policy recommendations intended to strengthen the employment dimension of national anti-crisis and development policies. It is followed by some concluding remarks and questions for discussion.

1. Macroeconomic developments

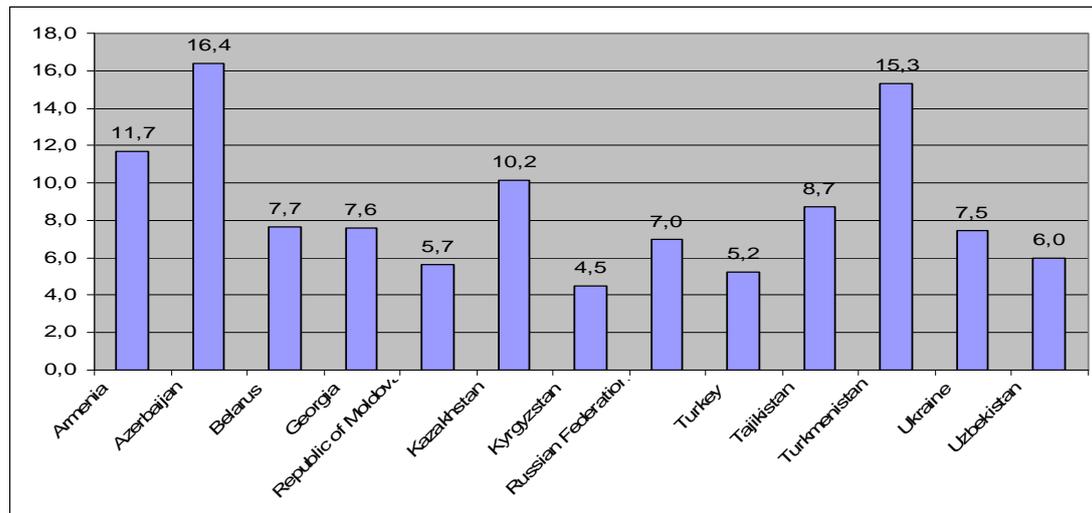
1.1. Macroeconomic trends from 2000 to 2007

High growth rates have been the hallmark of most countries of the region since the year 2000, making it one of the world's fastest growing regions in recent years (Figure 1). One of the principal reasons for this growth (with the exception of Turkey) is the context of recovery from the shock of transition, although even by 2008 GDP had still not recovered to the pre-transition figures of 1989 in the case of certain economies, such as Georgia, Republic of Moldova and Ukraine. The strong economic growth in the Russian Federation played a key role in the rising fortunes of many Eastern European and Central Asian countries through linkages in trade and investment, and the remittances sent by migrant workers. The economies of Azerbaijan and Turkmenistan performed well due to hydrocarbon production and a

² In the context of the present paper, Eastern Europe includes Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova, Russian Federation and Ukraine, while Central Asia covers Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. The term "the region" as used in this paper is intended to cover all of these countries plus Turkey.

beneficial external environment featuring high oil prices, as a result of which they consistently achieved double-digit growth rates throughout the decade. The same applies to Kazakhstan, and to a lesser extent Uzbekistan, where the hydrocarbon sector contributed greatly to economic growth. The Turkish economy, although it contracted during a recession in 2001, recovered well in the following years, attaining an average annual GDP growth rate of nearly 7 per cent between 2002 and 2007.³

Figure 1. Average annual GDP growth rates (2000-2007)



Source: European Bank for Reconstruction and Development (EBRD), www.ebrd.org

The contribution that remittances make to GDP by increasing domestic demand and consumption has taken on a high level of importance in several countries in the region. Migrant labourers attracted by the growth in the Russian Federation and Kazakhstan are sending back a flow of remittances to sending countries, and particularly Armenia, Georgia, Kyrgyzstan, Republic of Moldova, Tajikistan and Uzbekistan. In 2004 alone, migrant remittances and transfers from the Russian Federation to other countries in the region amounted to nearly USD 4 billion. For example, the increased flow of remittances greatly boosted private consumption in Kyrgyzstan, where growth averaged 17 per cent between 2003 and 2007.⁴ According to the World Bank, three countries in the region received among the highest global shares of remittances as a percentage of their GDP in 2008: Tajikistan led with 46 per cent, the Republic of Moldova was in third place with 34 per cent and Kyrgyzstan in tenth place with 19 per cent.⁵ However, despite the importance of remittances, most of the amounts received are spent on daily consumption, the purchase of consumer durables and housing, as well as health care and education. Only a small part (for example 7 per cent in the Republic of Moldova) is used for investment in business activities. Nevertheless, their multiplier effect is important as, according to the World

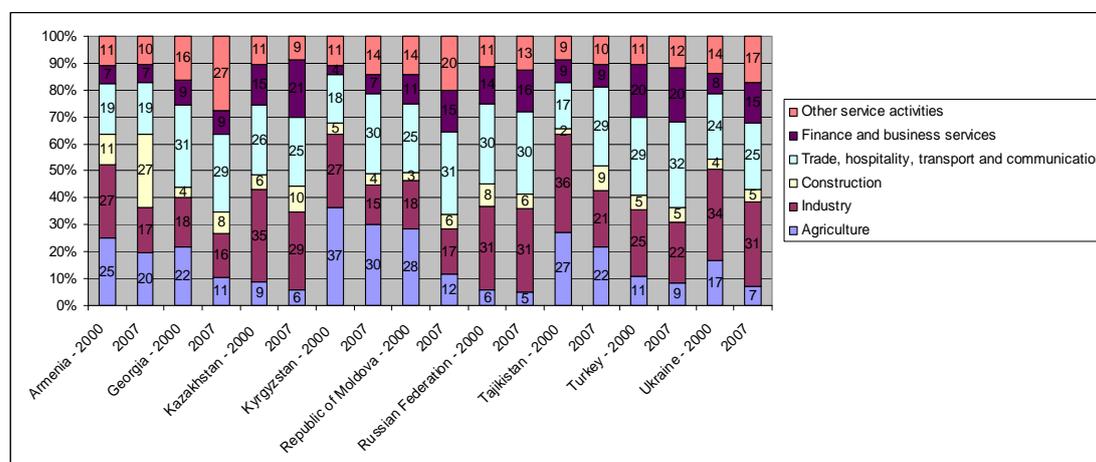
³ OECD, *Economic Survey of Turkey, 2008*, Paris, 2008.

⁴ Mukanbetova, A., "Responding to the economic crisis in Kyrgyzstan", in *Development and Transition*, 13/2009.

⁵ World Bank, *Migration and Development Brief No.10*, 13 July 2009.

Bank, one US dollar of remittances generates USD 4 in demand for goods and services, even though many of the goods are imported.⁶

Figure 2. Percentage share of value added to GDP (various sectors, 2000 and 2007)



Source: UNECE

Percentage share of gross value added for various sectors, GDP at current prices.

Sectoral growth trends show the sharp fall in the proportion of manufacturing in GDP in the economies of the region. The Eastern European countries have experienced a declining share of agriculture, combined with a rising share of services in GDP. In the Ukraine, the share of services in GDP increased by 11 percentage points between 2000 and 2007. Services accounted for over half of GDP in the Russian Federation and Ukraine in 2007, and close to 70 per cent in Georgia. In the Republic of Moldova, where economic growth was primarily fuelled by the growth of remittances, with their contribution to domestic consumption, the role of industry in the economy fell from 27.5 per cent of value added during the transition years (1995) to 17.2 per cent in 2007. Central Asian economies, such as Kyrgyzstan, remain focused on agriculture and commodity exports, or on hydrocarbon production, as in the case of Kazakhstan and Turkmenistan. Industry, which in 2000 accounted for 27 per cent of Kyrgyz GDP, had fallen to roughly 15 per cent by 2007. Manufacturing value added in 2007 was a mere 11 per cent. Figure 2 shows the changing contribution of several sectors to GDP and the decline in the share of industry in several countries in the region.

In the case of the countries in the region that import hydrocarbons, the negative effects of rising fuel prices were offset by the advantages of global integration through the increased demand for their exports and favourable terms of trade for commodities, particularly metals. Construction has been another key engine of growth in several regional economies, such as Armenia, where it contributed 27.1 per cent to GDP in 2007. This was the highest rate in the region, and is combined with the country's reliance on natural resources and the related industries, such as metallurgy and diamond processing. For many countries, increases in foreign direct investment (FDI), for example in Georgia, also played a role in their subsequent GDP growth by contributing to broadening the bases for growth. As the crisis demonstrated, reliance

⁶ Organization for Economic Co-operation and Development, *Black Sea and Central Asia: Promoting work and well-being*, OECD, Paris, 2008. The European Training Foundation (ETF), *Black Sea labour market reviews: Moldova Country Report*. ETF, 2009.

on only a few narrow patterns of growth leaves the countries concerned vulnerable to shocks in the terms of trade of commodities. The heavy reliance on non-tradable sectors, such as construction and services, particularly in countries without hydrocarbon resources, served to magnify the threat to their continued economic expansion.

With the exception of Belarus, the Russian Federation and Ukraine, manufacturing only plays a marginal role as a share of GDP in most countries in the region, although the sector is significant in the context of this paper due to its role as a provider of employment and its contribution to more sustainable economic growth. Stronger manufacturing and domestic production, instead of relying on imports to meet demand, would benefit economies that are dependent on remittances and driven by consumption. For example, in Kyrgyzstan the average annual growth of manufacturing between 2000 and 2005 was less than 1 per cent, in contrast with a growth rate of 7.3 per cent in services; by 2007, imports of goods and services accounted for 90 per cent of GDP, rising from 37 per cent in 2001. In another Central Asian republic, Uzbekistan, manufacturing grew annually at a rate of slightly under 2 per cent during this period, while the growth of services averaged 5.1 per cent a year and that of agriculture was 6.9 per cent, primarily as a result of cotton production.

The record of strong economic performance cannot therefore disguise the structural flaws of the growth models in the countries concerned, which have been magnified and brought into focus by the crisis. A more critical analysis of some of the drivers of growth in these economies – hydrocarbon exports, the extraction of natural resources, construction, the expansion of the services sector and remittance-based domestic consumption – displays weaknesses that have been laid bare by the crisis. Reliance on hydrocarbons as the principal driver of growth means that an economy is susceptible to the classic perils of ‘Dutch disease,’⁷ as are economies that are heavily dependent on a single export commodity. For example, in 2005, mineral products accounted for 84.6 per cent of exports in Azerbaijan. In Kazakhstan, the figure stood at over 73 per cent. Failure to diversify and broaden the base of economic growth is an important part of the slump in economic performance that followed the global downturn in trade and commodity prices. For remittance-dependent nations, the consumption booms that followed the rise in remittance flows were primarily based on imported goods, with the result that their trade deficits widened and their current account balances worsened. The Republic of Moldova, one of the regional leaders in remittance receipts, is a prime example, with a trade deficit in 2008 that was over 50 per cent of GDP, while the volume of exports remained below half of that of imports in the same year. Falling remittances represent a major challenge to remittance-dependent economies.

General government fiscal balances have shown an improvement in recent years in several countries due to higher growth rates. The budget surplus in the Russian Federation increased from 0.6 per cent of GDP in 2002 to 8.4 per cent in 2006. The budget deficit in Turkey has continued on a downward trajectory for most of the decade, shrinking from 12.4 per cent of GDP in 2001 to slightly less than 1 per cent

⁷ Dutch disease refers to the negative consequences of foreign currency inflows, usually in the form of revenues from the export of natural resources, on non-resource sectors, and particularly manufacturing, through an increase in the exchange rate of the domestic currency, which makes these sectors less competitive and contributes to their decline.

by 2006. The fiscal situation in many Eastern European countries has followed a general trend of improvement throughout the decade. This is illustrated by Azerbaijan, which achieved a budget surplus in 2007 due to the rise in oil revenues. Central Asian economies have also seen improvements in their fiscal positions. The energy exporting nations Kazakhstan, Turkmenistan and Uzbekistan all recorded significant budget surpluses by 2007. Kyrgyzstan also drastically reduced its budget deficit from 10.4 per cent of GDP in 2000 to nearly balancing the budget by 2007, with a slight deficit of 0.7 per cent of GDP.

Inflation trends vary in the region. Inflation in the Russian Federation has fallen dramatically, from as high as 86.1 per cent in the year following the financial crisis of 1998, to only 9 per cent by 2007. A significant fall in inflation also occurred in Turkey, from an annual rate of 54.2 per cent in the crisis year of 2001 to 8.8 per cent in 2007. However, in general, inflation pressure has tended to increase in the Central Asian countries over the decade under the effect of a rise in domestic demand created by growing remittance inflows in some countries and rising hydrocarbon prices.

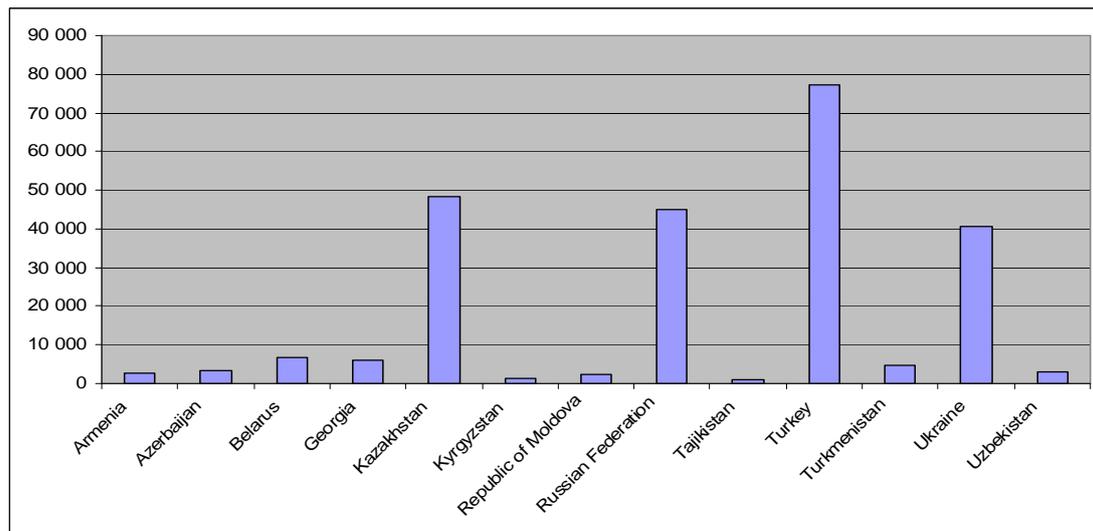
The region as a whole has seen a rise over most of the decade in private direct investment, which is accounting for an increasing share of GDP. Ukraine experienced a nearly twenty-fold increase in net inflows between 2000 and 2007, rising from USD 594 million to USD 9.6 billion over that period. Georgia has also been a major destination for FDI, which reached a figure of slightly over USD 1.5 billion in 2007, around triple the level only two years earlier, accounting for just over 15 per cent of GDP. The key areas for FDI inflows in Georgia have included pipeline construction, banking, manufacturing and tourism.⁸ FDI in Turkey recovered remarkably following the 2001 financial crisis. In the year following the crisis, FDI fell by two-thirds, from USD 2.85 billion in 2001 to USD 957 million in 2002. Fiscal and monetary reforms and a major depreciation of the domestic currency following the crisis helped make Turkey a highly attractive target for FDI, which increased on a yearly basis, reaching nearly USD 20 billion by 2007.

