



Employment Services and Active Labor Market Programs in Eastern European and Central Asian Countries

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Abstract

The objective of this paper is to look at employment services and labor market policies in the transition countries of Eastern Europe and Central Asia, and identify key benefits and constraints of active labor market programs, as well as the main characteristics and features of successful policy interventions. Various policy options are discussed on how to enhance public employment services but also private employment agencies which might be relevant to and suitable for the countries in the region given their macroeconomic and labor market situation. Overall, this report recommends that greater resources will be needed for active labor market programs (ALMPs) in the future. However, the emphasis should be put on improving the design and effectiveness of ALMPs, rather than on increasing spending levels only.

Keywords: Public and private employment services; Active labor market programs; Labor market monitoring.

JEL classification: H53, J21, J64, J68.

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ABBREVIATIONS AND ACRONYMS

ALMP	Active Labor Market Programs
CIS	Commonwealth of Independent States
CV	Curriculum Vitae
EC	European Commission
ECA	Eastern Europe and Central Asia
EES	European Employment Strategy
ESA	Employment Service Agency
ETF	European Training Foundation
EUR	EURO
EU	European Union
FYR	Former Yugoslav Republic
GDP	Gross Domestic Product
ICT	Information and Telecommunication Technology
ILO	International Labor Organization
ISCO	International Standard Classification of Occupations
IT	Information Technology
LDS	Labor Demand Survey
LEO	Local Employment Office
LFS	Labor Force Survey
LMIS	Labor Market Information System
LMP	Labor Market Program
LMT	Labor Market Training
MES	Module of Employable Skills
MIS	Management Information System
NGO	Non-governmental Organization
NES	National Employment Service
OECD	Organization for Economic Cooperation and Development
PES	Public Employment Service
PIMS	Performance Information and Management System
RIC	Rehabilitation Information Center
SEE	South East Europe
SOEs	State-owned Enterprises
UI	Unemployment Insurance
UK	United Kingdom
UNICEF	United Nations Children's Fund
VET	Vocational Education and Training
VIGC	Vocational Information and Guidance Center
WAPES	World Association of Public Employment Services

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Introduction

Most countries in Eastern Europe and Central Asia (ECA) have established the two main employment programs found in other countries in Europe: (i) an unemployment benefit (passive) program, providing temporary cash assistance to the unemployed, and (ii) active labor market programs (ALMPs).¹

In most transition countries, public employment services (PES) emerged in the early 1990s as a response to massive labor market adjustments in the economy associated with restructuring and privatization of state-owned enterprises (SOE).² Typically, PES are responsible for all aspects of employment service provision – registering the unemployed, paying unemployment benefits to those who are entitled, giving advice, guidance and counseling to jobseekers, and delivery of active labor market programs. National public employment services are commonly governed by a Managing Board comprising representatives of the government and social partners.

Generally, public employment services in the countries of the ECA region are facing a number of severe problems: it lacks funds; is understaffed and is heavily constrained by a fragmented network of employment offices; is an old-fashioned system of employment services of limited menu and scope; and, does not have access to labor market information and the wide range of potential modern labor market measures and techniques. Budget constraints are limiting the prospects of implementing active labor market measures with real impact. An additional problem is the lack of modern ICT technology, which slows down the work and leads to lower efficiency.

Moreover, many employment services in the region operate in a very difficult environment of demand-deficient labor markets and double-digit unemployment rates, which is more typical of developing countries; services are very limited and the programs are underfunded. Also staff caseload is enormous – even up to over 1,800 registered unemployed per one PES staff in Kosovo, and 650 unemployed in FYR Macedonia (end-2008). Employment programs are often geared towards the activities with high unit costs and low participation. Program evaluation has been weak, and only in a few countries, a net impact analysis of ALMPs provided by PES has been conducted. So looking for ways to improve the design and targeting of ALMPs, mitigate institutional constraints and

¹ In this paper, ECA countries are divided into three subgroups: (i) *EU10*: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia; (ii) *South East Europe (SEE)*: Albania, Bosnia and Herzegovina, Croatia, Kosovo, Montenegro, Serbia and FYR Macedonia; and (iii) *Commonwealth of Independent States (CIS)*: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Ukraine, and Uzbekistan (no data are available on Turkmenistan). The EU15 includes Austria, Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom.

² With the exception of the former Yugoslavia. For example, public employment services were established in Serbia in 1945 under the name of Public Labor Exchange.

adopt more cost-effective programs is critical to enhance the impact of employment services.

In 2006, an estimated total of 223 billion euro (1.9 percent of GDP) was spent across the EU on labor market policy (LMP) interventions, which are classified into three main types – services, measures and supports.³ Nearly 60 billion of this total (27 percent) was spent on LMP measures, which aim to 'activate' the unemployed and other disadvantaged groups in the labor market (Eurostat 2009a). Expenditures for relevant policy interventions in ECA countries are much lower, varying from 0.01-0.02 percent of GDP in Kyrgyzstan and Azerbaijan to 0.6 percent in Hungary and Slovakia and 1.0 percent in Poland (2007).

However, even in EU-15 countries with much larger budgets for ALMPs and years of experience in provision of relevant programs, there is still a high rate of return into unemployment or inactivity among those who have been targeted by ALMPs. Lessons learnt from this phenomenon include the need for early identification of jobseekers' needs and the tailoring of ALMPs to these needs. The value and effectiveness of labor market policies also depend on how they are coordinated with other variables.

Effective active labor market policies are one of the four cornerstones of flexicurity policies promoted by the EU and ILO (EC 2007a). ALMPs help unemployed people back to work through job placement services and labor market programs such as training and job creation. By implementing 'active labor market policies' such as an efficient job search support and good work incentives, jobseekers can be encouraged to find new employment.

It is up to the countries in the region to identify the priorities of programs that can improve future employment and earnings prospects of beneficiaries in a cost-effective manner. The recent analysis of the impact of ALMPs in OECD countries suggests that an increase in the intensity of spending on ALMPs (defined as the percentage of GDP allocated to active policies divided by the unemployment rate) accounts for 10 to 20 percent of the total increase in the employment rate observed during the period 1997–2002. The results of an analysis using the OECD's expenditure breakdown for ALMPs suggest that the expenditure category with the most significant and positive impact on the

³ Three different types of intervention are recognized: *Services* refer to labor market interventions where the main activity of participants is job search-related and where participation usually does not result in a change of labor market status. *Measures* refer to labor market interventions where the main activity of participants is other than job search-related and where participation usually results in a change in labor market status. An activity that does not result in a change of labor market status may still be considered as a measure if the intervention fulfils the following criteria: (a) the activities undertaken are not job search-related, are supervised and constitute a full-time or significant part-time activity of participants during a significant period of time, and (b) the aim is to improve the vocational qualifications of participants, or (c) the intervention provides incentives to take up or to provide employment (including self-employment). *Supports* refer to interventions that provide financial assistance, directly or indirectly, to individuals for labor market reasons or which compensate individuals for disadvantage caused by labor market circumstances. See Eurostat 2009a.

employment rate is spending on public employment services and administration (that is, job search assistance) (EC 2005).

Currently a labor market situation in many ECA countries can be characterized as lack of demand for labor. Especially in such situations labor market interventions may not be particularly successful, or the programs and their unit costs per beneficiary might be especially high to have a meaningful and cost-effective impact on the ground. On the other hand, structural unemployment is on the rise associated with the skills mismatch on the labor market. In general, ALMPs are much more effective at addressing structural, rather than demand-deficient, unemployment.

The European Employment Strategy suggests that Member States should, first, modernize and reinforce the institutions of the labor market, especially employment services; and, second, should carry out regular assessments of the efficiency and effectiveness of labor market programs, and modify these programs based on these assessments. These tasks are acute in other countries in the region as well.

The objective of this paper is to look at employment services and labor market policies in ECA transition countries, and identify the key benefits and constraints of active labor market programs, as well as the main characteristics and features of successful policy interventions. Various policy options are discussed on how to enhance public employment services (PES) but also private employment agencies which might be relevant to and suitable for the countries in the region given their macroeconomic and labor market situation. Respectively, the main target audience of this paper is policy makers in this field in the ECA region and beyond.

This policy note focuses on two main topics. Chapter I focuses on institutional constraints in provision of employment programs and ways to improve the capacity of PES. In Chapter II, characteristics of ALMPs provided by PES and private agencies, and ways to enlarge the menu of more cost-effective programs and/or enhance the existing programs are discussed. In conclusion, a summary of policy recommendations is given.

We selected good practices in the fields that are most relevant to the employment services in the region. We do not only draw on the publications on the topic, but also from our practical experiences in providing advisory services to PES within the framework of numerous World Bank projects in developing and implementing labor market programs in the region. References are made to relevant documentation from the World Bank projects.

The main findings of the paper are as follows:

- Labor market developments are heavily uneven in the region. As far as unemployment is concerned, prior to the major economic downturn in 2008/09, Kosovo had the highest unemployment rate in Europe and Central Asia (ECA) at 44 percent (2007), followed by FYR Macedonia, 34 percent (2008). On the other end of the spectrum, the LFS-based unemployment rate was only about four

percent in Moldova, the Czech Republic and Slovenia. Variations in the labor market situation strongly affect the scope of activities of PES, and the menu of ALMPs.

- In ECA countries, allocations to finance LMPs are relatively low, varying from 0.01-0.02 percent of GDP in Kyrgyzstan and Azerbaijan to up to 1.0 percent in Poland (2007). Differences in the rate of registered unemployment may also explain the variance in expenditure levels.
- In addition to funding, public policies to combat unemployment largely depend on the capacity of relevant institutions. Overall, in many countries, the number of frontline counselors/advisers is totally inadequate for delivering ALMPs, specifically effective and personalized mediation services. ECA countries may consider more active involvement of the private sector in the provision of labor market services such as training, job brokerage and other services, as an integral part of PES reform. Contracting out is the most frequently used method for making PES activities contestable at least to some degree.
- The countries have different priorities in provision of ALMPs. By the structure of budgetary allocations, for example, in 2008 Estonia spent 71 percent of the total expenditures on training; Croatia, 75 percent of expenditures on employment incentives; Bulgaria, 71 percent on direct job creation programs; and FYR Macedonia, 72 percent on start-up incentives. By the number of beneficiaries, the most popular programs tended to be career counseling and professional orientation; job search assistance, training, and public works.
- Given that many registered jobseekers are not genuinely unemployed but may be employed informally or are economically inactive, PES in the region should focus even more on activation policies. This entails a combination of rights and obligations of the unemployed, emphasizing obligations to work followed by economic incentives and sanctions to seek and accept work.
- Profiling of jobseekers in some form has the potential to provide a systematic basis for allocating scarce finances, and improve targeting of ALMPs on the condition that the caseload of employment counselors be significantly reduced, thus allowing the outcomes of the programs to be monitored.
- A relatively small portion of vacancies are registered at PES. In order to increase vacancy notifications, PES and jobseekers themselves should be more proactive in identifying job openings and breaking into the “hidden job market”, be it better marketing and services to employers from PES side, to more active networking or direct employer contact from the jobseekers’ side.
- Given PES staff constraints in many countries, job counseling for jobseekers may be improved by focusing more on group-based activities, such as collective sessions on labor market information, job counseling and job search skill training programs which offer practical assistance to the unemployed in their efforts to

find new employment. Another way to combat human resource and budget constraints is to move away from costly face-to-face interactions and towards the extension of self-service facilities for jobseekers and employers who can contact each other through these self-service systems without the intervention of placement officers.

- International experience suggests that career guidance counseling services, and various job search assistance programs, such as job search skills training programs, job clubs, vacancy and job fairs, etc., are the most cost efficient and effective ALMPs in the region, given that a reasonably buoyant supply of job vacancies is available.
- Evidence on ECA shows rather positive impacts of training for participants, with relatively proven cost-effectiveness, compared to OECD countries. On-the-job training and employer involvement and sponsorship seem to be associated with more positive outcomes than classroom training and programs that do not have connections to the private sector.
- Direct job creation programs, such as public sector work programs, assistance to self-employed businesses, wage subsidies and work trials, are common only in a few ECA countries but outcomes of such interventions are mixed. For example, public works programs may be an appropriate intervention for needy prime-age workers who have little chance of finding scarce private-sector jobs.
- The information and research function in the labor and employment sector in many countries in the region is underdeveloped. This has a negative impact on a country's ability to prepare and implement adequate labor and employment policies and measures. Labor market information is also critical for educational and training institutions.

Chapter I. Labor Market Situation, and Performance of Employment Services

1.1. Overall labor market situation

The labor market is a key factor market, which influences overall economic efficiency. In a dynamic, flexible labor market, workers are able to switch jobs relatively quickly, thus facilitating the opening of more productive jobs and the disappearance of less productive ones. Moreover, dynamic labor markets encourage businesses to create jobs and contribute to higher employment-population ratios. In contrast, large barriers to formal employment push workers into less productive informal sector jobs, and into inactivity.

In order to create more and better jobs, ECA countries need to pursue a two-pronged strategy. First and foremost, the countries need to improve the investment climate and lower the cost of doing business to encourage entry and growth by firms. There is a need to provide adequate incentives for firms to be established and grow, in order to expand for job creation as well as accelerate absorption of workers displaced by structural changes. Second, labor market institutions need to be reformed, including employment services, to create an adaptable labor market, that is, a market where employers have incentives to hire workers, and workers have incentives and skills to take-up available jobs (See Rutkowski and Scarpetta 2005 for the details).

Therefore, the challenge of job creation can only be addressed through a comprehensive strategy that has both economic and social elements and that addresses both labor supply and labor demand. The World Bank has developed a framework for the analysis of the main factors impacting employment, in particular, including **M**acroeconomic performance, **I**nterest rate, **L**abor market policies and institutions, **E**ducation and skills, and **S**afety nets for workers. MILES, the name of the framework, is the acronym summarizing these five determinants of job performance (Table 1; World Bank 2008c). By assessing all of the factors, the analysis can determine the binding constraints to the creation of more and better jobs, and thus identify policy priorities.

Table 1. MILES Jobs Framework

	Policy issues
Macroeconomic conditions	Conditions for growth Macroeconomic stability
Investment climate	Regulatory environment Government transparency Taxes Financing Infrastructure Legal environment
Labor market policies and institutions	Labor market regulation Wage-setting Non-wage costs
Education and skills	Basic education Higher education Training and lifelong learning

Source: World Bank 2008c.

The successful integration of jobless individuals into the labor market depends, to a large extent, on a country's overall labor market performance. In particular, private sector expansion will lead to an increase of formal employment, including the youth.⁴

Currently many ECA countries are experiencing a labor market situation that can be characterized as lack of demand for labor. The data on employment dynamics between 2007 and 2008 confirm that employment growth is negligible in most ECA countries for which the labor force survey data are available, especially compared to the pool of survey-based or registered unemployed. In many countries, such as Belarus, Hungary, Lithuania, and Serbia, the total employment for that period actually decreased (Annex Table 1). In such situations, labor market interventions may not be particularly successful, or the programs and their unit costs per beneficiary might be too high to have a meaningful impact on the ground.