The Russian Federation has been one of the world's biggest recipients of FDI over the past decade, with an average of over USD 3 billion in net flows a year between 2002 and 2006. The main targets for FDI in the country, namely oil, gas and other natural resources, show certain similarities with those of the hydrocarbon exporting countries of Central Asia. However, there has also been an increase in FDI to the Russian Federation in other sectors, including services. In addition to the large increases in FDI inflows into the country, the extent of Russian FDI to other Eastern European and Central Asian countries has also been significant, reinforcing its role in the economic performance of the region. Russian Central Bank data for 2005 show that Russian FDI in the region had already reached around USD 6 billion by that year.⁹ Of the Central Asian economies, Kazakhstan is the principal recipient of capital inflows, on average receiving over six times the level of FDI for the other four Central Asian economies combined between 2000 and 2007. The main areas for investment opportunities in Central Asia and the Caucasus are the oil and gas industries.

⁸ ETF, *Black Sea labour market reviews: Georgia Country Report*, 2009.

⁹Slay, B., "Regional economic growth prospects through 2015," in *Development and Transition*, March 2006.

Figure 3. Cumulative FDI inflows, 1989-2008 (USD millions)



Source: EBRD

The major hydrocarbon exporting nations and the hydrocarbon importing countries have contrasting current account balances and trade performance indicators. The current account balances of energy exporting countries have tended to achieve surpluses as a result of rising global energy prices. The other countries in the region have relied primarily on non-hydrocarbon commodity exports, including non-precious metals, such as copper and aluminium, or agricultural goods, such as cotton in the case of Uzbekistan.

1.2 The effects of the crisis on the economies of Eastern Europe, Central Asia and Turkey

The global financial and economic crisis has its roots in the downturn of the financial markets in the United States towards the second half of 2007, although there was a substantial delay in the onset of the crisis in the region compared with its timing in the developed countries. The toxic assets that created turbulence in United States and European financial markets were not the direct causes of the downturn in most of the countries in the region due to the lack of exposure of their banking systems. In contrast with the United States and the European Union, the global financial crisis has only had a direct impact on those countries in the region where the banks, due to their undercapitalization and high level of involvement in the provision of housing loans, had to borrow large sums on the international financial markets. The countries concerned include Kazakhstan, Russian Federation, Turkey and Ukraine. In Kazakhstan, for example, there was a heavy reliance on international capital markets to sustain domestic lending, and the country began to feel the effects of the crisis as early as 2008, when risk aversion for emerging markets began to increase. The early onset of the crisis in the country was reflected in a sharp fall in GDP growth in 2008 compared with 2007, in part due to the increased sensitivity to financial sector turbulence. More generally, the crisis was felt primarily in the countries of the region through the sharp fall in energy prices, which reduced revenues in hydrocarbon exporting countries. In addition, the decline in remittance income, world trade demand and commodity prices, the halting of FDI and knock-on effects from the

downturn in the Russian Federation, all had a negative influence on GDP growth in the region. Table 1 provides an overview of GDP trends in the region since 2007.

Table 1. GDP growth between 2007 and 2009 (per cent)*

Country	2007	2008	January-June 2009	Projection for 2009**
Armenia	13.8	6.8	-16.3	-15.6
Azerbaijan	25.0	10.8	3.6	7.5
Belarus	8.2	10.0	1.4	-1.2
Georgia	12.3	2.1	- 5.8	-4.0
Kazakhstan	8.9	3.2	- 2.3	-2.0
Kyrgyzstan	8.5	7.6	0.2	1.5
Rep. of Moldova	3.0	7.2	-6.9***	-9.0
Russian Fed.	8.1	5.6	- 10.1	-7.5
Tajikistan	7.8	7.9	3.5***	2.0
Turkey	4.7	1.1	- 13.8***	-6.5
Turkmenistan	6.0 ⁺	3.0 ⁺	n.a.	4.0
Ukraine	7.9	2.1	- 20.3***	-14.0
Uzbekistan	9.5	9.0	7.9***	7.0

* Data for a given period are compared with the same period the previous year.

** Latest IMF projections, October 2009.

*** January – March 2009.

⁺ EIU estimates.

Source: National data presented in EIU Country Reports, IMF World Economic Outlook Database, October 2009.

As noted above, the Russian Federation's strongest decade of economic performance greatly benefitted its neighbours through several channels. In turn, the economic woes of the Russian Federation contributed to the sharp growth curtailment in many countries in the region. The slowdown in Russian GDP growth in 2008 was 2.5 percentage points. Forecasts for this year are currently for a significant contraction of -7.5 per cent. The fall in Russian output has lowered the remittances sent back by migrant workers in the country, which has been critical in Kyrgyzstan, Republic of Moldova and Tajikistan. Exporters throughout the region have suffered from the slump in Russian demand for commodity goods and overall trade, with varying effects on the region's energy importers and energy exporters. The Russian Federation, although not to the same extent as in earlier years, remains a key destination for regional exports. As domestic demand and economic activity has fallen in the nations exporting to the Russian Federation, public revenues have felt the pinch, threatening the positive trends in fiscal balances seen in recent years. The decline in world trade is affecting Russian exports of hydrocarbons and other commodities, in the same way as in other countries in the region. Exports from the Russian Federation have fallen considerably more than its imports, bringing its trade balance in January-April 2009 to USD 26.4 billion, compared with USD 64.7 billion the previous year.¹⁰ In the first quarter of 2009, industrial production fell by 14.3 per cent, with a decline in manufacturing of 22 per cent over the first four months of the year. Construction, another important sector of the economy, fell by 20.9 per cent in the first quarter of 2009.

¹⁰ World Bank Russian Economic Report, No. 19, June 2009.

An example of the impact of Russian economic performance on the rest of the region is provided by Armenia, where the IMF projects a GDP contraction of over 15 per cent, particularly as a result of reduced income from remittances from the Russian Federation, as well as declining investment, especially as the Russian Federation accounted for over 20 per cent of Armenia's exports in 2008.

Economies in which remittances contribute greatly to GDP growth have experienced a sharp decline in 2009. According to the Russian Central Bank, year-on-year remittance flows from the Russian Federation to Tajikistan have fallen by 29 per cent. In the Republic of Moldova, falling remittances contributed to the year-on-year 10 per cent decrease in private consumption in the first quarter of 2009, as well as a 3.5 per cent decline in government consumption. First quarter remittance receipts for 2009 show a fall of around 37 per cent.¹¹

The sudden drop in investment and capital flows has had a devastating effect, with investor confidence in emerging markets being greatly diminished as a result of the crisis. In Belarus, Republic of Moldova, Russian Federation and Ukraine, net FDI is expected to drop to below 1 per cent of GDP in 2009, following two years in which it averaged around 3.5 per cent of GDP.¹² The Turkish economy, which contracted by 13.8 per cent in the first quarter of 2009, saw investment fall by half in the first five months of 2009.¹³ FDI in the Russian Federation suffered a year-on-year decrease of 43 per cent in the first quarter of 2009, while FDI in Azerbaijan fell by 52 per cent between January and May 2009. Although there have been significant cuts in FDI and portfolio investment from abroad in both the hydrocarbon importing and exporting countries, the non-oil and gas exporting countries have been much more severely hit. Georgia, which has relied heavily on investment as a source of GDP growth, is expected to see FDI decline by half in 2009 compared with the previous year.

Increased sensitivity to capital flows has contributed to the intensification of exchange rate pressures in several countries. The measures adopted to defend currencies against depreciation have varied significantly depending on the level of foreign exchange reserves, but most countries have this year begun devaluations or managed floats of their currencies. Central banks have also faced the problem of a rise in the number of households switching from domestic to foreign exchange, particularly in Belarus, Kazakhstan, Russian Federation and Ukraine, in response to the fall in the exchange rates of national currencies. The depreciation of national currencies has also created significant problems for firms that have borrowed in foreign currency, increasing their debt burden. Inflation, which has been rising in recent years due to higher commodity prices, increased remittance inflows and rising domestic demand, is expected to cool as regional economic activity declines. Sharp falls are also expected in current account balances, with the current account balances of countries in the region, with the exception of Turkey, being projected to decline by 2 percentage points from the 2008 regional surplus of around 5 per cent of GDP.

¹¹ Migration Policy Institute, *Migration and the global recession*, September 2009
http://news.bbc.co.uk/2/shared/bsp/hi/pdfs/08_09_09_migration.pdf

¹² European Commission, *Impact of the global crisis on neighbouring countries of the EU*, EC Occasional Papers, No. 48.

¹³ "Fund Management," in *The Economist*, 16 July 2009
http://www.economist.com/displayStory.cfm?story_id=14041662

Commodity prices have tumbled precipitously, with dire effects on the economies of the region. The historic highs that precipitated the drop also attest to the unsustainable nature of the growth models in the countries concerned. Mineral, ore and metal prices fell by 37 per cent during the course of 2008, although Kyrgyzstan is being helped by the strong performance of gold, its principal commodity export. Cotton, an important commodity in Uzbekistan, and to a lesser extent in Tajikistan, fell by 24.3 per cent in 2008. Crude oil prices slumped by 54.3 per cent in 2008, as global demand fell, affecting growth in the region's principal hydrocarbon exporting nations. In Azerbaijan, GDP growth was 3.6 per cent in the first six months of 2009 which, although positive, is less than the figure of 14.6 per cent over the same period the previous year. However, recent upward trends in oil prices are benefitting the region's hydrocarbon exporters and easing the rate of economic slowdown in the countries concerned. World trade is expected to experience its greatest contraction since the Second World War, and the region is unlikely to be spared the effects. Moldovan exports in the first quarter of 2009 declined by nearly 15 per cent in comparison with the previous year, with a GDP contraction of 6.9 per cent.

In overall terms, the crisis has had an adverse effect on the capacity of enterprises to contribute to economic growth, generate wealth and, as indicated in the next chapters, create employment. The lack of diversification of the economies, as illustrated by the disproportionate role of hydrocarbons and remittances, compounded by a weakened manufacturing sector, the drying up of international credit and increased risk aversion, has made the current economic and financial climate especially hard for the countries in the region. A comparison of regional economic figures with those for the years prior to the crisis offers a dire picture. IMF growth projections for most countries in the region in 2009 point to significant contractions, particularly in Armenia, Republic of Moldova, Russian Federation, Turkey and Ukraine. Although rising energy prices are giving rise to moderate growth expectations among hydrocarbon exporters in the region, the GDP contraction projected by the IMF for the region is expected to be greater than -6 per cent.

2. Labour market trends and challenges prior to the outbreak of the economic crisis

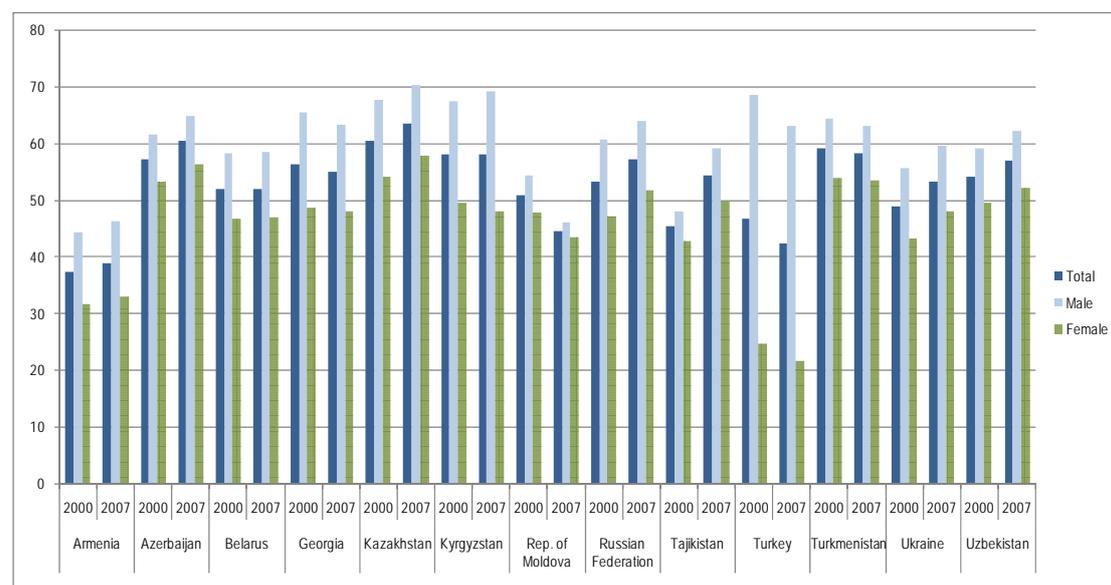
2.1 Modest increases in employment

The high rates of economic growth achieved in the 2000s throughout the region were expected to result in massive job creation and important employment gains following the decade of huge employment losses associated with the transition crisis. The employment rate, which measures the proportion of employment in the total population aged 15 and over, reflects a country's ability to generate jobs.

Notwithstanding significant national methodological differences (relating to formality/informality and migration) which affect the comparability of data, the employment rates calculated for the 13 countries (see Figure 4) show a significant

diversity among countries both in terms of levels and trends.¹⁴ The rates for Armenia, the Republic of Moldova and Turkey are very low, and have fallen considerably during the 2000s in the latter two countries. The same declining trend has also been evident in Georgia and Turkmenistan, while employment rates have stagnated in Belarus and Kyrgyzstan. In the other countries of the region there have been some positive developments, but only Tajikistan, and to a lesser extent the Russian Federation and Ukraine, have experienced a significant improvement. In general, employment performance has therefore been fairly poor. The rates for men exceed those of women everywhere, with the gap in 2007 ranging from 2.6 percentage points in the Republic of Moldova to as high as 41.5 points in Turkey. However, the gender gap has fallen slightly over the 2000s in eight of the 13 countries.