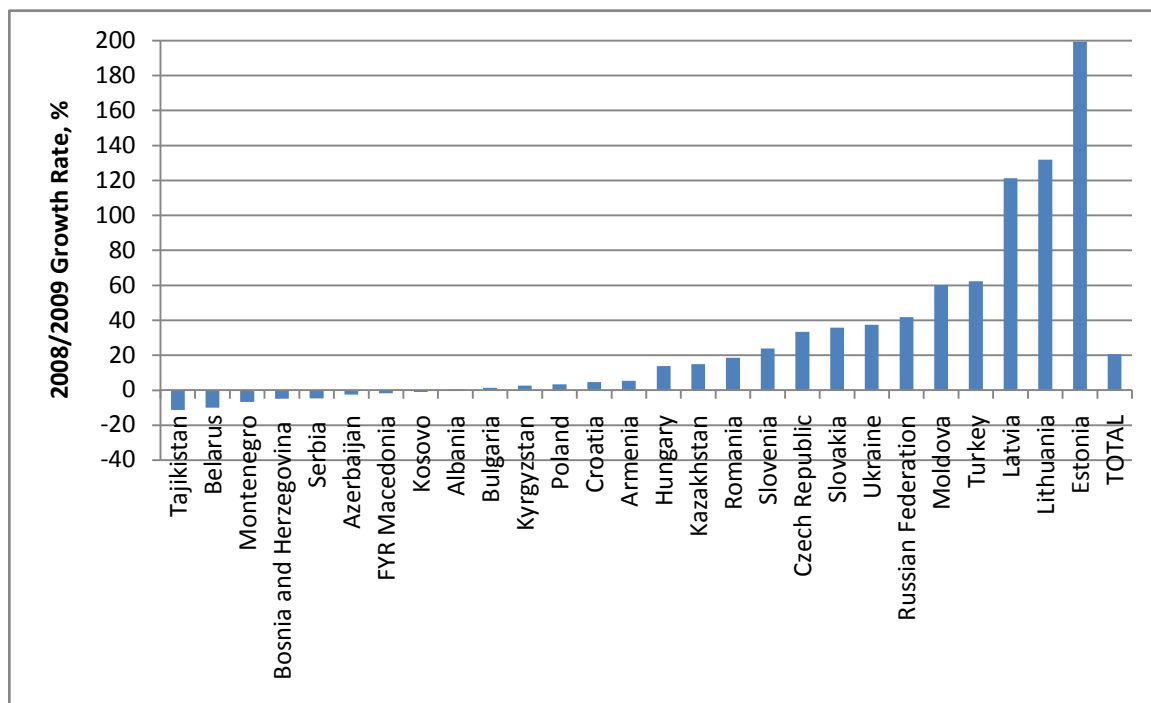
On the other hand, among the EU10 and in some CIS countries, structural unemployment recently became more prevalent and was associated with the skills mismatch on the labor market whereby excess demand for some skills coexists with an overabundance of other skills. For example, there is an excess supply of less-skilled blue- and white-collar labor. Such a mismatch of skills negatively affects economic performance and social welfare; it also hampers the growth of firms and may limit the creation of jobs (World Bank 2009). This shift has important ramifications on the activities of PES since ALMPs are much more effective at addressing structural, rather than demand-deficient, unemployment.

The recent global economic downturn is affecting most labor markets in the Europe and Central Asia region severely. In some countries, what began as a crisis in financial

⁴ In order to be effective, ALMPs require a reasonably buoyant supply of job vacancies. As the OECD Jobs Study has stressed, more effective active policies are only one element in a comprehensive strategy of macroeconomic and microeconomic measures required to cut unemployment significantly (OECD 1994).

markets has become a serious jobs crisis. Unemployment is rising in most countries but is rising most rapidly in the Baltic states. Overall, in 26 ECA countries for which data are available, between March 2008 and March 2009, registered unemployment increased from 8.617 million individuals to 10.079 million, or around 17 percent⁵ (Annex Table 2).

Figure 1: Growth Rates of Registered Unemployment in ECA Countries, March 2008–March 2009



Source: National Employment Services.

Powerful regional demographic forces are working to expand a labor force and creating concentrated problems in youth unemployment. Due to relatively high fertility rates in the past and the favorable age structure of population, the number of working-age population (aged 15-64) is rapidly increasing in most Central Asian countries of the CIS and in Azerbaijan, and in several countries in South East Europe, such as Albania and Kosovo. In the latter, with the worst labor market situation in Europe, it is expected that roughly 200,000 young people will reach the working age in the next five years, while the number of persons reaching retirement age will be approximately 60,000 (PISG 2006). Respectively, competition for jobs and employment will increase. The economy of the countries with fast-growing working-age populations should therefore grow particularly fast to reduce poverty levels.

In the other group of ECA countries, while the generation of youth born in the 1990s—when birthrates declined rapidly—will enter the labor force, the number of labor market

⁵ Georgia, Turkmenistan, and Uzbekistan do not register unemployment or make the data public.

entrants will shrink rapidly.⁶ This will lead to ageing of the labor force with consequences relevant to public policies (See World Bank 2007b for the details).

Especially in low-income countries in the region, a recent upsurge in job growth is due mainly to the expansion of agriculture. The prevailing rural economies are a result of survival strategies accompanying economic reforms. In the long run, an agriculture that is poor in investment and capital can hardly be sustainable and competitive, even in the internal markets. An increase in labor productivity in agriculture and relevant labor shedding are prerequisites to transform the sector from subsistence farming to agricultural business. In the long run, it will impact the labor supply of a country. To maintain the high employment rates in villages, more nonagricultural jobs in rural settlements should be created.

The high informal sector in many ECA countries also has a major impact on labor market interventions. Hired employment, which is largely formal, differs significantly from country to country: from 34-41 percent of the total employment in Albania, Azerbaijan, Georgia and Uzbekistan to 93 percent in Russia and 94 percent in Belarus (CIS STAT 2007).

Currently, reflecting the impact of transition reforms on labor markets, the employment rate in the region varies from 27 percent in Kosovo, 37 percent in FYR Macedonia and 41 percent in Bosnia and Herzegovina to 70 percent in Estonia and 69 percent in Slovenia and Latvia (2008; Table 2).

⁶ In 2006, the total fertility rate was as low as 1.18 in Bosnia and Herzegovina, 1.24 in Slovakia and 1.27 in Poland (UNICEF 2008).

Table 2: Employment and Unemployment Rate of Population in Eastern European and Central Asian Countries, and in EU27 and EU15 Countries, Aged 15-64 (%)

	Employment rate	Unemployment rate	Long-term unemployment rate
EU-27	65.9	7.0	37.1
EU-15	67.3	7.1	36.6
Czech Republic	66.6	4.4	50.0
Hungary	56.7	7.8	46.2
Poland	59.2	7.1	33.8
Slovakia	62.3	9.5	69.5
Slovenia	68.6	4.4	43.2
Estonia	69.8	5.5	30.9
Latvia	68.6	7.5	25.3
Lithuania	64.3	5.8	20.7
Bulgaria	64.0	5.6	51.8
Romania	59.0	5.8	41.4
Albania	56.7*	12.7 a)	...
Croatia	44.4 b)	8.4 b)	70.2
Bosnia and Herzegovina	40.7	24.0	75.7
Kosovo*	26.5	43.6	85.0
Serbia	53.7	14.4	70.5
Montenegro	50.8	16.9	79.4
FYR Macedonia	37.3	33.8	...
Armenia	48.1	23.9	58.4
Azerbaijan**	63.7	7.1	66.0
Georgia*	57.8	15.8	....
Kazakhstan	66.4 b)	6.6 b)	42.4 b)
Moldova	42.5 b)	4.0 b)	...
Russia	63.4 c)	6.3 c)	27.1 d)
Ukraine	59.3 e)	6.4 f)	20.6

Note: * - 2007. ** - 2006. ... - not available. a) - registered unemployed. b) - aged 15+. c) - aged 15-72. d) - May 2009. e) - aged 15-70.

Source: 2008 Labor Force Survey Data (or the latest available data); Eurostat online for EU10 countries; National Statistical Agencies for SEE and CIS countries.

As far as unemployment is concerned, based on the LFS data, Kosovo has the highest unemployment rate in Europe and Central Asia (ECA) at 44 percent (2007), followed by FYR Macedonia (34 percent; 2008), Bosnia and Herzegovina, and Armenia (both 24 percent; 2008). On the other end of the spectrum, the LFS-based unemployment rate was about four percent in Moldova, the Czech Republic and Slovenia, and less than six percent also in Estonia, Bulgaria and Romania (2008).⁷ Variations in labor market situation strongly affect the scope of activities of PES, and the menu of ALMPs.

What is important to the activities of PES is the number and dynamics of the registered unemployment. In many countries, registered unemployment rates significantly exceed survey-based unemployment (for example, in the Czech Republic, Croatia, FYR

⁷ The global economic downturn made substantial corrections into employment and unemployment levels in the region. See Figure 1; Annex Tables 2 and 5.

Macedonia, Hungary, Poland, and Slovenia), since registration as being unemployed might be a precondition for free access to health insurance or social assistance for many who are de facto inactive or informally employed. For example, in Croatia in 2008, the number of registered unemployed was 75 percent higher than the number of survey-based active jobseekers (Annex Table 1).

By comparison, in other countries, particularly in the Baltic states and CIS countries, registered unemployment is much lower than survey-based unemployment, predominantly due to low access to unemployment benefits and active labor market programs. For example, in Kazakhstan, only eleven percent of the unemployed registered with PES, and in Armenia, 26 percent (2008).

Registered unemployment statistics are further distorted by the fact that in many ECA countries, income-earning activities, such as agricultural work or agro-business/farming, are not considered to be a job or as employment. Farmers cannot therefore be registered as unemployed, or cannot claim the unemployment benefit since they lack social insurance record. For example, in Azerbaijan, according to the Law on Employment, individuals who own agricultural land are considered to be employed and are also not eligible to be classified as unemployed. In brief, the employment services remain geared towards a pre-transition economy of supplying labor to state-owned enterprises.

Active job search is one of the key requirements to be considered unemployed. However, the definition of active search includes individuals with different job search intensities. Some individuals search for jobs only by registering in PES. Other “semi-passive” seekers place an ad and/or check for jobs with family/friends, while “more active” seekers undertake several activities to seek employment.

As an example, by the 2006 LFS data, in FYR Macedonia 82 percent of the unemployed register themselves at the Employment Service Agency (ESA) but one third of the unemployed relied on being registered in the employment office as the only job-seeking mechanism, while 49 percent of the registered unemployed used other means. If we look at the most active job search instruments, such as those individuals who placed an ad, answered an ad, contacted employers, and/or participated in job interviews, only 53 percent of the survey-based unemployed used such job-seeking mechanisms (Angel-Urdinola and Macias 2008).

Moreover, by December 2007 data, 75,508 persons had registered at the Employment Agency by submission of a statement that they registered for the purpose of acquiring their right to health insurance. The number of registered unemployed for that purpose more than doubled from 30,197 individuals in June 2006 when such a survey was launched for the first time. Most registrants represented national minorities (Albanians, Roma, Serbs, and Turks), 62 percent, and the highest share of this population (85 percent) were within the category of unqualified and semi-qualified persons.⁸

⁸ By some estimates of the ESA staff, the actual number of persons in Macedonia registered to acquire the right to health insurance might be close to 100,000 individuals. By the end of 2007, 245,000 registered unemployed, or around three fourths of the total were insured through the ESA, while the rest of the

The activation of registered jobseekers in the ECA region is constrained by the fact that the ratio of unemployment beneficiaries is commonly very low, and availability and access to ALMPs is limited too. By the end of 2008, the ratio of unemployment beneficiaries out of the total number of registered unemployed was very low in Kazakhstan (only 0.5 percent of registered unemployed received rather low benefit); Tajikistan (1.8 percent), and Republika Srpska of Bosnia and Herzegovina (2.3 percent). On the other end of the spectrum, in Russia, 82 percent of the registered unemployed and 77 percent in Ukraine received the benefit (Annex Table 3). Low benefit penetration ratio can be attributed to the long-term unemployed dominating among the registered unemployed who have exhausted their entitlement and also to the many first-time jobseekers lacking a sufficient insurance record to claim the benefit.

Several major groups of jobseekers are especially vulnerable in the labor market, including, among other groups, (i) the long-term unemployed, (ii) youth, (iii) groups with low levels of education, and with only general education, e.g., without vocational/professional skills, and (iv) the groups representing national minorities. In most ECA countries, these groups form the major part of the registered unemployment.

Pertaining to the first group, high unemployment in many countries in the region is compounded by its long duration. By the end of 2008, 77 percent of the registered unemployed in Serbia, 73 percent in Republika Srpska of Bosnia and Herzegovina, and around two thirds of the registered unemployed in Albania, Armenia and Azerbaijan were long-term unemployed (Annex Table 3; see also Table 1). High levels of long-term unemployment (defined as unemployment spells longer than 12 months) are particularly detrimental from a social perspective, since the concerned individuals and their families are particularly threatened by poverty and social exclusion. Many of these jobless have no qualifications, and/or a low level of education. They may have multiple employment barriers, including cognitive and health-related barriers, and difficult home lives (for example, lack of transportation, many children, child care problems, domestic violence), which makes their employability a problem for PES. De facto, a significant portion of the long-term unemployed, if not working informally, have completely lost touch with the labor market. Moreover, employers highly value recent work experience when recruiting workforce, and individuals with a long break in their work history, or without any work experience, have little chances of being recruited in the current labor market situation.

Second, unemployed youth represent another group of jobseekers that is particularly vulnerable in the labor market. The ratio of youth among the registered unemployed is especially high in the countries with historically high fertility rates and a young population structure, such as in Albania, Kosovo, and Tajikistan (Annex Table 3). Education, or rather the lack of it, plays a key role in this. Young people with a low educational attainment are much more likely to be affected by (long-term)

unemployment pool were insured through their employed or other eligible family members (World Bank 2008a).

unemployment, inactivity, or difficult school-to-work transitions than youth with upper secondary or university education.

Youth unemployment and difficulties associated with the successful integration of young people in the labor market remain a challenge for most European countries. Even in the EU, despite an increasingly better-educated youth population, young people in many Member States still face considerable problems in making the transition from education into employment. As stated in “Employment in Europe 2007”, “Youth in precarious jobs or long periods of inactivity are especially at risk of economic and social exclusion. Addressing school failure and familiarizing youth with working life are needed... ..along with effective activation strategies and removing obstacles to hiring young people.” (EC 2007b).

Young job-seekers are in a difficult position because they are newcomers with little experience. Another factor coming into play is the reluctance of employers to recruit inexperienced young people (and also individuals with a long break in their work history), and to invest in their training. Youth are often trapped in precarious and temporary employment, which prevents them from moving into permanent work arrangements. Low pay is also a rather common feature of jobs performed by young people. The youth with neither vocational education nor experience are so uncompetitive that even considerable improvement in labor market conditions and employment growth may not improve their situation. Unemployment early in a person’s working life has been shown to increase the probability of future joblessness and lower future wages.

The situation is exacerbated by the low level of professional education among the young jobseekers, and their unwillingness or inability to invest in the upgrading of their skills. A survey conducted in Armenia among the youth registered at the State Employment Service (SES) confirmed that more than half with no specialty (58 percent) do not intend to enhance their level of education, and accordingly receive a specialization, and another 38 percent would enhance their level of education if they had the financial means. Unemployed women are more prone to enhance their level of education, but will attempt to do so only if the corresponding possibilities are in place (World Bank 2007a).

Young women and men are hindered in their search for jobs by a number of factors. First, many enterprises do not advertise vacancies and rely on informal means to recruit workers, which is a disadvantage to inexperienced and ill-connected youth. Second, when jobs are advertised, the qualification and work experience requirements seem to automatically exclude many young applicants. Third, many young people lack the basic job search skills that would allow them to take advantage of employment opportunities.

The third major and difficult group for PES are jobseekers with a very low level of education, or those jobseekers without professional education and without any occupational skills. More than half of registered unemployed are with below secondary general education in Bulgaria (including a large part of Roma population), Montenegro and FYR Macedonia. Also quite a significant portion of registered unemployed are with

only secondary general education in Tajikistan, 64 percent, in Armenia, around one half, and in Belarus, 40 percent (Annex Table 3).

Short-term training courses provided by employment offices for part of the jobseekers do not seem to address this problem, since those participating in the courses that exist obtain neither adequate training to actually be qualified nor a certificate of qualification on completion. What is needed is to minimize the dropout rate from schools and to provide more opportunities for those who want to re-enter the education system. Recognition of qualifications obtained outside the formal education system is also important in this respect.