Figure 4. Employment rates (per cent, 2000 and 2007)



Source: ILO KILM database.

What are the factors that explain this relative failure of employment levels to respond to economic growth? While labour productivity growth rates since 2000 have on average been very high in the region, albeit from low initial levels, there have been important country differences (see Table 2), ranging from 1.9 per cent in Kyrgyzstan and 3.2 per cent in Uzbekistan to 15.6 per cent in Armenia and 16.6 per cent in Azerbaijan.

Table 2. Labour productivity, average annual growth rates (per cent, 2000 and 2007)

Country	LP	Country	LP
Armenia	15.6	Republic of Moldova	9.2
Azerbaijan	16.6	Russian Federation	5.4
Belarus	7.9	Tajikistan**	5.5
Georgia	9.5	Turkey	4.4

¹⁴ These data are generated by labour force surveys (LFS) or are calculated by national statistical offices using establishment surveys and other sources/estimates. In addition to formal employment, they also cover informal employment (e.g. employment in small farms), although it is not clear how much of informal employment is included.

Kazakhstan	7.0	Ukraine	7.3
Kyrgyzstan*	1.9	Uzbekistan	3.2

* 2002 – 2007, ** 2000 - 2006

Labour productivity is measured as GDP (calculated in purchasing power parity and USD 2005) per worker.

Source: UNECE

One explanation may lie in the significant structural changes in GDP and employment, which have differed between countries. As indicated in the previous chapter, certain sectors have shrunk while others have expanded, with their differing potential for labour productivity determined by their technological level, flows of FDI and domestic investment, skills intensity and the demand for their products, as well as the level of utilization of their workforce.

A second explanation may be that the transition crisis, combined with the weak observance of law, has led to varying adaptation strategies among those who lose their jobs. Many have turned to informal employment. While some have engaged in informal activities to avoid paying taxes and/or as a second job to increase their income, the vast majority were forced to turn to informal employment as a survival strategy in the absence of formal jobs. As already noted, only part of informal employment is included in the above figures.

Third, labour migration increased rapidly following the break up of the USSR. As labour migration may be of a longer-term, temporary or seasonal nature and much of it is undocumented, it is only partially reflected in the employment figures of sending and receiving countries. However, it contributes directly to GDP generation in the host country and indirectly, through remittances, to the GDP of the sending country.

Fourth, the adjustment of enterprises to economic fluctuations is often achieved through a reduction of working time (placing workers on shorter working hours and administrative leave with partial or no remuneration) and of wages (direct cuts in wage levels or the non- or delayed payment of wages), without reverting to laying off workers.

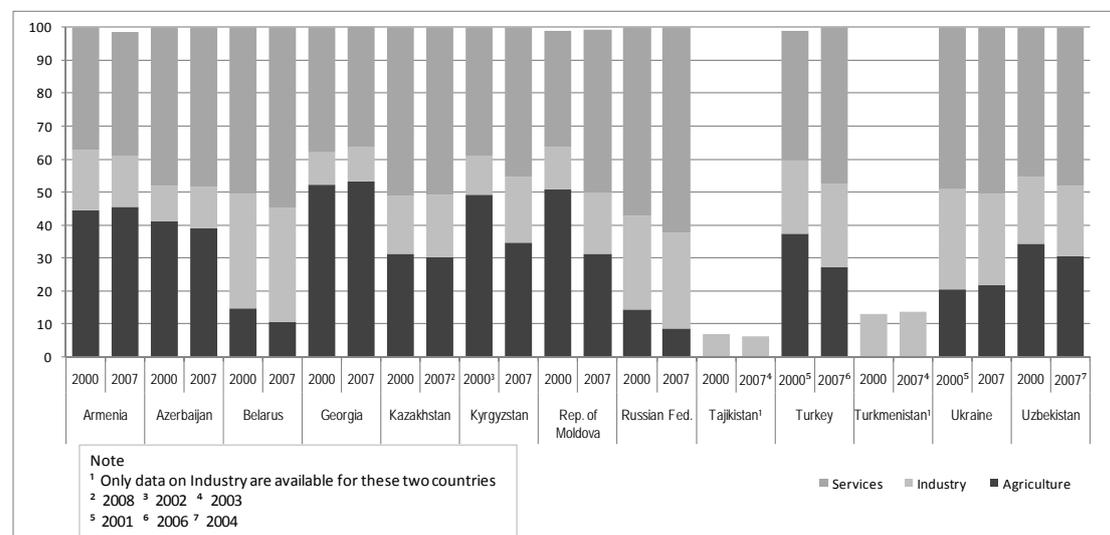
All these issues are developed further below. At the same time, the significant fall in poverty achieved in these countries (which is documented and discussed in depth in the paper on social protection) is certainly a result of improvements in the quality of employment.

2.2 Changes in employment by sector

The employment structure by sector of the countries of the region is indicated in Figure 5. The collapse of manufacturing following the break up of the USSR and later land reforms in many countries prompted large numbers of people to turn to (mostly subsistence) farming. In statistical terms, this was reflected in a significant increase in employment in agriculture. While in Belarus and the Russian Federation agriculture accounts for some 10 per cent of total employment, in other countries it ranges between 22 per cent (Ukraine) and 53 per cent (Georgia). The situation is similar in Turkey, where 27 per cent of the employed population are in the rural sector. Agriculture in its current form hides massive underemployment and is a source of migrant workers. The much needed investment in improving agricultural production

technology will therefore lead to significant productivity gains and reduced employment, as illustrated by the situation of the wealthier countries in the region.

Figure 5. Total employment by sector (per cent, 2000 and 2007)



Source: UNECE database.

As noted in the previous chapter, economic recovery and development have been driven in large part by hydrocarbon production, mining and the metal industry, which are not particularly labour-intensive sectors. Outside these sectors, local manufacturing in many countries is concentrated on food and textile production using low-skilled labour. Turkey is traditionally strong in this area. The main problem for domestic producers in the countries of Eastern Europe and Central Asia, although less so in Turkey, is their low level of competitiveness in international markets. Strong competition from cheap textile production in China is pushing some local producers out of the market. Construction has experienced a boom in all of the countries concerned in the 2000s, as reflected by the rising share of the construction sector in total employment. As a result, the contribution of industry (including construction) to total employment has increased significantly in Kyrgyzstan, the Republic of Moldova (although from low levels) and Turkey, but only moderately in Azerbaijan, Georgia, Kazakhstan, Russian Federation and Uzbekistan, while it has contracted in Armenia and Ukraine.

The share of services in employment has increased over the 2000s in all the countries of the region for which data are available, except in Georgia and Kazakhstan. Trade, hotels and restaurants, transport and communications, and finance, real estate and business services have attracted additional workers and increased their contribution to total employment in all the countries. Employment in public administration has also expanded in many of the countries, in contrast with education, health and social care, where there have been employment contractions.

2.3 Widespread and increasing informal employment

Informal employment is not a new phenomenon in the region. Already at the time of the USSR, alongside the formal centrally planned economy, there was a parallel, private, unregistered and informal economy, covering a wide range of activities.

During the transition crisis, when job destruction by far exceeded job creation, informal employment became a coping strategy for many who were unable to find a formal job or who had to supplement their income from poorly paid formal employment, frequently exacerbated by the non-payment of wages. The loopholes that emerged during the adjustment of the legislation to the new needs of the market economy, combined with ineffective law enforcement and tax collection, as well as corruption, further stimulated the informal economy and informal employment. The strictness of labour market regulation and high taxes are sometimes blamed for the high levels of informal employment in the region. However, as discussed later, informal employment is still tending to rise in several countries in the region that have liberalized their employment protection legislation.

The definitions and methods of measuring the informal economy and informal employment differ between countries, but estimates uniformly point to a significant rise in informality in the 1990s. According to the Russian Statistical Committee, workers engaged in the informal sector accounted for 16 per cent of total employment in 2003, rising to 17 per cent in 2006. Informal work is the primary job for a growing number of persons (the proportion rose from 83.2 to 87.2 per cent between 2003 and 2006), while there has been a fall in the number of persons with an informal job as their second activity. According to the labour force survey (LFS) in the Ukraine, the share of informal sector workers in total employment was 14.8 per cent in 2000, rising steadily to 22.3 per cent in 2007.¹⁵ In the Republic of Moldova, LFS data indicate that the share of informal employment was equal to 33.2 per cent of total employment in 2007, of which 10.9 per cent were informal workers in formal sector enterprises, 12.3 per cent were workers producing agricultural goods for household consumption and 10.4 per cent were other informal workers.¹⁶

In the case of Armenia, the 2003 Poverty Reduction Strategy Paper (PRSP) estimated that employment in the informal sector was in the range of 30-38 per cent of total employment, although the National Statistical Service of Armenia estimated the figure at 59 per cent in 2004.¹⁷ In Uzbekistan, the Ministry of Labour and Social Protection estimated that the share of informal employment was 56 per cent of all employment in 2006 and suggested that this proportion was steadily increasing.¹⁸ While in the poorer countries of the region, such as Georgia and Kyrgyzstan, informal employment is the main economic activity for over 95 per cent of those with informal jobs, in the Russian Federation one-fifth of formal sector workers are engaged in informal employment as a second job.¹⁹

Detailed LFS data for the Ukraine and the Republic of Moldova provide an insight into the structure of informal employment.

In the Ukraine in 2007, over two-thirds (70.5 per cent) of informal employment was concentrated in agriculture, 9 per cent in trade, repairs, hotels and restaurants, 11 per cent in construction and 1.2 per cent in transport and communication, with the other economic sectors accounting for the remaining 8.3 per cent. Informal employment

¹⁵ Labour Force Surveys of the State Statistical Committee of Ukraine, population aged 15 – 70.

¹⁶ ETF, 2009, Moldova Country Report, op. cit.

¹⁷ OECD, *Black Sea and Central Asia: Promoting work and well-being*, Paris, 2008.

¹⁸ Ibid.

¹⁹ Ibid.

was therefore widespread in rural areas, accounting for 94 per cent of total employment in agriculture, while the proportion was a mere 8 per cent in urban areas. The share was higher for men (51.4 per cent, compared to 48.6 per cent for women). However, the proportion of informal male and female workers in the total employment of men or women was the same at 22.3 per cent in 2007. Informal employment was most widespread among young persons aged 15-24 and older workers over the age of 60, suggesting that it is much harder for them to gain access to formal jobs in the labour market. In terms of their employment status, 71.2 per cent of persons engaged in informal employment were self-employed, employers or helping family members, while wage workers constituted 28.8 per cent.

Moldovan data on informal employment in 2007 offer a similar picture: 73.6 per cent of informal workers were in agriculture, mainly in subsistence farming. In urban areas, informal employment amounted to 18.4 per cent of total employment, with one-third of those concerned being informal workers employed in formal sector enterprises.

Informal employment is an important and for the time being indispensable part of total employment in the countries in the region, as it makes it possible for large segments of the population who have no or only a low income from formal employment to make their living or improve their standard of living. Informal employment also offers a rapid response to demand for labour and makes the labour market very flexible. However, the reverse side of the coin is the insecurity of informal employment in terms of its continuity, the level of income and the absence of social security coverage. This implies for the workers involved and their families a high risk of the abrupt loss of income and of falling into poverty, particularly where informal employment is the main source of income. Moreover, working conditions are often poor, with higher levels of exposure to occupational accidents and diseases, without any compensation for the cost of medical treatment, loss of income, loss of capacity to work or even loss of life. Informal workers have no access to training or the upgrading of their skills and often remain trapped in unskilled jobs, and their prospects of obtaining formal employment with greater protection are negligible. For the State, informal employment results in lower revenues from taxes and social contributions, thereby making it more difficult to launch and expand appropriate social programmes to assist poor and vulnerable groups of the population to improve their employability and escape poverty.

2.4 Labour migration: Benefits and costs

The transition crisis and the abolition of the *propiska* (residence permit) system in the countries of the former USSR prompted many people to seek better employment opportunities in other regions of their countries (internal migration, most frequently from rural to urban areas) or abroad (external migration). There were also other reasons for migration, such as the return to their countries of origin of ethnic groups which found themselves in a minority in the newly independent states (mostly ethnic Russians to the Russian Federation, but less so in other cases), or those who sought refuge during military conflicts in the Caucasus or the civil war in Tajikistan. However, these moves occurred mainly in the first half of the 1990s, after which they became less significant. Since the end of the 1990s, the largest migration flows have

been in search of temporary employment and the destinations have been more diversified.

The largest migration movements from Eastern Europe and Central Asia now occur within the region and have been driven by the economic boom and emerging labour shortages in the Russian Federation and Kazakhstan, as well as more recently in the Ukraine. Migrant workers, particularly from the Eastern European countries, also tend to head to the European Union, including the new EU Member States, and to North America, while those from the Caucasus also go to Turkey. There are also significant flows of temporary migrant workers between other neighbouring countries in the region. Many wealthier countries, such as Kazakhstan, Russian Federation, Turkey and Ukraine, are therefore becoming countries of both emigration and immigration simultaneously, with the local population that is leaving the country being replaced by immigrants from poorer countries in the region, and also recently from South and East Asia (mainly from China and Viet Nam). The World Bank indicates that Central and Eastern Europe and Central Asia have become the world's largest region of emigration since the early 2000s, with 25.9 per cent of all migrants originating from the region.²⁰

Data on migration are very unreliable as they only cover legal migrants, while many persons enter destination countries as tourists and start working illegally. Even official data may vary in sending and receiving countries due to the different methodologies used. Moreover, many migrant workers are engaged in seasonal work, or take up temporary jobs which, in view of the lack of a visa requirement for travel within the CIS countries, makes any record of the extent of labour migration even more dubious. Estimates of the magnitude of labour migration vary significantly. In the Russian Federation, Prime Minister Putin, in an interview on 4 December 2008, spoke of 3.9 million legal labour migrants.²¹ The Director of the Russian Federal Migration Service estimated that the total number of labour migrants in the Russian Federation was 14.5 million persons in 2008,²² while other sources place the figure at 12 million, or some 8.5 per cent of the total population and 17 per cent of total employment. Of these, some 6 million are thought to originate from Central Asia. Conversely, some 2 million Russian citizens are estimated to work abroad.