Despite the difficult labor market situation, some ECA countries have quite intensive inflows and outflows from the pool of the registered unemployed. In 2008, the highest intensity of stock flows was registered in Belarus where on average 38 percent of the newly registered unemployed entered the roster every month but around 40 percent of the monthly pool of unemployed left the roster every month, on average, as well. Quite intensive inflows/outflows were registered also in Lithuania and Russia (Annex Table 4). In contrast, Kosovo, Albania, FYR Macedonia, Azerbaijan and several other countries had a stagnant pool of registered unemployment in which monthly inflows but also outflows account for less than five percent of the total number of unemployed every month. Basically, it means that once registered at PES, the jobseeker remains on the roster for a long period of time.

There are two main reasons for leaving the roster of registered unemployed: first, the person has found a job, and second, individuals are erased from the roster for noncompliance with the labor legislation, mostly for not registering periodically at PES, e.g., not confirming their unemployment status (other reasons may include migration, reaching retirement age, death, etc.). In some countries, the number of unemployed who found a job during the year (mostly on their own) is also quite significant, indicating that the labor market is not as stagnant as the labor market statistics may point out.

In Belarus in 2008, a quarter of the registered unemployed on the roster found a job on average every month. Compared to the number of registered unemployed at the beginning of 2008, the annual stock of jobseekers placed in a job during the whole year exceeded that number in the Czech Republic, Lithuania, and Montenegro as well. In the lower end, only two percent of the registered unemployed were placed in a job during the year in Kosovo and Azerbaijan indicating a lack of demand for labor but primarily passiveness among PES and jobseekers themselves in finding job opportunities.

So too, in analyzing labor supply, we cannot ignore the labor potential of the currently inactive population. Although a portion of the inactive population of working age do not want to work, cannot work, or are unable to work (students, early retirees, disabled, household members taking care of children or other dependants), part of the inactive population at that age can be considered discouraged workers who want to work and would be ready to start working, but for various reasons they are not actively looking for

a job. In some ECA countries, these discouraged individuals constitute a significant share of the working-age population.

1.2. Vacancies registered by PES

Data on job vacancies are critical for assessing the demand for labor and the skills shortage. Thus, vacancy registration and advertisement is one of the main activities for PES. In most OECD countries between 10 percent and 50 percent of all new hires in the economy are preceded by the registration of a vacancy with PES (OECD 2000). In order to achieve its objectives, both in terms of effectively working labor markets and social equity for disadvantaged groups, it is often considered vital for PES to register as many vacancies as possible. Experience from EU member countries suggests a number of factors increase the quantity and quality of vacancy registrations. In addition to the marketing and services to employers to increase vacancy notifications discussed above, the employment service can register vacancies advertised elsewhere.

In many ECA countries, the registered jobseekers-to-vacancy ratio is very high. In 2008 during the course of the year, there were on average 580 registered unemployed per one vacancy registered by PES in Kosovo; 100 registered unemployed in Republika Srpska of Bosnia Herzegovina, 84 registered unemployed in Albania, and over 50 registered unemployed per one vacancy, on average, in Armenia. On the other hand, there were more vacancies registered than the number of registered unemployed in Belarus, and available jobs almost equaled the number of registered jobseekers in Russia. The economic downturn in early 2009 rapidly worsened prospects of jobseekers to find a job on the labor market (See Annex Table 5).

By the WAPES' survey among 70 public employment services worldwide,⁹ only one third have legislation stipulating that employers must register any vacancy arising within their establishment to the Public Employment Service. These countries are in Europe: Belgium, Czech Republic, Finland, Hungary, Luxembourg, Montenegro, Norway, Romania, Serbia, Slovenia, Sweden; and outside Europe: Burkina Faso, Chad, Congo, Russia, South Africa, and Tunisia.

Compulsory vacancy reports have proven not to be useful in Europe. Compulsory reporting causes an administrative burden for the employer, and is counterproductive in terms of "service to employers". But, suspending the duty for reporting vacancies is a big change and could have negative consequences (i.e., fewer vacancies than before). It should go hand-in hand with improved services for employers and a positive image campaign.

In most ECA countries, especially in CIS countries, employers are obliged to publicly announce job vacancies or to register their vacancies at PES, although enforcement of this obligation is commonly weak. PES collect information on open vacancies through

⁹ WAPES express survey, May 2007.

direct contact with employers, yet only a fraction of all vacancies is reported to employment counselors. A primary reason for the low registration of vacancies is that most employers do not need to advertise. They have enough applicants without it. Another reason is that employers prefer to hire on a referral from someone they trust.

In the Czech Republic, employers have been legally obliged to notify vacancies since 1991, and in 2006 the government made failure to notify them a legal offense for which the employer can be fined up to CZK 0.5 million. The stock of registered vacancies has risen rapidly in recent years, reaching over 150,000 (almost four percent of total dependent employment) in mid-2008 (Kalužná 2008a). When compared to the total number of new vacancies in the economy, the market share of PES in the Czech Republic was estimated at 30-50 percent and was comparable to the EU15 countries. The obligation to notify vacancies to PES does not prevent employers from acquiring employees through other channels. While having fulfilled their notification obligation, they may at the same time advertise their vacancies in mass media.

The employment service in the Czech Republic has defined standard procedures for vacancy administration. Vacancy officers choose which employers to contact and make a personal appointment, by phone, fax, email or through the internet. Personal visits are made “upon mutual agreement and as necessary”.

Conversely, the obligation of Slovakian employers to notify vacancies was lifted in 2004, and in that year the number of vacancies notified fell sharply. The government reversed the policy because it was ineffective. Employers perceived the policy as forced communication with the labor offices, and formally complied with the procedures but often filled vacancies by other means. PES vacancy officers are now expected to actively search for and register vacancies. Since 2004, trust between employers and local labor offices has improved, with a significant rebound in the number of vacancies notified. In 2006, placements into vacancies with the assistance of PES accounted for about one third of all exits from the unemployment register and about seven percent of all hires in the economy (Kalužná 2008b).

In Slovakia, employers can notify vacancies on a form available online or personally at a territorial office. The form is rather detailed. Information about the employer includes name, legal status, tax identification number, main activities (profile), number of employees, and contact details. Information about the vacancy includes working conditions (date of take-up; type of contract: fixed-term/indefinite, part/full time, home worker, other; organization of working time: shifts, flexible, other; working time: weekly, shorter-weekly; working hours), method of search (advertising in print media and on internet; advertising abroad; mediating suitable employees through group selection, individually, or another method), benefits offered by the employer (accommodation, housing, transport, other), description of the vacancy (occupation, suitable for disabled persons, for young graduates; brief description of expected activities; expected gross wage), required qualifications (in terms of educational attainment, field of study, work experience), required skills (IT, foreign languages, other), and other required competences, certificates and personal characteristics.

Vacancies registered at PES tend to be largely for unskilled or semiskilled workers, with low wages; in public sector jobs; or jobs with harmful working conditions, and often go unfilled. The database on vacancies of the Azerbaijan PES, as an example, in early 2008 showed that most vacancies had been registered on blue collar (worker) occupations. On the whole, the database provided information on 11,586 vacancies by more than 270 occupations but 77 percent of the vacancies were with state-run entities, 19 percent with non-state enterprises, and the rest with individual entrepreneurs and foreign companies. At the same time in 2007, 70 percent of economically active population was engaged in private and 30 percent in public sector, i.e., PES work mainly with public entities. Moreover, wages offered for more than 95 percent of vacancies were below the average monthly salary. The median of offered wages was slightly higher than the minimum (Nazarov and Dayiyev 2008).

For comparison, an analysis of ten private web pages with advertisements for vacancies showed vacancies listed on more than 200 occupations but job offers for highly skilled workers and employees dominated these sites. The main occupations in demand were economists, accountants, specialists in entrepreneurship and small business, marketing, management, and computer technologies.