Kazakhstan has become the second country in the region to record a positive net migration balance. The quota for legal immigrants in 2008 was set at 130,000 persons, and the number of irregular immigrants was estimated at around 1 million. Different sources estimate the number of Ukrainian migrants abroad at between 2 and 7 million, mainly in Poland, the Russian Federation and the United States.²³ In the Republic of Moldova, LFS data show an increase in the number of labour emigrants from 99,300 in 1999 to 395,500 in 2005. An IOM survey reported the figure of 345,000 migrants from the Republic of Moldova in 2006, but added that 555,000 more were planning to leave to seek work abroad. The IOM also estimated that nearly 10 per cent of the population in Kyrgyzstan were labour emigrants, while one study in Tajikistan

²⁰ World Bank, *Migration and remittances factbook 2008*, Washington D.C., 2008.

²¹ Ryazantsev, S., *How the financial crisis has affected the migration of foreign workers in Russia*, unpublished paper prepared for the ILO.

²² <http://migrant.ferghana.ru/newslaw/chronicle/gosduma-ratifikatsirovala-rossiysko-uzbekskoe-soglashenie-o-zaschite-prav-trudovyih-migrantov.html>

²³ ETF, *Black Sea labour market reviews: Ukraine Country Report*, 2009.

reported that 26.4 per cent of all households had one or several labour migrants abroad.²⁴

In terms of the profile of labour migrants, the OECD study suggests that migration from the Eastern European countries is dominated by the young and well-educated of both sexes. The best educated persons tend to go to the European Union, while the less educated head to other countries of the region: migration is therefore largely associated with the brain drain. Sadly, many skilled migrants find work below their level of qualification, particularly in the European Union, although to a lesser extent in the countries in the region, and their human capacity is therefore largely wasted. This contrasts with the migration pattern from Central Asia, where the majority of labour migrants are low-skilled workers performing unskilled jobs in the Russian Federation and other wealthier countries in the region.

Migration offers significant benefits, as well as important longer-term drawbacks for both sending and receiving countries. It facilitates the flexible adjustment of the labour market in the receiving country, particularly in economic boom periods, when it helps fill gaps in labour supply. During economic recessions, migrant workers often lose their jobs, although many may decide not to return to their home countries, which may increase their exposure to labour exploitation. A number of studies document the important contribution of migrant workers to the economic development of receiving countries, although competition, particularly for well-paid jobs, may affect local workers and raise tensions between the two communities. Moreover, it may be very difficult for migrant workers to achieve integration into the mainstream society.

For sending countries, the benefits of migration include the attenuation of tensions on domestic labour markets in the case of widespread un- and underemployment and an inflow of *remittances*, which contribute to economic development and raise the living standards of those families that receive the remittances. However, remittances may also have adverse economic implications. They can discourage recipients from entering the labour market (their reservation wage may be higher than the level offered in the available jobs), resulting in a decline in the participation rate.²⁵ The brain drain represents a major problem, as it deprives the country of the most capable, adaptable and, usually, young workers. It accordingly reduces the country's potential for economic development and may gradually create serious shortages of skilled workers, while also having a negative impact on FDI inflows and domestic investment. Furthermore, fluctuating demand for migrant workers in host countries, driven by economic cycles, and often compounded by official migration policy, can destabilize the labour markets of the sending countries. Migration tends to attract workers from sending countries during periods of economic expansion, thereby creating labour shortages, but encourages them to return during recessionary periods, thus deepening the negative impact on the labour market of the sending country.

2.5 Unemployment and underemployment

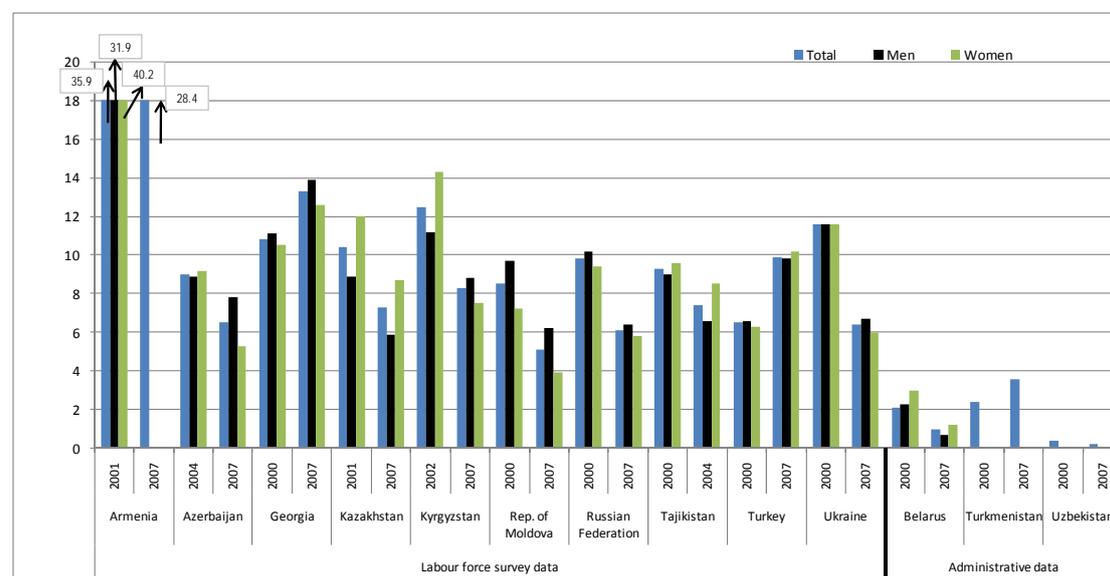
Most countries compile two sets of data on unemployment: data collected through LFS using the ILO definition of unemployment, and administrative data on registered

²⁴ Rodriguez Rios, R. (ed.), *Migration perspectives: Eastern Europe and Central Asia*, IOM, Vienna, 2006.

²⁵ ETF, Moldova, op.cit.

unemployment collected by public employment services (PES). However, several countries in the region still do not conduct regular LFS and in their case only data on registered unemployment are available.

Figure 6. Unemployment rates (per cent of labour force, 2000 and 2007)



Sources: ILO, KILM database; UNECE, National Statistical Service of the Republic of Armenia.

Figure 6 shows a considerable decline in unemployment in most of the countries of the region between 2000 and 2007, reflecting their high economic growth rates, as well as the effects of widespread labour emigration. The exceptions are Georgia, Turkey and Turkmenistan, where unemployment rose. Georgia, and particularly Armenia, were the only countries with double digit unemployment rates in 2007.²⁶ It is important to note the broad differences between LFS unemployment rates and those for registered unemployment (for example, for the Russian Federation, 6.1 compared with 1.5 per cent, or for the Ukraine 6.4 compared with 1.9 per cent in 2007). This is a result of the low propensity of jobseekers to turn to PES for assistance (see below).

The increased demand for labour also contributed to a reduction in the share of *long-term unemployment* (defined as being without a job for over a year) in total unemployment (except in Turkey, where it increased sharply until 2004, and then declined). While long-term unemployment in the Ukraine fell by one-half between 2002 and 2006 to 24.5 per cent of total unemployment, in Kyrgyzstan, Republic of Moldova and Russian Federation it still exceeds 40 per cent, and in Armenia and Georgia as many as two-thirds of unemployed persons have been without a job for over a year.

With regard to the *gender aspects of unemployment*, women tend to have higher rates of registered unemployment, among other reasons because they appear to prefer public assistance when searching for a job, while men tend to rely more on other job search methods. In Armenia, for example, the rates of registered unemployment for

²⁶ The great difference between the situation of Armenia compared with other countries in the region may partially be attributed to methodological differences, as in some other countries, such as Georgia, landowners cannot be counted as unemployed, even if they are jobless and are not engaged in farming.

men and women were 4.1 and 11.3 per cent, respectively, in 2006. This contrasts with the rates indicated by LFS data, which show that in six of the nine countries for which such data are available (see Figure 6) the unemployment rates of men were higher than those of women. The gender differences in unemployment rates may to some extent be due to persistent occupational segregation by sex, as explained by the impact of the transition and the subsequent economic boom on demand for men and women workers in the different sectors. Moreover, men who are without job usually search actively for a new gainful activity, and are therefore counted as being unemployed, while women more frequently give up and remain in the household caring for other family members, and therefore become inactive.

Young people between the ages of 15 and 24, and particularly new school leavers without work experience, face much higher unemployment rates than the population as a whole in all countries, and this region is no exception. The ratio between the youth and aggregate unemployment rates (both from LFS) ranged from 1.3 in Kazakhstan to 2.8 in the Republic of Moldova in 2007, and is generally around 2, pointing to severe problems of labour market entry for the young. Moreover, with the exception of Kazakhstan, the relation between the youth and total unemployment rates has deteriorated, indicating a worsening of the labour market position of young people during the 2000s, despite high economic growth everywhere. Surveys of employers point to mismatches between the skills acquired by the young and those sought by employers, as well as a lack of trust by employers in the quality of the education and training provided. Moreover, employers in the region are often unwilling to invest in training young people, either because they do not have the capacity to do so, or because they fear that they are providing training that will only benefit their competitors. The potential for absence due to childbirth also affects the recruitment of young women and women's youth unemployment rates are generally higher than those of men.

Unemployment is generally higher in urban than in rural areas, where the jobless turn to subsistence farming. This implies a high level of *underemployment* in rural areas.²⁷ However, underemployment is not limited to rural areas, as practices such as the reduction of working hours and administrative leave, usually without pay or with the non-payment of wages, have been used widely in industry and services in the event of financial difficulties. In the Republic of Moldova, around 8 per cent of the total employed population were underemployed during the period 2005–2007, and the hours lost through underemployment represented 2.9 per cent of total working hours in the economy as a whole in 2007. Some 74 per cent of underemployment was in rural areas.²⁸ In the Russian Federation, underemployment was estimated at 11 per cent of total employment in 2000, and 8.7 per cent in 2004, pointing to a declining trend in the 2000s.²⁹ In the Ukraine, the share of workers (in the formal sector) placed on shorter hours by their employers was 13.3 per cent, and those on administrative

²⁷ People are considered to be underemployed in cases where they are employed, but their actual working hours are lower than a certain threshold, and they would like to find and are available to work additional hours.

²⁸ ETF, Moldova, op. cit.

²⁹ V. Gimpelson, and Kapelyushnikov, R., *Non-standard employment and the Russian labour market* (in Russian), GU VSE, Moscow, 2005.

leave amounted to 16.1 per cent of total employment in 2000,³⁰ with these figures falling to 4.4 and 1.1 per cent, respectively, in 2007. Above average underemployment was recorded in transport, industry, construction and agriculture. LFS data in Kazakhstan includes figures for part-time employment, which accounted for 30 per cent of total employment in 2002 and 22.6 per cent in 2006, and most probably also included underemployment. The declining trend of underemployment certainly helped to alleviate poverty. Underemployment statistics are not available for the other countries in the region. In Georgia, a World Bank study estimated the share of underemployment at 4.3 per cent of total employment in urban areas and 5.4 per cent in rural areas in 2003, falling to 3.0 and 5.1 per cent, respectively, in 2006.³¹

2.6. Increasing flexibility of employment relations

Section 2.3 above points to a rapid increase in informal employment in the region, which is not subject to any regulation and is therefore completely flexible. However, formal employment has also become more flexible as a result of the rising incidence of forms of employment other than traditional regular employment based on contracts without limit of time. Self-employment has been increasing, to the detriment of wage employment, and has become a major form of employment in the Caucasus countries: in Armenia it rose from 47.2 per cent of total employment in 2000 to 51.2 per cent in 2006, and in Georgia it reached 63.3 per cent in 2007. In the Ukraine, the share of self-employed persons doubled, from 8.3 per cent in 2000 to 17.6 per cent of total employment in 2006, and in the Republic of Moldova it rose from 29.3 to 35.2 per cent over the same period. The majority of self-employment is in agriculture (mainly subsistence farming), while non-agricultural self-employment is low and is concentrated mainly in services. However, specific sectoral data on self-employment are not available. In contrast, other countries in the region have experienced a decline in self-employment: in Kazakhstan, it fell from 39 per cent in 2001 to 31.8 per cent in 2007, in Kyrgyzstan from 40.9 to 33.7 per cent between 2002 and 2005, in the Russian Federation from 7.6 to 6.0 per cent between 2000 and 2006 and in Turkey from 24.7 to 23.5 per cent over the same period. This shift from self-employment to wage employment could signal an improvement in the quality of employment in these countries.

Contractual part-time employment is very rare in the region (except in Turkey, where it reached 7.9 per cent of total employment in 2006), due to the unwillingness of employers to offer this form of work, either because of the lack of a tradition or for operational reasons. Moreover, workers do not like part-time employment because the wages are low and any reduction in wages has a negative impact on their already modest living standards.

Data on fixed-term employment are only available for the Russian Federation and the Ukraine. The share of fixed-term contracts doubled to 6.6 per cent in the Russian Federation between 2000 and 2004, while the total share of non-regular employment

³⁰ These figures cannot be simply added together, as the same workers may face both forms of underemployment in the same year.

³¹ World Bank, *Georgia poverty assessment*, June 2008, unpublished report quoted in ETF, Georgia, op.cit. Underemployment (in the main job) was specified as people working 21 to 35 hours a week in their main job and reporting a secondary job.

in wage employment increased from 5.4 to 11.8 per cent over the same period.³² In the Ukraine, the share of temporary employment in total employment only reached 2.1 per cent in 2006.

The incidence of informal employment is sometimes attributed to the strictness of employment protection legislation (EPL) regulating the hiring and dismissal of workers. Strict EPL increases the cost of dismissal for employers, who as a result may reduce the recruitment of new regular workers and instead turn to irregular or even informal workers. According to this argument, this could lead directly to a decline in formal employment and an increase in open unemployment. ILO analyses, as well as OECD and other studies, have not confirmed this relationship between the strictness of EPL and employment and unemployment.³³ The ILO has analysed the strictness of EPL in relation to regular and temporary contracts, as well as collective dismissals, using an OECD methodology.³⁴ Table 7 provides an EPL index for selected countries in the region and compares them with an average EPL index for the new and old EU Member States.

Table 7. EPL index* for selected countries in the region**

Country	EPL summary index	EPL summary index	Of which: Index for contracts without limit of time	Index for temporary contracts	Index for collective dismissals
	Late 1990s	2007			
Azerbaijan	n.a.	2.2	3.2	1.8	0.6
Kazakhstan	n.a.	1.5	2.7	0.9	0.0
Rep. of Moldova	n.a.	2.5	4.5	1.3	0.4
Russian Federation	3.2	1.9	3.2	0.8	1.9
Ukraine	2.3	2.3	3.8	1.8	0.0
Old EU*	2.5	2.4	2.3	2.0	3.4
New EU**	2.4	2.1	2.6	1.2	3.4

* EU Member States before 2004, without Luxembourg

** EU Member States entering in 2004 and 2007, without Cyprus, Malta, Latvia and Romania.

*** The EPL strictness index moves from 0 for fully liberal EPL to 6 for completely restrictive EPL. This applies to summary EPL indices, as well as indices measuring the strictness of the regulation of regular contracts (contracts without limit of time), temporary contracts and collective dismissals.

The second column of Table 7 shows that EPL in the selected countries is relatively *liberal* and close to the situation in both the old and new EU Member States. Kazakhstan has the most liberal EPL of all the countries shown, which is comparable to the very liberal legislation of countries such as Denmark, Ireland and the United Kingdom. The adoption of the new Labour Code in the Russian Federation in 2002

³² T. Vasiliouk et al., *Decent Work country report: The Russian Federation*, ILO, Geneva, 2008.

³³ See Cazes, S. and Nesporova, A., *Flexicurity: A relevant approach in Central and Eastern Europe*. ILO, Geneva, 2007 (containing references to other studies on the subject).

³⁴ OECD, *Employment Outlook 2003*, Paris, 2003; and Cazes, S. and Nesporova, A., *Labour markets in transition: Balancing flexibility and security in Central and Eastern Europe*, ILO, Geneva, 2003.

liberalized EPL in the country to a fair extent. Analysis of the specific elements of the aggregate EPL index points to higher protection of core workers engaged under contracts without limit of time and more liberal regulation of temporary contracts in the selected countries of Eastern Europe and Central Asia in comparison with EU countries. In contrast, there are major differences between countries in terms of the regulation of collective dismissals, as the legislation in the countries in the region either tends not to address the concept of collective dismissals, or the rules in this respect have been significantly weakened.

The remarkable difference between the regulation of permanent and temporary contracts underlines the labour market segmentation between better protected core workers holding regular contracts and workers with temporary contracts, who enjoy much less protection. This is likely to contribute to greater inequality in employment and income. However, a major problem is the *poor enforcement of labour legislation*. As acknowledged by a World Bank study,³⁵ labour market flexibility in the region basically has its origin in the “flexible” enforcement of EPL rules, especially in small firms. Even large firms, where the likelihood of compliance is slightly higher, often use small firms as flexible suppliers of labour, thereby avoiding the cost of termination of employment.

Employers in Eastern Europe and Central Asia also use the flexible working time arrangements described above (administrative leave and shorter working hours, combined with flexible wages) to adjust their labour costs in response to economic changes. Remarkable downward wage flexibility is achieved through the non-payment of wages in periods of economic recession, and through peculiarities in the wage-fixing mechanism, which is anchored by the very low national minimum wage, with wages being closely linked to enterprise financial performance. This explains why employment levels remained remarkably high during the economic transition and the Russian financial crisis, and why employment growth emerged fairly rapidly with economic revival. Although this model of adjustment helps to avoid mass open unemployment, and workers can maintain their links to the formal labour market and social security schemes, it leads to delays in enterprise restructuring, thereby contributing to the lower productivity and poor competitiveness of enterprises and to the low average wages, which act as an incentive for workers to seek additional income in the informal economy.³⁶

The combination of relatively liberal and poorly enforced EPL with extensive informal employment points to *high labour market flexibility* and *low job and income security for workers*, including those on regular contracts.

Additional job security can be obtained by workers through *collective agreements and in general membership of trade unions*. Trade union membership, which was an obligation at the time of the USSR, has declined significantly in most of the former USSR countries in recent years. Nevertheless, it still remains high in international terms, ranging in 2006-2007 between 12.6 per cent of the economically active

³⁵ Rutkowski, J., Scarpetta, S. and Banerji, A., *Enhancing job opportunities: Eastern Europe and the former Soviet Union*, World Bank, Washington D.C., 2005.

³⁶ Gimpelson, V., “Labour market flexibility and security: The Russian way”, in *Reconciling labour flexibility with social cohesion: The experiences and specificities of Central and Eastern Europe*, Council of Europe, Strasbourg, 2007.

population in Georgia to 91.6 per cent in Belarus (where it is still a de facto obligation in State-owned and most large private companies).³⁷ Enterprise level bargaining, the dominant form of collective bargaining in the countries concerned, exists mainly in larger State-owned or privatized enterprises, and leads to the conclusion of collective agreements. However, in new private enterprises it is underdeveloped or non-existent. Core employees in enterprises with collective agreements are therefore better protected against dismissal (although protection is weak against involuntary reductions in working time, administrative leave and the non-payment of wages, as described above), while non-core employees, workers in non-unionized enterprises and informal workers in general do not enjoy any protection through collective bargaining.

2.7 Low employment security due to weak labour market institutions

The flexicurity approach, now widely discussed in Europe, is aimed at balancing the need for enterprises to adapt quickly to rapidly changing markets, among other means, through changes in their workforce, and the need for workers to benefit from a certain level of job and income security.³⁸ However, stability and security is also important for enterprises to allow them to operate in a predictable environment with a reliable and qualified workforce, while workers also need a measure of flexibility to combine their work and career aspirations with family responsibilities.

Labour market flexibility is mainly achieved through the liberalization of labour legislation, and particularly EPL, which weakens the security of workers in their current jobs. The flexicurity concept involves the compensation of more liberal EPL through higher employment security, achieved by: improving the employability of workers through: up-to-date vocational education and training and access to lifelong learning; effective assistance in job search and job placement for workers who are made redundant, as well as for labour market entrants, through PES; access to active labour market programmes (ALMPs) for harder-to-place jobseekers; and income support during unemployment.

Recent labour market reforms in a number of countries in the region have resulted in more liberal labour legislation. Moreover, according to recent World Bank data, Eastern European and Central Asian countries tend to have more deregulated labour markets than most other countries.³⁹ In view of the high level of un- and underemployment, the question therefore arises as to whether this deregulation has been compensated by increased employment security, as described above?

The available evidence (which is scarce, as few PES provide data on their functioning) is not convincing. The much lower figures for jobseekers registered with PES, compared with the unemployment figures collected through LFS, point to the persistent low level of confidence of jobseekers in PES, as well as the strict eligibility criteria for registration. While PES with territorial structures have been established in all Eastern European and Central Asian countries to provide information on job

³⁷ ILO, *Economic growth and decent work: Recent trends in Eastern Europe and Central Asia*, ILO Subregional Office for Eastern Europe and Central Asia, Moscow, 2008.

³⁸ For more detailed discussion of the flexicurity concept see: Cazes and Nesporova, 2003 and 2007, op. cit.; European Commission, *Employment in Europe 2006*, Brussels, 2006; and ILO, 2009, op. cit.

³⁹ World Bank, *World Bank Development Indicators*, Washington D.C., 2008.

vacancies to all interested jobseekers, their organizational structure, scope of activity, the effectiveness of the services provided and their funding have undergone changes and vary considerably between the countries.

For example, the Russian Federal Employment Service was re-organized in the early 2000s, with the almost complete decentralization of labour market programmes and their funding to the regions. The very diverse economic and labour market situations in the regions of the Russian Federation determined the availability of funds for labour market policies and therefore the ability of regional and local employment offices to intervene effectively on local labour markets and assist vulnerable groups of jobseekers. Poor regions were not able to mobilize the necessary funds to address their, usually high, unemployment rates. For this reason, a 2006 amendment to the Employment Act of the Russian Federation made it possible to subsidize both ALMPs and unemployment benefits from the federal budget. The decentralization of PES is now complete in Kazakhstan, and the regional and local employment offices are part of regional and local administrations and are fully funded from their budgets. In Georgia, the PES was dismantled during the administrative reform of 2005. In Tajikistan and Uzbekistan, the PES is administered as part of the Labour Ministry, while in most other countries in the region the PES is an autonomous agency affiliated to the Labour Ministry.

The efficiency of national PES varies significantly between countries. In the Ukraine, for example, the capacity of the PES to place registered jobseekers in new jobs has improved significantly, from 18.9 per cent of all registered jobseekers placed in employment in 1999 to 43.4 per cent in 2008. In Azerbaijan, the job placement rate was 38.7 per cent in 2004. However, a number of studies show that PES in many countries in the region are still performing job mediation services ineffectively, due to their inefficient organizational structures, lack of financial and human resources, underutilization of information technologies, incomplete and unreliable information on the local labour market situation and inadequate cooperation with employers.

With the exception of Georgia and Kazakhstan, which rely on social assistance, all the other countries in the region operate national unemployment benefit schemes. However, the share of benefit recipients among registered jobseekers before the current recession was very low, as shown by figures of 7 per cent in Armenia, 10 per cent in Kyrgyzstan and 10.6 per cent in Azerbaijan, and the level of benefits was in general well below the subsistence minimum. Nevertheless, more funding still tends to be allocated for income support in unemployment than for ALMPs.

The situation has recently improved slightly in terms of ALMPs, which tend to be focussed on public works and labour market training. In the Ukraine, the PES has reported an increasing proportion of registered jobseekers taking part in training and other ALMPs (25.9 per cent in 2005). An ILO survey undertaken in 2005 showed that in the Caucasus and Central Asia public works were the most widespread form of ALMP.⁴⁰ The exceptions were Kazakhstan and Azerbaijan, where more jobseekers, especially the young, were engaged in labour market training. Four out of six countries have also launched a self-employment/small business support scheme. Other

⁴⁰ Hansen, E., Nesporova, A., Picot, G. and Rychly, L., *Challenges to labour market governance in selected CIS countries*, ILO, Geneva, 2005.

ALMPs implemented in these countries include job clubs, subsidized employment and training for persons with disabilities.

The total funding allocated for ALMPs, income support in unemployment and PES is around 0.1 per cent or less of GDP in the poorer countries, and may rise to 0.3 per cent in the wealthier countries in the region, compared with an average of 2 per cent in the European Union. Employment security for the economically active population as a whole, irrespective of formal employment status, is therefore low, despite a certain very limited improvement in some countries since 2000.

3. Impact of the crisis on the labour markets of Eastern Europe, Turkey and Central Asia

The severe decline in economic growth reported in Chapter 1 has clearly been reflected in the destruction of large numbers of jobs. For example, between April 2008 and April 2009, the Russian economy lost 3.4 million, or 5 per cent of all jobs.⁴¹ In Turkey, the number of jobs lost between September 2008 and April 2009 has been estimated at almost 1.1 million, with the brunt of the crisis being borne by male workers in the informal sector.⁴²

LFS data show that in 2008 only four countries, Georgia, Turkey, Ukraine and Kyrgyzstan, recorded an increase in unemployment by 3.2, 2.5, 1.0 and 0.8 per cent, respectively, which was concentrated over the last months of the year. As expected, the situation further deteriorated in early 2009, when unemployment increased by another 4.8 percentage points (to 15.8 per cent of the labour force) in Turkey and 2.9 points (to 10.3 per cent) in the Ukraine in the first quarter compared with the same period in 2008. The Russian Federation reported a year-on-year increase in the unemployment rate of 3.1 points in the first quarter of 2009 (to 9.5 per cent), although joblessness fell slightly to 8.5 per cent in the second quarter due to seasonal work. The unemployment rate of men reached 9.0 per cent and that of women 7.5 per cent in May 2009. LFS data for other countries are not available.

Young workers have suffered disproportionately from the jobs crisis, as many employers sharply cut new recruitment, particularly of school leavers without work experience. In Turkey, joblessness among young persons below the age of 25 rose from 17.6 per cent in April 2008 to 26.5 per cent one year later. Young men and women had almost the same rate of unemployment at 26.6 and 26.3 per cent, respectively, although the rate for young men rose faster, by 10.7 percentage points, compared with the rate for young women, which “only” rose by 6.8 points. Uzbekistan also reported that half of all registered jobseekers were young people. In the Russian Federation, young people below the age of 25 accounted for 28.7 per cent of total unemployment in May 2009. The unemployment rate of young persons aged 20-24 increased by almost 4 percentage points between the second quarter of 2008 and first quarter of 2009, reaching 14 per cent, although the rate remained stable at below 5 per cent for young persons aged 16-19.

⁴¹ Federal Labour and Employment Service, *Russian labour market: Review of current trends: Monitoring of the labour market situation, May 2009* (in Russian), Moscow, June 2009.

⁴² Erkan, H., *Labour market developments in Turkey*, unpublished paper prepared for the ILO, July 2009.

Labour market adjustment has been achieved not only through higher open unemployment but, more importantly, through an acceleration of underemployment. For example, in the Russian Federation in June 2009 a total of 1.2 million persons were working shorter hours (7.3 per cent of the staff in the enterprises surveyed, 3.5 per cent at the initiative of the employer and 3.8 per cent under an agreement between the employer and the employee), while almost 1.2 million more were on administrative leave (6.9 per cent of the staff in the enterprises surveyed, of whom 1.8 per cent were receiving their remuneration in part, and 5.1 per cent who were not being paid). Russian manufacturers reported that some 26 per cent of the registered workforce in large and medium-sized enterprises was affected by one or another form of underemployment in April 2009, while the figure was 18 per cent in construction and 14 per cent in transport and communications.⁴³ The Ukraine reported 3.6 per cent of registered employees on administrative leave in June 2009, with 10.3 per cent of workers working shorter hours involuntarily. In Belarus, involuntary short-time work affected 3.8 per cent of workers in May 2009, while the number of underemployed workers in Kazakhstan increased by 35 per cent between April and June 2009.