The mismatch between the job vacancies registered by PES and the actual labor demand can be demonstrated by the Ukrainian vacancy data from two different sources: the Labor Demand Survey (LDS) and the State Employment Services (SES). Table 3 shows notable differences between these two sources. Specifically, vacancies in professional occupations account for a significantly higher share of all vacancies in SES data than in LDS data. This is at odds with conventional data that PES tend to register relatively more vacancies on elementary occupations or alternatively, there seems to be an oversupply of workers with higher skill levels. Conversely, the share of vacancies in trades and especially in elementary occupations is significantly higher in LDS data than in SES data.

Table 3: Percentage Distribution of Job Vacancies by Occupation in Ukraine

Occupation	State Employment	Labor Demand	Difference
	Services	Survey	
	December 2006	April 2007	
	<i>Percent</i>		
Managers and senior officials	6.2	3.6	2.7
Professionals	8.5	2.2	6.3
Technicians and associate professionals	9.0	5.0	4.1
Administrative workers	3.1	3.3	-0.2
Sales and service workers	8.5	5.0	3.5
Skilled agricultural workers	1.1	0.5	0.6
Craftsmen and related trades	29.7	36.5	-6.7
Machine operators and assemblers	19.6	16.1	3.5
Elementary occupations	14.2	28.0	-13.8

Source: Labor Demand Survey, 2007; State Employment Service; Bank staff calculations (World Bank 2009).

Not surprisingly, even in an environment of high unemployment, there are still vacancies that are not attractive enough to be filled by the jobseekers of different qualification levels, previous earnings, or age and sex. Due to poor working conditions and low wages, many job offers are not attractive to jobseekers. A clear correlation tends to arise between the level of wages in the sector and the number of vacancies available. In many cases, the wages offered are unacceptably low compared to potential earnings from informal activities, or the reservation wage of the unemployed (See Table 4).

Table 4: Reservation Wage in Estonia: Unemployed Persons by Expected Gross Wages, 2008 (%)

	Males and females
At least 4,000 kroons	3.2
At least 5,000 kroons	16.1
At least 10,000 kroons	60.7
Over 10,000 kroons	18.8

Note: In 2008, average monthly wages in Estonia equaled 12,912 kroons, minimum wages 4,350 kroons, and the average unemployment benefit 3,614 kroons.

Source: LFS data; Statistics Estonia.

The second highest unemployment rate in ECA region is found in FYR Macedonia. Out of 1,523 surveyed in 2007 companies, 1,231 firms (81 percent) responded that they did not have any problems filling vacant positions, while the remaining 292 firms (19 percent of the total) reported having problems in finding the appropriate labor force, mostly because of lack of relevant work experience by applicants. Among the surveyed industries, the food processing industries suffered the most (World Bank 2008a). This

indicates that PES should place more emphasis on traditional job brokerage activities, including employer contact services and various job search programs in identifying suitable applicants, as well as hidden vacancies. Respectively, despite high unemployment rates in the country, demand for labor is still quite significant and in the sample of surveyed enterprises, demand is highest for manual, blue collar occupations.

Currently the passive approach by PES of waiting for the employers to post vacancies still predominates, with little effort put into marketing the service. Along with PES, employers use a variety of other recruitment channels such as advertising, applicant initiative, and references from existing employees, schools, and consultants. Employers will only seek the assistance of PES in filling vacancies if they expect to find job-seekers with the preferred skills or experience. Even if there is a legal requirement to register vacancies, this obligation will only be respected if the costs of doing so are less than the benefits obtained, including any sanctions in the event that the non-compliance is discovered and acted upon.

In order to achieve its objectives, both in terms of effectively working labor markets and social equity for disadvantaged groups, it is often considered vital for PES to register as many vacancies as possible. Experience from EU member countries suggests a number of factors increase the quantity and quality of vacancy registrations. In addition to marketing and services to employers to increase vacancy notifications as discussed above, the employment service can register vacancies advertised elsewhere. Often the majority of publicly-announced vacancies are advertised in local newspapers. Also the employment service need not limit itself to longer-term jobs. Repeated temporary placements often lead to an offer of a permanent job, and consequently it is in the interest of PES to handle also short-term work.

A broader issue is the low usage by employers of PES vacancy banks. Most CIS and many SEE countries as well lack modern occupational classifications and occupational standards/profiles as key factors to refer to requirements in employment (e.g., entry level, skilled worker level, middle technician level, etc.), within an industry sector, or in particular occupation/job within a sector. There is no international compatibility/transparency of occupational standards, for example, with reference to ISCO-88/08 standards. As a result, workers do not have a means of documenting and communicating to employers and employment agencies skills learned through informal and formal channels, and employers do not have a means of defining skill requirements by occupation and communicating them to employment and training agencies or evaluating the skills of individuals presenting themselves for employment.

Employment and training agencies do not have good information to screen jobseekers or develop training programs. Employers report that the existing process of certification is not relevant to their needs; they often find that job candidates with certification in a particular occupational skill are in fact not competent in that skill. To permit more efficient recruitment and improved labor mobility for all occupational groups, there is a fundamental need for occupational standards and certification that reflect actual work practices throughout the economy, and which have credibility among employers.

Development of standardized job classification and modern occupational standards is currently being planned in Azerbaijan and in Bosnia and Herzegovina.

Still the usual way of finding and hiring for vacancies, especially in the small and medium enterprise (SME) sector, is through informal channels, including friends, acquaintances, and relatives, as well as advertisements in mass media as the main sources of spreading information on vacant jobs.

1.3. Work incentives and job search activities

Given that many registered jobseekers are not genuinely unemployed but may be employed informally or are economically inactive, PES in ECA region should focus even more on activation policies.¹⁰ This entails a combination of rights and obligations of the unemployed, emphasizing obligations to work followed up by economic incentives and sanctions to seek and accept work.

Activation policies include a range of new management approaches and services for the unemployed. Elements of enhanced services include individualized back-to-work agreements and individual action plans, regular monitoring and review of the client's job search status, in particular through regular meetings between the client and employment officer, and a widened set of active labor market programs, covering training, education, subsidized employment, work placement, group activities, language-learning skills, literacy, etc. It is also usually accompanied by tightening of social benefit eligibility and sanctions in case of non-cooperation by the unemployed so as to incentivize job search.

Jobseekers need to be made aware that individuals themselves are responsible for solving their own situation in the labor market, in relation to which PES make all available information open to and accessible for them. Activating approaches, aiming at higher labor market participation, are highly relevant for countries in the transformation to market economies.

In sum, good activation policies involve:

- Improving personal, social and vocational skills and competencies and enabling social integration;
- Individual and flexible offer acknowledging diversity (age, experience) and relevant to the individual's needs, wishes, and priorities;
- Involving the resources and strengths of the beneficiary;
- Networking with labor market services, social services, health services, housing sector, communities, etc.;
- Cooperation and interaction between the beneficiary and the agency in the activation's planning, design and implementation.

¹⁰ Activation policies encourage certain unemployed individuals to step up their job search after an initial spell of unemployment, with a later obligation to participate in various programs. Eventually, the activation principle makes receipt of benefit conditional on participation in programs, in the process shifting the balance between the rights and obligations of the unemployed. See EC 2006b.

Based on the best international experience, other measures may include: (i) much more frequent contact with the responsible labor or social office (most OECD countries), and contract-based obligations (UK “New Deal”); (ii) profiling of job searchers/“individual action plans” for different categories of beneficiaries based on the amount of help needed to find a job (UK, Denmark); (iii) different programs available to different categories of jobseekers (the Netherlands); (iv) intensive interviews to adjust/redesign the individual action plan at certain stages of unemployment; (v) case management before and after starting the job (US); and (vi) a combination of job search with education and training (most OECD countries).

However, activation policies can only work effectively when jobs are available, which is often not the case in many ECA countries, especially in rural and remote areas. These policies may be applicable to countries with generous social benefits and access to ALMPs, and may be only effective in countries with significant resources and institutional capacity to implement relevant policies.