Wage arrears have also increased sharply. In the Ukraine, the volume of unpaid wages grew by 38 per cent during the first half of 2009, reaching 7.6 per cent of the total wage mass. There has also been a sharp increase in wage arrears in the Russian Federation, where the amount doubled between November 2008 and June 2009, reaching 8.8 billion roubles, or 2 per cent of the total wage fund. Kazakhstan reported wage arrears in 174 enterprises in construction, manufacturing and mining, amounting to nearly 2 billion tenge in May 2009. In Tajikistan, wage arrears rose by 20 per cent in the year from 1 July 2008 to 1 July 2009.⁴⁴

The deteriorating labour market situation in countries that are net receivers of labour has led to sharp cuts in official quotas for foreign workers. In December 2008, the Russian Prime Minister, Vladimir Putin, announced the halving of the official quota for migrant workers, from 3.9 million in 2008. A further reduction in this quota is expected in 2010. A 50 per cent reduction in the quota was also announced in Kazakhstan, where it was set for 2009 at 0.35 per cent of the economically active population for managers and other highly-skilled workers and 0.05 per cent for low-skilled workers. There is also pressure on enterprises employing informal migrant workers, in the form of frequent labour inspections and high fines, to reduce their numbers and replace them with local workers. The resulting dismissals of foreign migrant workers lead some to return home, while others are ready to accept jobs under much worse conditions, including lower wages. Chapter 1 reports on the significant reduction of remittances from migrant workers.

4. A review of the anti-crisis measures in the field of employment adopted by governments in the region

The anti-crisis plans adopted by the governments of the countries participating in the conference vary greatly depending on the severity of the crisis affecting the country,

⁴³ Federal Labour and Employment Service, *op. cit.*

⁴⁴ No information is available on the share of wage arrears in the total wage fund in these two countries.

the possibilities available to the government to mobilize public and private funds and the capacity of the public administration, including labour market institutions, to design and implement employment promotion and protection measures covering the workers affected. The assessment of the present paper is, however, limited by the fact that, although the governments of some countries have provided fairly detailed descriptions of their anti-crisis and recovery plans, others have outlined only the major elements of their plans, without providing further detail.

The Governments of Azerbaijan and Uzbekistan, the countries with the highest economic growth rates in the region, are emphasizing the continuation of their strategies which, as they note, have helped to protect their national economies against any serious downturn. The new Government of the Republic of Moldova is currently preparing an anti-crisis plan, but no details are yet available. This review is not therefore exhaustive, although it outlines the general directions taken by country plans and assesses their adequacy.

The Table in Annex 2 provides an inventory of national employment policy measures in the region. In general, the Governments of Kazakhstan, Russian Federation, Turkey and Ukraine have launched comprehensive anti-crisis and recovery plans which, in addition to monetary, fiscal and structural measures, also include measures to stimulate labour demand and employment creation, as well as policies to preserve existing jobs and provide greater assistance for re-employment and income support for jobseekers. Other countries have so far largely relied on policies to support economic development and business activity in the expectation that they will create more jobs for workers who have been laid off and for labour market entrants.

4.1 Employment retention measures

Employment retention measures have been given the green light by governments in order to help prevent mass dismissals and unemployment. For example, the Government of Kazakhstan engaged jointly with the social partners in negotiations with large enterprises, resulting in the conclusion of over 5,200 memoranda of understanding on employment preservation through the introduction of shorter working hours, the temporary internal transfer of workers and partially paid administrative leave. The Ukraine has adopted an anti-crisis law providing for subsidies for the retraining of redundant workers, the wages of internally transferred workers and wage compensation for workers placed on shorter working time by the state. Turkey has extended the duration of the payment of benefits from the Reduced Working Hours Fund to workers placed on shorter working hours and has doubled the level of wage compensation. The anti-crisis programme launched by the Government of the Russian Federation requires territories to prepare regional employment programmes to a total cost of 25 billion roubles (USD 0.85 billion), over 90 per cent of which is to be provided from the federal budget. The measures envisaged include vocational training and skills upgrading for over 170,000 workers threatened with redundancy and placed on shorter hours or unpaid leave.

4.2 Investment in infrastructure and public works

One of the two areas of intervention widely favoured by the countries in the region to stimulate employment is greater spending on infrastructure. The Government of

Kazakhstan has launched a “Road Map” programme with the objective of supporting over 4700 investment projects for the renovation and reconstruction of housing and communal services and the renovation, insulation and improved heating of schools, hospitals and public buildings. It is envisaged that the projects will create 254,000 new jobs. The initial allocation for the Road Map programme was 163 billion tenge, which has recently been increased to 191 billion tenge (USD 1.28 billion), of which two-thirds are to be provided by the state budget and one-third is to be financed from local budgets. The Kazakh Government has also launched a major programme of housing construction with a total allocation of 545 billion tenge (USD 3.66 billion) and a set of major infrastructure projects with an allocation of 120 billion tenge (USD 0.8 billion).⁴⁵

The Russian Federation has expanded allocations from the federal budget for the construction and maintenance of transport infrastructure and for the construction and renovation of housing. The Uzbek plan for the modernization of the national economy envisages public investment in transport infrastructure, as well as investment in energy resources for rural areas. Turkey has recently unveiled a stimulus package worth 1 billion Turkish lira (USD 646 million) which, in addition to support for the vocational education and training system, focuses on the renovation of schools and hospitals and on environmental projects, and could generate 0.5 million new jobs. The Ukraine has adopted a four-year action plan for the development of infrastructure with a total budget of 160 billion hryvnia (USD 21 billion), of which 27.5 billion are from the state budget, 23 billion from local budgets and 110 billion from private investment. Armenia, Azerbaijan, Belarus, Georgia and Kyrgyzstan are also planning public investment in the construction and rehabilitation of roads and railways, the production and distribution of electricity, the supply of water and gas, and environmental projects. Several countries have earmarked subsidies for residential construction programmes.

The majority of countries in the region are therefore implementing public works programmes (public employment). However, it would appear that only certain countries (Kazakhstan, Russian Federation, Turkey, Ukraine and Uzbekistan) have significantly expanded these public works programmes to counteract the rise in unemployment and underemployment resulting from the crisis. Reference has already been made to the Road Map programme in Kazakhstan. On 13 July 2009, the Kazakh Labour Minister reported that 240,000 new jobs had already been created. The cumulative number of jobs generated should exceed 400,000. In the regional employment programmes launched by the Russian Federation, an average of 80 per cent of the budget is being spent on public works. The Ukraine adopted an implementation mechanism for the introduction of paid public works in June 2009. Under this new scheme, public works are being organized for the construction and reconstruction of sporting, transport, medical and tourist infrastructure, including the facilities for the UEFA Euro Cup in 2012. The Turkish stimulus package referred to above envisages public works in the area of tree planting and building repairs for some 120,000 jobless persons over a period of six months.

4.3 Support to enterprises

⁴⁵ Address to the Nation by President Nazarbayev entitled “Through Crisis to Renovation and Development”, delivered in the Parliament of the Republic of Kazakhstan on 6 March 2009.

The other most frequent area of intervention is to expand support to enterprises, and particularly small and medium-sized enterprises (SMEs), through better access to credit, including credit guarantees, and reductions in tax rates. Many countries in the region have launched measures to facilitate business activities through the simplification of rules for the establishment of enterprises (Armenia, Kazakhstan), the simplification of licensing procedures (Belarus, Kyrgyzstan) and customs clearance (Armenia). They are also reducing corporate taxes (Kazakhstan), VAT in general (Tajikistan) or for selected products/industries (hand-made carpets in Armenia, the production of cars, electronics and household appliances in Turkey) and income tax (Georgia, Tajikistan, Ukraine). In the Russian Federation, tax reductions are left to the discretion of the regional authorities. Employers' contributions to social funds have been reduced in Kazakhstan. A number of countries (Azerbaijan, Belarus, Kazakhstan and Uzbekistan) are providing special support to export industries and industries badly affected by the crisis. Kazakhstan and the Russian Federation are offering preferential access for domestic enterprises to public tenders and state procurement.

Several countries have taken measures to facilitate the access of SMEs to credit and credit guarantees (Armenia, Kazakhstan, Russian Federation, Tajikistan, Turkey, Uzbekistan). Several countries have simplified small business start up procedures and reduced start up and transaction costs. For example, the programme of support to SMEs in the Russian Federation aims to promote the creation of nearly 0.5 million new jobs in this sector in 2009. In the context of this programme, small enterprises can benefit from subsidized leases to state premises, grants for business start-ups and the creation of new jobs, as well as subsidies for the training of personnel and business training for young persons to help them start up enterprises. Turkey is running a credit programme for women entrepreneurs and is organizing entrepreneurship training for young persons. Certain other countries, such as Armenia and the Russian Federation, also plan to limit the number of inspections per year in small enterprises. Kyrgyzstan is offering credit and insurance support to farmers and Uzbekistan is facilitating the access of SMEs to new technologies. Azerbaijan is providing support to SMEs through the establishment of consultancy, information and marketing services, the organization of trade fairs and the promotion of closer cooperation with large enterprises.⁴⁶

4.4 Assistance to unemployed persons

Workers who have been made redundant and other unemployed persons are benefiting from increased protection in countries such as Kazakhstan, Russian Federation, Turkey and Ukraine in comparison with the pre-crisis period. Other countries in the region are continuing to provide employment services for jobseekers who turn to the PES for assistance and are implementing modest ALMPs in the fields of vocational training, public works and the creation of other temporary jobs, and support to start up businesses. Azerbaijan plans to create vocational education and training centres for jobless persons and to improve the social protection of unemployed workers. In the Ukraine, the resources available to finance unemployment benefits and ALMPs have been increased by raising the level of contributions by 0.4 points to 2.2 per cent of the

⁴⁶ State Programme for the Socio-economic Development of the Regions of the Republic of Azerbaijan, 2009–2013, approved by the Presidential Decree of 14 April 2009.

wage fund, the expansion of the list of compulsorily insured persons and the transfer of resources from other social protection funds.

The Turkish Employment Service has stepped up its employment placement and vocational training activities for jobseekers. The stimulus package referred to above includes support for vocational schools and apprenticeship schemes for young school leavers and unemployed youth to provide them with vocational education and training. The recruitment of new workers is being encouraged by the reduction of employers' contributions to social funds for certain investment projects, and even by exemption from contributions for workers hired after April 2008 and for young interns. Turkey has not planned any changes in the scope of the unemployment benefit scheme, but is improving its effectiveness by modifying the respective enforcement measures. Kazakhstan is extending the coverage of existing social service job schemes and internship programmes for young persons. In the context of the new employment strategy in Kazakhstan, referred to above, vocational training and retraining programmes will also be substantially expanded for jobseekers with low or obsolete skills. The maximum period for the payment of unemployment benefits has also been extended from four to six months.

The regional employment programmes adopted within the framework of the 2009 Anti-Crisis Programme in the Russian Federation focus on five areas of intervention: the vocational training of workers threatened by massive dismissals and made redundant (for up to 170,000 persons); the creation of temporary jobs, including in public works schemes (around 1 million jobs); the organization of study tours for jobseekers, including school leavers, to gain work experience (57,000 persons); the organization and provision of subsidies for the migration of jobseekers to other Russian regions offering new jobs (this type of assistance is to be provided to 16,000 persons); and the provision of assistance to unemployed persons to start up in their own business or in self-employment. The level of unemployment benefits has been increased for unemployed persons who left their last job at their own initiative.

4.5 Assessment of the anti-crisis plans and development strategies

The general assessment of the anti-crisis plans and development strategies published by the countries in the region is positive, as the countries acted fairly quickly and went in the right direction.

There are, however, several caveats in relation to these policies. Firstly, while the countries place emphasis in their plans on investment in infrastructure, few countries have clearly associated employment targets with the planned infrastructure works. Work to improve infrastructure can be carried out using capital or labour-intensive technologies, as determined by the availability of these production factors in the country. Countries with abundant labour should therefore primarily use labour-intensive technologies for infrastructure works.

Second, few countries have made a commitment in their anti-crisis plans and development strategies to upgrading the vocational education and skills of employed workers, those who have been laid off or have low or obsolete skills, or new labour market entrants. However, the competitiveness of enterprises depends on the quality of their workforce, with particular reference to their vocational education and training,

work experience, adaptability, creativity, organizational skills, motivation and loyalty. National technical vocational education and training (TVET) systems were considerably weakened during the transition, when they lost prestige, funding (many facilities used to be funded directly by large enterprises, which terminated their support due to their own financial problems and transferred them to public budgets, resulting in the closure of many such facilities), direct contact with the labour market, teachers and trainers, as well as students, who prefer higher levels of education and social studies. Adult education has been particularly affected by the lack of facilities and resources. Up to now, TVET reforms have not progressed sufficiently to improve the situation, although this may be decisive for the success of economic recovery and sustainable development.

Third, the low level of capacity of national labour market institutions (or even, in some cases, the non-existence of such institutions) to provide high quality services to both enterprises and jobseekers is another major challenge that has been addressed only in part by the anti-crisis plans, and even then by only a few countries. The weaknesses include the lack of comprehensive and reliable labour market information, the low level of collaboration between public employment services and enterprises, poorly designed and implemented ALMPs that are only accessible to a very limited range of the jobseekers who are in need of such support, and poor income support for the unemployed. Moreover, in view of the pressure on migrant workers to return home, the assistance of PES in job mediation, participation in public works or retraining should also be extended to returning labour migrants.

Fourth, as the crisis is affecting both enterprises and workers alike, governments should engage in in-depth discussions with employers' and workers' organizations on the main problems that they have faced during the crisis and that they foresee for recovery so that the most effective support can be offered to them. ILO contacts with national employers' and workers' organizations reveal that only a few countries have used social dialogue as a tool for consultations on anti-crisis and recovery plans and for the formulation of the respective plans.

5. Global and regional response to the crisis and the stimulation of labour market recovery: Contribution of the ILO

The ILO reacted immediately to the outbreak of the crisis in the autumn of 2008 through forceful high-level analyses and policy statements, as well as active engagement in international forums and global tripartite policy dialogues. A milestone for the European Region was the Eighth European Regional Meeting (ERM), held in Lisbon in February 2009,⁴⁷ where discussions were clearly dominated by the economic crisis. The Conclusions of the Meeting, entitled "Working out of crisis: Strategies for Decent Work in Europe and Central Asia", emphasized the need for integrated and coordinated policy responses to reverse the downward spiral of economic activity.⁴⁸ The representatives of governments, employers' and workers'

⁴⁷ ILO European Regional Meetings are held every four years to review the ILO's cooperation with the tripartite national constituents from member countries in Europe and Central Asia and to discuss the most pressing issues in the areas of employment, social policy and workers' rights.

⁴⁸ http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_103635.pdf

organizations from throughout the region discussed strategies to restore growth, increase its employment content and make it less volatile in the future. These strategies should be based on the 2008 ILO Declaration on Social Justice for a Fair Globalization.

The Conclusions emphasized the need for policies to boost: economic and employment recovery and sustainable development through coordinated anti-cyclical economic stimulus packages; support to sustainable enterprises, in particular smaller ones; respect for fundamental principles and rights at work; skills development; the strengthening of social dialogue on appropriate policy responses, including employment retention measures; better protection of the most vulnerable groups of the population; and the need to seize opportunities to invest in jobs and infrastructure. The ERM also requested the ILO to provide support to constituents to mitigate the effects of the crisis by providing advice to them on how to achieve policy coherence consistent with the objectives of decent work.

The three-day ILO Summit on the Global Jobs Crisis held in June 2009 resulted in the adoption on 19 June 2009 of the Resolution on recovering from the crisis: A Global Jobs Pact.⁴⁹ In the Resolution, Governments and workers' and employers' organizations undertook to work together to launch a policy response to the crisis based on the ILO's Decent Work Agenda. The response is intended to ensure linkages between social progress and economic development and involves the following principles:

1. devoting priority attention to protecting and growing employment through sustainable enterprises, quality public services and building adequate social protection for all as part of ongoing international and national action to aid recovery and development. The measures should be implemented quickly in a coordinated manner;
2. enhancing support to vulnerable women and men hit hard by the crisis including youth at risk, low-wage, low-skilled, informal economy and migrant workers;
3. focusing on measures to maintain employment and facilitate transitions from one job to another as well as to support access to the labour market for those without a job;
4. establishing or strengthening effective public employment services and other labour market institutions;
5. increasing equal access and opportunities for skills development, quality training and education to prepare for recovery;
6. avoiding protectionist solutions as well as the damaging consequences of deflationary wage spirals and worsening working conditions;

⁴⁹ http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_108456.pdf

7. promoting core labour standards and other international labour standards that support the economic and jobs recovery and reduce gender inequality;
8. engaging in social dialogue, such as tripartism and collective bargaining between employers and workers as constructive processes to maximize the impact of crisis responses to the needs of the real economy;
9. ensuring that short-term actions are coherent with economic, social and environmental sustainability;
10. ensuring synergies between the State and the market and effective and efficient regulation of market economies including a legal and regulatory environment which enables enterprise creation, sustainable enterprises and promotes employment generation across sectors; and
11. the ILO, engaging with other international agencies, international financial institutions and developed countries to strengthen policy coherence and to deepen development assistance and support for least developed, developing and transition countries with restricted fiscal and policy space to respond to the crisis.

These principles set the general framework within which each country can formulate a policy package adapted to its situation and priorities. But they should also inform and support the action of the multilateral institutions.

The Global Jobs Pact was presented at the meeting of the United Nations Economic and Social Council held in July 2009, which adopted a resolution welcoming the launch of the Global Jobs Pact. The resolution encourages United Nations Member States to promote and make full use of the Global Jobs Pact as a general framework for national policy packages to promote and protect employment in economic recovery plans. It also requests the United Nations funds and programmes and the specialized agencies, and invites international financial institutions and other relevant international organizations, to integrate the policy contents of the Pact in their activities and technical assistance.

In the Statement adopted at the G20 Summit in Pittsburgh, held on 24-25 September 2009, the leaders welcomed the Global Jobs Pact and committed their nations to adopting key elements of its general framework to advance the social dimension of recovery. They also made a commitment to implement recovery plans that support decent work, help preserve employment, prioritize job growth and implement policies consistent with ILO fundamental principles and rights at work.⁵⁰

6. Policy recommendations to strengthen the employment dimension of national anti-crisis/recovery plans and development strategies

6.1 Focussing on employment-centred recovery and development strategies and decent working conditions for all

⁵⁰ <http://www.pittsburghsummit.gov/mediacenter/129639.htm>

The preceding analysis shows that the economic and labour market development in Eastern Europe and Central Asia, despite the rapid economic growth rates achieved everywhere and the fall in unemployment in most countries since 2000, has concealed vast structural imbalances and institutional weaknesses. When the global economic crisis hit the region, these weaknesses contributed to deepening its negative impact on labour markets and the population.

The economies of the region display a number of characteristics that constitute particular challenges to policy-makers in their endeavours to achieve the twin goals of inclusive job-rich growth and macroeconomic stability. These include, but are not confined to: (i) the creation of space for effective counter-cyclical policies, without compromising long-term macroeconomic stability; (ii) the development of policies to reduce exposure to externally induced crises and counteract a tendency towards “Dutch disease” by strengthening the national production base, competitiveness, productivity and the capacity to create jobs; (iii) the implementation of policies to improve the functioning of markets, with particular reference to capital and labour markets; and (iv) the formulation of policies to ensure equity in the labour market and decent working conditions for all.

The objectives of macroeconomic policies therefore need to be reviewed to include clearly defined employment objectives alongside their other key objectives, such as promoting growth and controlling inflation, so that the achievement of full and productive employment and decent work is given central importance. Policies should be re-examined from the viewpoint of maximizing the generation of productive employment. Quantitative employment targets and policies for inclusive job-rich growth need to be developed on the basis of in-depth diagnostic analyses of growth and employment, including sectoral analyses, and sound growth and labour demand projections, so as to ensure that the targets are realistic and achievable. At the same time, there is a need to combine economic and employment strategy measures with vocational education and training reforms to ensure the availability of an appropriately skilled workforce. Much stronger labour market governance is required with a view to achieving more balanced labour markets, facilitating labour market transitions and enhancing the quality and security of employment. Social dialogue and collective bargaining also need to be strengthened so as to secure the support of the social partners. Short-term anti-crisis measures therefore have to be carefully combined with longer-term development goals to help countries achieve an early recovery and move towards a path of sustainable development which benefits all categories of the population.

6.2 Employment retention measures

The time-bound anti-crisis measure consisting of shorter working hours with wages partially subsidized from public funds, which has been widely applied in economically developed countries, has also been used by large enterprises in several of the countries in the region, as noted in Chapter 4. Subsidized work-sharing schemes are viewed favourably by both employers and workers, as they reduce labour costs for the former, while retaining the core workforce, and the wage cuts for workers are still limited and acceptable. Although this is mainly a temporary solution to preserve employment, in view of the constraints on public budgets, a longer-term positive impact can be achieved by combining it with subsidized retraining for the acquisition of skills that will be in demand in the future. Combined schemes of this type are to be

recommended provided that they are targeted at viable enterprises (which need to be identified carefully) and productive jobs, and are based on sound projections of the demand for skills and on the availability of well-developed vocational training for adults.

The widespread introduction of wage freezes or cuts to help enterprises reduce labour costs without resorting to redundancies may be acceptable to workers if they are negotiated and their conditions agreed upon between the employer and the workers' representatives. Since unemployment insurance systems are very weak in the region, and do not even exist in certain countries, such temporary arrangements may be a better option than job losses.

Collective bargaining can also produce innovative solutions. For example, during the transition crisis, enterprises in certain Central and Eastern European countries concluded lease agreements with their current (or former) employees under which they could make use of equipment or premises for small entrepreneurial activities as an in-kind compensation for wage cuts or assistance for re-employment.⁵¹ An approach of this type might be considered once again as a short-term solution during the crisis which also offers longer-term employment prospects for workers with entrepreneurial talent.

6.3 Support to enterprises and assistance for the diversification of production and exports

During the current crisis, enterprises in the region have been hit by declining domestic and/or external demand for their products and services, and falling prices for certain products, compounded by reduced, or even no access to financing for their operational purposes and for investment. Many governments are promoting enterprises through policies to improve their access to credit, stimulate demand through effective and transparent public procurement procedures and provide fiscal incentives to consumers to stimulate demand. All these measures are costly and have to be carefully considered and managed in order to guarantee their efficiency and feasibility in the national context, and to determine a strict and appropriate timeframe.

Small and medium-sized enterprises (SMEs) are particularly deserving of support. Large companies usually benefit from a high level of attention by national and local governments in view of the high numbers of workers who would be affected in the event of their failure, particularly in the case of mono-industrial towns, which are common throughout the region. However, even in normal times, SMEs are considered to be riskier by financial institutions and therefore experience much greater difficulties in gaining access to capital. This is even more the case in times of crisis. The vulnerability of SMEs is also related to their high level of dependence, in many cases, on contracts with large firms, their difficulty in gaining access to public tenders and similarly secure markets, regulations that place a high administrative burden on them, and frequent abuses by local authorities. Governments can therefore set up specialized institutions, or instruct public banks and encourage commercial banks to provide them with credits (possibly at a lower interest rate) and credit guarantees. In addition, they can develop conditions to facilitate greater involvement of SMEs in

⁵¹ See, for example, Nesporova, A. and Kyloh, R., *Economic and social dialogue in the Ostrava-Karvina region*, Policy Advisory Paper No. 5, ILO-CEET, Budapest, 1994.

public orders/tenders. The administrative and financial rules applicable to SMEs can be further simplified. It would also be useful to set up support services to help SMEs improve their access to wider markets (including external markets), new technologies, premises, business management training and vocational training, business counselling and coaching. Studies show that such assistance can increase the number of business start-ups, as well as the SME survival rate, enhance their productivity and competitiveness and provide a better alternative to self-employment.

Tax reductions have been widely used by governments in their anti-crisis plans. However, discretionary tax rebates for enterprises, which have been offered in some countries, should be avoided, as they may breed corruption and certainly distort competition. Some analyses have confirmed that cuts in employers' social security contributions can have a significant impact in terms of increasing employment and reducing unemployment, on condition that the resulting shortfall in social funds is made up through general taxation and/or the broadening of the contribution base.⁵² In contrast, the reduction of indirect taxes (VAT) as a general anti-cyclical measure aimed at boosting aggregate demand and consumption has proved to be less effective in promoting employment and reducing poverty, particularly in comparison with public investment. Moreover, personal income tax reductions have a similar effect as there is a tendency to save rather than spend in times of crisis.⁵³

In the longer term, it is extremely important to create an environment that is conducive to the development of business, and particularly private enterprise. This implies ensuring that the legislation is effective in promoting fair competition and protecting property rights, and that it is properly enforced. It also requires a transparent tax system that does not overburden enterprises, but which generates sufficient revenues for important public activities, such as the promotion of research and development, education, infrastructure development and social policy. In addition, well-functioning, relatively stable and clear administrative and financial systems are needed that apply equally to all enterprises.

It is in the ultimate interest of countries to diversify their production and export base and to improve domestic levels of productivity and competitiveness. While investment decisions are mainly in the hands of those who control private capital, governments can influence the decisions that are made by subsidizing the development and introduction of new technologies, and particularly low carbon technologies that offer significant environmental benefits. They can also provide strictly time-bound support, for example in the form of tax relief, to firms that introduce new products with a higher added value or which process domestic raw materials instead of exporting them. Furthermore, they can provide subsidies for education and training in the skills required for these new production technologies. However, it is important that such temporary assistance to firms is based on in-depth, complex and objective analyses of production and of financial and market factors. Similarly, successful export strategies can be stimulated by government interventions to promote entry into new product or geographical markets, which may take the form of the development of a network of export promotion agencies and trade consulates,

⁵² Cazes, S. and Nesporova, A., *Flexicurity: A relevant approach in Central and Eastern Europe*, ILO, Geneva, 2006.

⁵³ *Protecting people, promoting jobs*, an ILO report to the G20 Summit, Pittsburgh, September 2009.

the provision of export credits and guarantees, the organization of trade fairs and the provision of support for the participation of domestic firms.

6.4 Labour-intensive infrastructure works

Economic literature offers evidence of the high returns of infrastructure spending in terms of boosting economic development through increased production and employment in construction, as well as through its multiplier effects in raising demand for products in other sectors. Improved technical infrastructure is important for business activity in general. It creates a supportive environment for private investment from domestic sources, as well as FDI.

Infrastructure projects can focus on the construction and maintenance of highways, roads, railways or airports, the construction and maintenance of schools, hospitals, community buildings, social facilities and social housing, as well as the supply of public utilities to urban and rural areas, irrigation and environmental projects. While local infrastructure projects can be carried out by firms with local labour using labour-intensive technologies, it is also possible to design large projects undertaken by big firms using modern machinery, parts of which can be subcontracted to small local firms using the labour available locally. Projects of this type can combine cost-effectiveness with employment targets, without compromising quality.

Infrastructure projects are quite frequently combined with public works organized by communities in collaboration with local employment offices. A general assessment of public works schemes is that, while they contribute to the economic development of the community/region and can be cost-effective when they are well designed, they tend to have a low or even negative net impact on the re-employment of their participants in regular jobs.⁵⁴ This is due to their short duration and low skill content, which fail to offer participants longer-term employment prospects, although they do provide them with income for the duration of the scheme. If schemes include more ambitious goals of creating more skilled jobs and are combined with high quality professional training, this obstacle can be overcome and their net employment effect can be significant. In effect, this latter type of project can boost economic and labour market restructuring and the sustainable development of underdeveloped or depressed regions, including mono-industrial towns, thereby generating productive employment in the long term.

Public works schemes can also be a useful means of addressing vulnerability when they are directed towards care for the elderly and work with disadvantaged groups of the population, or towards community and social services, in which case they combine publicly funded jobs with the social goals of assistance targeted at those who are most vulnerable.

6.5 Labour market policies

Unemployment benefit schemes for eligible jobseekers and social assistance schemes for other jobseekers are indispensable, not only to alleviate poverty among displaced workers and their families, but because of the significant impact that they have, as so-

⁵⁴ O'Leary, C., Nesporova, A. and Samorodov, A., *Manual on evaluation of active labour market policies in transition countries*. ILO, Geneva, 2001.

called automatic stabilizers, on boosting consumer demand and attenuating the decline in production and employment. ALMPs by themselves have only a limited capacity to create new employment. Their main contribution is in improving the skills and employability of the labour force, facilitating labour market transitions, reducing labour market imbalances, diminishing frictional and structural unemployment and addressing equity issues. This is particularly necessary during periods of economic recession and high unemployment. ALMPs are also indispensable in helping discouraged inactive persons to return to the labour market, thereby expanding labour supply and improving its quality, which may be crucial in periods of labour shortages.