As part of the activation policies, PES in many EU10 and SEE countries provide each registered unemployed person with an “individual action plan” identifying the activities and responsibilities by the jobseeker for reaching of an employment target. Especially for young jobseekers, an individual action plan at some point in the unemployment spell can be required. The individual action plan is a written document that describes aspects of the situation of the unemployed person and foresees actions to be taken. Normally, it is first discussed in a one-on-one interview with the unemployed person and then signed by both parties, after which the actions described in the plan become obligatory.¹¹ Individual action plans are a particularly useful tool for those jobseekers who have multiple barriers to employment, such as a lack of skills, a lack of prior labor market experience, and social needs.

In several countries (Poland, Macedonia, Serbia), individual action plans are offered to all unemployed within a certain period of initial registration, or it is offered on a voluntary basis, such as in Hungary (except for school leavers, for whom it is compulsory) and the Czech Republic. An action plan at the beginning of the unemployment spell may involve determining the type of work and hours best suited to the individual. The plan implies the assessment of person’s employability and sets up particular steps for jobseekers in their efforts to look for vacancies. This allows PES staff to monitor, and if necessary, revise the plan. These jobseekers who are not actively seeking for jobs according to their individual plan might be excluded from the PES roster of unemployed.

For example, the Serbian National Employment Service (NES) adopted the *Rulebook for Active Job Search* in June 2005. The aim was to create incentives for active job search and disincentives to register with NES for jobseekers not genuinely unemployed. Most

¹¹ The European Employment Strategy suggests that individual action plans should be made available after 6 months for those below the age of 25 and after 12 months for long-term unemployed and at risk jobseekers.

importantly, the *Rulebook* instituted an individual plan of employment for all newly registered jobseekers complementary to the individual and group counseling program. Also following current practice in many countries, unemployment benefit recipients are asked to sign mutual obligations agreements with the employment service. The plan implies the assessment of an individual's employability and sets up particular steps for jobseekers in their efforts to look for vacancies. This allows the NES staff to monitor, and if necessary, revise the plan. The jobseekers who are not actively seeking jobs according to their individual plan could be excluded from the NES roster of unemployed. However, only about 10 percent of the clients were eligible for such benefits and even for them, the mutual obligations had questionable legal consequences because the benefit payments were in arrears (by four months in 2007) (OECD 2008).

Individual action plans are known to be highly labor intensive. High caseloads may limit frequent reporting and confirmation of unemployment status by jobseekers, as well as opportunities for job counselors to monitor and encourage job search and deliver information. In most countries, services are 'tiered' so that the initially-unemployed are left largely to fend for themselves, and only those who are unable to find work after some period of time are provided with more intensive advice and assistance.

In OECD countries, activation strategies aim to apply the principle of "mutual obligations", and in particular to monitor benefit recipients' compliance with eligibility conditions and implement, when necessary, temporary sanctions or benefit exclusions. The main findings from evaluation of country practices are as follows (OECD 2007):

- Countries seem to be increasing the number and variety of instruments used to "activate" jobseekers, focusing on density of contacts, verification of job search, the set-up of individual action plans, and referrals to ALMPs after a period of unsuccessful job search.
- Many recent evaluations have shown that job search assistance and monitoring can have a sizeable impact on re-employment rates. Reflecting this, an increasing majority of countries now have relatively explicit job search reporting procedures. There are, however, substantial cross-country differences in terms of the frequency of such reporting. Only a very few countries, including Poland, appear not to verify job search in principle or practice.
- As part of job search assistance and monitoring, almost all countries follow a practice of intensive obligatory interviews between the jobseeker and an employment counselor. Nevertheless, the frequency of such interviews varies. At least ten countries have set up a fixed schedule of interviews during the unemployment spell, five of them, including the Czech and Slovak Republics, on a monthly basis or less.
- Almost all countries (apart from Turkey) have established some sort of individual action plan, sometimes for the totality or large majority of newly registering unemployed, sometimes destined for particular target groups; in most, jobseeker participation in the plan is obligatory. In about a third of the countries, an action plan is supposed to be in place for all unemployed within one month of registration.

- Referring jobseekers to vacancies not only helps reduce the risk of prolonged unemployment, but also acts as a work test; however, the average number of direct referrals to jobs per unemployed person is relatively low.
- Compulsory participation in ALMPs after a period of unsuccessful job search can help reduce the risk of either long-term unemployment or labor market exit. Yet, only four countries (Australia, Denmark, Sweden, and the United Kingdom) are considered to have such obligatory programs for all benefit recipients passing a well-specified spell of unemployment.
- It is advisable to leave participants in ALMPs some time for job search, which may facilitate finding work even before the end of the program.

The implementation of these best practices, due to institutional constraints, labor market situations, and many other factors, is a real challenge for most of the ECA countries.

Thereby, PES can contribute in transforming the so called “grey economy” into the formal economy by cleaning the register of unemployed and other jobseekers who are not genuinely unemployed, on the basis of the criteria for the right to unemployment established by law. In particular, the countries may consider making employment laws more stringent in relation to defining the following indicators to avoid benefit sanctions and exclusion from the roster of registered unemployed: (i) “suitable work”, (ii) occupational protection (i.e., allowing the unemployed to refuse a job offer that involves a change of occupation), (iii) requirements for independent job search, (iv) frequency of contacts with PES, and (v) compulsory participation in programs after a certain period of unemployment has elapsed. Stricter rules for registration and participation in programs can be used as a work test and as a means of helping the unemployed maintain contact with the labor market.

In defining suitable work, Norway is a model of all-round strictness: the unemployed must generally accept shift and night work, must be prepared to work anywhere in Norway (and a spouse who quits his or her job to avoid separation and then claims the benefit is penalized for voluntarily quitting), must be ready to accept any feasible job without reference to their previous occupation or wage level, and cannot refuse a job on religious or ethical grounds.

A few examples from the ECA region follow. According to the Law on Employment Promotion of Bulgaria, the definition of “suitable work” includes that the work should correspond to the education, qualifications, and state of health of the person, provided that the said work is offered within the same nucleated settlement or within 30 km outside the said settlement, subject to the condition that convenient public transport services are available, for a period not exceeding 24 months after the date of registration of the person at the labor office. After the lapse of the two year period, “suitable work” shall be any work corresponding to the state of health of the person. In many countries in Europe (Denmark, France, etc.), obligation to accept “all suitable work” arises after three to six months of the unemployment spell. Moreover, the unemployed are obliged to accept temporary jobs in the public sector or part-time work in many EU countries.

In Bosnia and Herzegovina, according to the *Rulebook on Employment Records*, the rights and responsibilities of the registered unemployed still tend to be unbalanced. For example, the sole obligation of the unemployed person, if active job-seeking programs such as counseling or training are not available, is to regularly re-register himself at the Service at a minimum of once every 30 days if he/she receives the unemployment benefit, pension or disability insurance (e.g., in the Republika Srpska less than four percent of the registered unemployed receive such benefits); once every 60 days if he/she receives health care entitlement, and once every 90 days if he/she receives no such entitlements. A person can be deleted from unemployment records if he/she rejects an adequate job offered by PES without defining “an adequate job”.

In the Czech Republic, availability-for-work requirements apply to all PES registrants, with de-registration leading to loss of benefit in the case of unemployment insurance (UI) recipients. The reformed legislation in 2004 abandoned detailed regulation of aspects of suitable employment and gave placement officers space for individual assessments of circumstances. However, the requirements are fairly strict, although jobseekers cannot be required to relocate to take up work in the first month of unemployment. The definition of a suitable job takes into account the jobseeker’s educational attainment and previous employment. It is defined as a job involving at least 80 percent of normal weekly working time, (i.e., 32 hours per week). Since 2004, temporary jobs lasting longer than three months have been considered suitable. Also in standard cases, jobseekers must report to their labor office every four weeks. Referrals to vacancies are actively managed, with jobseekers being given a referral card and obliged to apply for the job within a predetermined time limit; and actions that tend to thwart the take-up of work are assimilated to refusal of work (Kalužná 2008a).