The countries in the region should re-establish and/or significantly strengthen their unemployment benefit and social assistance schemes with a view to extending their coverage to all displaced workers who are currently ineligible for income support. They should raise the level of benefits so that they are at least equivalent to the subsistence minimum, with a view to preventing people falling into poverty and to stimulating active jobseeking.

ALMPs need to be expanded significantly in all the countries in the region to make them into a meaningful tool for employment promotion. The range and mix of programmes needs to be continuously adapted to the situation on the labour market and the specific needs of jobseekers and employers at the national and local levels, as well as to support national and local development strategies. In regions with massive unemployment, as noted above, public works schemes can provide temporary employment for large groups of jobseekers. However, structural unemployment and large skill mismatches are best addressed by extensive training programmes. Jobseekers who are difficult to place in employment benefit greatly from well-designed subsidized employment schemes, including internship programmes for young school leavers.

PES have an important role to play in this context as the main providers of job placement services for jobseekers and employers, the principal organizers of ALMPs, the designers of individual employment plans for persons who are hard to place and in implementing unemployment insurance schemes for displaced persons.

As indicated above, the countries in the region in general have very weak PES, both in terms of the number and experience of their staff in relation to the level of un- and underemployment and with regard to the availability of suitable premises, computerized labour market information networks and, in particular, the financial resources to organize effective and broad ALMPs that respond to the needs of employers and jobseekers. Some countries, despite significant levels of unemployment, have even disintegrated their PES. The strengthening (or re-establishment) of PES should be a priority throughout the region as a cost-effective job placement and poverty reduction measure, particularly during periods of economic crisis. As PES tend to be used more frequently by less competitive jobseekers, while private employment agencies tend to be more effective in finding employment for more competitive jobseekers within and outside the country, greater collaboration and the exchange of information and services would be beneficial for both types of employment services. The ILO can offer a wealth of experience and technical assistance to countries on request to build the capacities of PES, develop partnerships between public and private employment services, improve unemployment insurance and social assistance systems and formulate ALMPs.

Special attention should be paid to providing appropriate support to migrant workers, both those who are displaced in their host countries and those returning to their countries of origin. PES in the receiving country should offer the same access to job placement services, ALMPs (and particularly training), and income support in unemployment to both displaced nationals and foreign migrant workers. Those who are unable to find a new job and who are prepared to return home would also benefit greatly from pre-return training in business management and vocational training, which could enhance their possibilities to start up a business in their country of origin using savings/remittances as seed capital. Sending countries should organize and operate re-integration and employment promotion programmes for returning migrants that are adapted to their specific needs, perhaps with technical and financial assistance from receiving countries and international organizations.

All these recommendations for labour market policies have fiscal implications. However, international experience shows that, when they are well designed, they are cost-effective in terms of the economic benefits accruing from higher employment and consumer demand, and as poverty mitigation measures, without overlooking their positive social and political effects.

The present analysis also shows that labour regulation in the countries of Eastern Europe and Central Asia is not overly restrictive. Nevertheless, it would be useful to review regulations in the light of the broad difference between the levels of job protection afforded to core workers and to workers with temporary contracts, with a view to narrowing the gap by means of legislative amendments negotiated and agreed upon between legislators and the social partners.

The poor enforcement of legislation, which contributes to frequent abuses of labour rights and widespread informality, also needs to be addressed by reinforcing the supervisory role of the social partners, substantially strengthening labour inspection, the establishment and/or improvement of labour dispute settlement mechanisms and the acceleration of civil court proceedings (which are currently very slow and often discriminate against workers) in cases of the unfair treatment of workers, with consideration even being given to the establishment of special labour courts. The rule of law can only be maintained where there is a culture of widespread compliance and where there are sound mechanisms in place that are independent of the political authorities.

With a view to moving towards the gradual formalization of informal employment, there is a need for determined policy measures, which should include improving and enforcing legislation, tax reforms and better monitoring and sanctions, together with incentives for employers and workers to engage in formal employment relationships with fully paid wages and taxes.

6.6 Skills development

The significant skill mismatches in the region's labour markets have also contributed, as noted above, to greater labour market imbalances, lower productivity and competitiveness among local enterprises and rising un- and underemployment, poverty and external migration. The main reason for this is the weakness of national vocational education and training systems, which suffer from a lack of exposure to the changing skills requirements of the labour market, a lack of up-to-date curricula and

teaching methods and a shortage of qualified and motivated teachers and modern equipment. This is a critical handicap at a time when many jobs are being destroyed by the crisis, and even those that remain may disappear or change in terms of their content and skill requirements when the economy recovers and when large numbers of workers, both those who are still in jobs and those who have been made redundant, will need re-skilling or skills upgrading. Indeed, the skills supply will have to reflect the large-scale economic restructuring, the “greening” of jobs and the economy and the changes in skills structures and profiles that are likely to occur as economies recover and follow a path of more sustainable development from the economic, social and environmental points of view. Education and training systems will therefore play a crucial role in determining successful adjustment.

National educational reforms will have to focus on increasing the education and skills levels of the population, as well as creating better conditions for the continuous adjustment of skills, based on the principle of lifelong learning through universal, high-quality general education and equity in access to higher education. Technical and vocational education and training (TVET) needs to be made more responsive to the changing demand for skills in terms of both the content of learning and its outcomes through more broadly based modular training that emphasizes not only technical skills, but also core competencies. The same applies to adult training for workers with low or obsolete skills to help them retain their jobs, redeploy within an enterprise or move into new jobs, while properly reflecting the special needs of adult trainees. TVET reforms require, inter alia, education and training institutions to work in close partnership with enterprises to define and adapt their curricula and teaching and training methods. More generally, the labour market success of training institutions is conditioned by the involvement of the social partners and public employment services in shaping initial and continuing TVET. The feasibility of such reforms is often questioned in view of the very limited public funds available. Solutions should be sought through a change in priorities, with emphasis being given to supporting economic and employment strategies that determine the longer-term demand for skills, the improvement of linkages between resource allocation and learning outcomes and the combination of public, enterprise and other private resources.

6.7 Social dialogue

Social dialogue should play an important role in the formulation and implementation of anti-crisis and recovery plans at the national, sectoral, regional/local and enterprise levels. Only through consultations and negotiations with employers and the business community, on the one hand, and with workers and their representatives on the other, can governments identify the main short- and long-term challenges to business development and job creation and select an appropriate mix of measures. The measures adopted should be based on short-term compromises acceptable to all three parties, but which also exploit existing opportunities and promote sustainable development. International experience shows that centralized negotiations are most successful when they cover a comprehensive policy package and there is sufficient scope for trade-offs and compromises.⁵⁵

⁵⁵ Rychly, L., *Social dialogue in times of crisis: Finding better solutions*, ILO DIALOGUE Working Paper No. 1, ILO, Geneva, May 2009.

Some countries in the region have established institutional frameworks for social dialogue and collective bargaining at the national and enterprise levels (although seldom at the regional or sectoral levels, even though they are just as essential), which are natural forums for negotiation. Social dialogue institutions often need to be reinforced because in the past they have played only a formal role, with governments going ahead with their own policies without taking into account the positions of the social partners. In countries where they do not yet exist, consultative tripartite and bipartite bodies should be established.

It is also important to address the weaknesses of the social partners in several areas: they are often not independent of the government, lacking the capacity to engage in technical discussions on specific policy issues and their negotiating power may be weakened by internal disputes concerning the representativeness of their membership and property-related matters. While international employers' and workers' organizations and the ILO can provide assistance to strengthen the capacity of national social partners and can mediate internal disputes, governments need to guarantee freedom of association and free collective bargaining between employers and trade unions.

Concluding remarks

This paper has reviewed the significant employment challenges facing the countries of Eastern Europe, Central Asia and Turkey on their move to a sustainable, economically sound, socially fair and environmentally balanced path to development. On the basis of this analysis and an assessment of the anti-crisis plans adopted by governments, policy recommendations have been developed on how to improve the employment dimension of recovery plans and strengthen employment strategies. The discussions during the Conference will validate their relevance and feasibility, as well as outlining the related constraints. The ILO, together with other relevant United Nations agencies and international organizations, stands ready upon request to advise national policy-makers on the improvement of their recovery and the development of policies that are more effective and efficient, and to provide focussed technical assistance for their implementation through Decent Work Country Programmes and United Nations Development Assistance Frameworks.

Annex 1

IMF Programmes in the region

As fiscal and current account balances vary significantly, some countries have faced greater constraints than others as they implement responses to the recession. Despite the desirability of counter-cyclical monetary policy in the current economic situation, most countries in the region have been faced with large levels of foreign debt, high inflationary pressures and massive capital flight, severely limiting their policy space to respond to the crisis. Several countries in the region have therefore found it necessary to obtain emergency loans from the IMF. Of the countries in the region, currently Armenia, Belarus, Georgia, Kyrgyzstan, Tajikistan and Ukraine are under IMF programmes. There has also been increasing talk of the Turkish Government seeking a loan from the IMF before the end of the year, although nothing has as yet emerged.⁵⁶

Ukraine has had to borrow from the IMF as a result of large capital outflows and high levels of foreign debt. In November 2008, the IMF and others provided the Ukrainian Government with an emergency loan of USD 16.4 billion. This came with conditions under which the authorities have to aim “to restore financial and macroeconomic stability by adopting a flexible exchange rate regime with targeted intervention, a pre-emptive recapitalization of banks, and a prudent fiscal policy coupled with tighter monetary policy”.⁵⁷ According to the IMF, “resolute implementation of the program should help reduce inflation to single digits by the end of the program”.⁵⁸

The impact of the devaluation of the hryvnya on enterprises and workers, as well as the extent of capital outflow and pressure on the exchange rate, has been significant. The hryvnya to dollar rate almost doubled over the three months to late December 2008. Such a large depreciation had adverse consequences for workers and other consumers, who have had to pay higher prices for many basic commodities that are imported. More importantly, many companies – and many middle-income families – had borrowed money in foreign currencies in recent years. These firms and families now face huge increases in the local currency cost of their loan repayments. The effects on the current account has seen what was formerly a negative balance now moving into positive territory, as the weaker hryvnya has helped improve the country’s terms of trade.

Georgia’s IMF programme was agreed upon in September 2008 for 18 months for an amount of USD 750 million. However, it has to be set in the context of the country’s August 2008 armed conflict with the Russian Federation. The economic crisis, as well as the conflict with the Russian Federation, combined to halt what had been a period of impressive economic growth and the effects of both exacerbated worsening economic conditions in the autumn of 2008. Since then, the country has received support from donors, including the United States, the European Union and

⁵⁶ “Fund Management,” *The Economist*

http://www.economist.com/displayStory.cfm?story_id=14041662

⁵⁷ IMF: “IMF approves US\$16.4 billion stand-by arrangement for Ukraine”, Press release No. 08/271, 5 November 2008

⁵⁸ Ibid.

the IMF, following an international donor conference in October 2008. A large proportion of the USD 4.5 billion in grants and loans, to be disbursed over the course of three years, is intended for the banking sector (around USD 800 million). A recent extension of USD 420 million from the IMF, and a lengthening of the Stand-By Agreement for another two years, should also help to combat the reversal of financial flows that is being experienced by the country.

Armenia accepted a USD 540 million loan from the IMF, the first part of which was delivered in March 2009. The country has also received a USD 500 million loan from the Russian Federation, in addition to World Bank funds of USD 525 million for 2009-2012. The Asian Development Bank, which has forecast an economic contraction in Armenia of 9.5 per cent in 2009, is providing two loan programmes of USD 80 million each in order to offset potential cuts in social spending by the Armenian Government.⁵⁹

Belarus entered a Stand-By Agreement with the IMF in December 2008 for USD \$2.5 billion. One of the principal macroeconomic measures included the immediate reform of the exchange rate regime, a devaluation of the currency by 21 per cent and the requirement to remain within 5 per cent of a currency basket that includes the US dollar, the euro and the Russian rouble.

Among the Central Asian economies, Tajikistan's external financial support from the IMF is currently in the form of a three-year USD 116 million arrangement under the Poverty Reduction and Growth Facility (PRGF) starting from April 2009. The country is also receiving support from the Asian Development Bank. In the case of Kyrgyzstan, in addition to its IMF programme, the Government has also received nearly USD 2.3 billion from the Russian Federation to help combat the effects of the crisis.⁶⁰

⁵⁹ [“ADB to Provide \\$200 Million Crisis Support for Armenia, Georgia, Tajikistan”](#), Asian Development Bank, 8 July 2009

⁶⁰ [“Kyrgyzstan: Russia Economic Assistance Gives Bishkek a Lift,” Eurasianet.org, 4 April 2009](#)
<http://www.eurasianet.org/departments/insightb/articles/eav040909b%20.shtml>

Annex 2

Inventory of employment policy measures taken

1. Stimulating labour demand

Country	Fiscal spending on infrastructure	Public employment	Targeted employment programmes		New support to small enterprises and micro-entrepreneurs		
			Introduction of new programmes	Recent expansion of existing programmes	Access to credit	Access to public tenders	Subsidies Tax reductions
Armenia	X	(X)			X		X
Azerbaijan	X	(X)		X			
Belarus	X				X		X
Georgia	X						
Kazakhstan	X	X	X	X	X	X	X
Kyrgyzstan	X	(X)			X		
Rep. of Moldova		(X)					
Russian Federation	X	X	X	X	X	X	X
Tajikistan		(X)			X		X
Turkey	X	X	X		X		X
Ukraine	X	X	X				X
Uzbekistan	X	X			X		X

(X) Public works schemes are available but have not been significantly expanded as an anti-crisis measure.

2. Supporting jobseekers, jobs and unemployed

Country	Helping the unemployed to find a job			Employment retention measures			Measures to protect the unemployed	
	Additional retraining and other active labour market programmes	Increased capacity of PES	New measures for migrant workers	Work-time reductions (including administrative leave)	Subsidized partial unemployment, training measures for affected workers	Wage reductions	Extension of unemployment benefits	Additional social assistance/ protection measures
Armenia						X		
Azerbaijan	X		X					
Belarus				X				
Georgia								
Kazakhstan	X			X	X		X	X
Kyrgyzstan								
Rep. of Moldova								
Russian Federation	X	X	X	X	X	X	X	
Tajikistan	X	X						
Turkey	X				X			
Ukraine	X	X	X	X	X	X		X
Uzbekistan								