There are also a variety of other strategies that increase the chances for jobseekers of identifying job openings and breaking into the “hidden job market.” These techniques include: networking, informational interviewing, direct employer contact, and employment services’ electronic bulletin boards.

Early interventions could include profiling jobseekers to identify which of the individuals or groups of unemployed, such as youth, are susceptible to long-term unemployment. Profiling systems attribute a “score” to the inflow of new registrants, which in principle reflects the degree of risk and determines the level of services to be offered.¹² For example, the Danish “Job Barometer” is a statistical profiling instrument that, based on information about the jobseeker’s characteristics, calculates the probability of finding employment within six months. The Job Barometer aims to standardize the otherwise highly varying assessments by job counselors of the individual jobseekers’ re-employment chances - and therefore to be more objective.

Additional labor market assistance is then targeted to individuals who score above a certain threshold level (with the threshold level itself adjusted so that referrals cover the capacity of the additional assistance). In some countries the classification of jobseekers

¹² Profiling techniques in Germany, the Netherlands and the United Kingdom see Tergeist and Grubb 2006.

into different groups depending on their placement prospects is based on the judgment of PES officers. In other countries, PES officers may describe certain unemployed as not being job-ready.

So in ECA with its stringent resource constraints, profiling in some form has the potential to provide a systematic basis for allocating scarce finances and to improve the targeting of ALMPs, on condition that the caseload of the employment counselors be significantly reduced, thus allowing the outcomes of the programs to be monitored.

1.4. Staffing and capacity building in PES

Public Employment Services (PES) usually perform three roles (EC 2006a):

- Job search assistance and career guidance;
- Management of unemployment benefit (in a majority of ECA countries);
- Referral of jobseekers to ALMPs.

The execution of these functions, and public policies to combat unemployment in general, largely depend on the capacity of relevant institutions as well as available funding. The staff caseload – the ratio of clients to employment counseling staff – is a critical constraint to PES performance in many countries. However, it is difficult to compare client/staff ratios without knowing the exact composition of the services delivered. For example, a public employment service that pays out unemployment benefits or operates adult retraining programs may have a higher staff/client ratio than a country in which PES simply contract adult training services, or in which unemployment insurance benefits have been administered by a social insurance agency.

In fact, available data show wide variations in levels of staffing among the ECA countries. The differences are explained by the types as well as quality of services offered. By the end of 2008, the highest staff caseload was reported in Kosovo, on average 1,846 registered unemployed per one PES staff, followed by FYR Macedonia, 654 unemployed per one staff. In contrast, the staff caseload was only 35 registered unemployed per one PES staff in Belarus, 42 unemployed in Russia and 56 unemployed in Ukraine per one PES staff (Table 5; see also Annex Table 6). Within the European Union, the average figure is around 1:150,¹³ while the figure recommended by the ILO is 1:100.

What really matters for the delivery of services to the unemployed is the proportion of staff in direct contact with the clients (i.e., caseworkers and their workload). Out of the total PES staff in Slovenia, Croatia, and FYR Macedonia, only around half are frontline employment counselors/advisors, while in Armenia, 91 percent, and in the Czech Republic, 84 percent of the PES staff work directly with jobseekers and employers.

¹³ It is worth noting that this EU average figure hides a lot of variation, for example, Germany has a ratio of about 1:200 and the Netherlands 1:60.

So on average, in FYR Macedonia, one job counselor/advisor has to deal with more than 1,200 registered unemployed leaving only around 10 minutes per person per ‘meeting’. It is obvious that many employment offices are understaffed for providing any serious job mediation and counseling (within the current institutional and legislative set up). Moreover, as noted above, ESA staff in FYR Macedonia is “burdened” with functions that are not typical to PES in most other countries. In addition to the benefit and insurance registration, the staff is engaged in the registration of newly opened employment contracts and termination of existing contracts, as well as the administration of health insurance coupons.

Table 5: Number of Registered Unemployed and PES Staff in ECA Countries, End-2008

	Number of registered unemployed, 1000'	Total number of PES staff	Number of PES staff in contact with jobseekers and employers	Staff caseload **	Ratio of front-line counselors to total PES staff (%)
Czech Republic*	480.0	5007	4202	96	84.0
Hungary*	407.0	3500	2280	116	65.0
Poland	1473.8				
Slovakia	248.6				
Slovenia	66.2	861	432	77	50.2
Estonia	32.5	350	260	93	74.3
Latvia	76.4	780	513	98	65.8
Lithuania	95.0	1476	1090	64	73.8
Bulgaria	232.3	2551	1720	91	67.4
Romania	403.4				
Albania	141.7				
Bosnia and Herzegovina, Federation of B&H	483.0				
Bosnia and Herzegovina, Republica Srbska	134.0	261	158	513	60.5
Croatia	240.0	1251	651	192	52.0
Kosovo	335.9	182		1846	
Montenegro	28.4	345	250	82	72.5
Serbia	728.0	2232	1365	326	61.2
FYR Macedonia	343.4	525	276	654	52.6
Belarus	37.3	1078		35	
Moldova	28.1	249	166	113	66.6
Russian Federation	1521.8	36361		42	
Ukraine	844.9	15000		56	
Armenia	74.7	405	370	184	91.4
Azerbaijan	44.5	577	430	77	74.5
Georgia	-				

Kazakhstan	48.4				
Kyrgyzstan	67.8				
Tajikistan	43.6	209		209	
Uzbekistan	...				

Note: * - 2006 data - from ILO/WAPES online. ** - The average number of registered unemployed per PES staff.

Source: PES in ECA countries for 2008 data.

Similar situations have been reported in several other SEE countries. As an example, in Bosnia and Herzegovina it is reported that an estimated 30-40 percent of the registered unemployed persons only register in order to receive health insurance coverage. To receive and retain the health benefit, the system requires that Employment Services process the initial registration and bi-monthly verifications, which puts a significant workload on the frontline staff. The situation leaves extremely little time to be spent on each unemployed person, on average varying from four to six minutes per unemployed person in the worst cases (Tuzla Canton, District of Brcko and Una Sana Canton) up to 19 minutes per unemployed person in Republika Srpska (EU 2006). The unrestricted registration system means that the number of de facto job-seekers is significantly lower than the official statistics suggest. Moreover, municipal Employment Bureaus are small. Currently, there are 137 municipal employment bureaus in the country with an average staff of around three persons per office in both Entities. Many offices have only one or two employees. A structural reform should be implemented within the Entities with the aim of creating fewer, but at the same time, more efficient and professional offices that are capable of providing effective employment services for unemployed persons within job mediation and counseling.

Similar problems affect the work organization in the countries with much lower staff caseloads. It is reported from the Czech Republic that not counting staff working on general management and administration, over 35 percent of the labor office staff now work on the administration of state social support benefits and foreign employment. Another 20 percent work on controlling/legal issues, labor market monitoring/analysis and unemployment insurance administration, and nearly 45 percent on placement, counseling, medical assessment and (labor market) program administration (Kalužná 2008a).

Respectively, in many countries in the region, the number of frontline counselors/advisers is totally inadequate for delivering ALMPs, specifically effective and personalized mediation services. The efficiency and quality of service could be improved markedly by placing more PES staff on the front line dealing with clients, working in different specialized areas, for example, through job rotation; elimination of tasks not suitable for PES (registration of employment contracts; issuance of health insurance cards), and so on.

Given the PES staff constraints of many countries, job counseling for jobseekers could be improved by focusing more on group-based activities, such as collective sessions on: (i) labor market information in which the unemployed learn about the local and regional

labor market situation, including jobs offered and the qualifications needed to apply for them; (ii) job counseling in which the unemployed participants are counseled about the skills and qualifications they need to improve in order to increase their employability, and obtain information about education, training, and alternative job opportunities; and (iii) job search skill training programs that offer practical assistance to the unemployed in their efforts to find new employment, such as in drafting job applications and succeeding in job interviews. Collective sessions can save valuable staff resources.

By the WAPES member surveys, the role of public employment services in the world has been changing during the last years, and general trends have been observed.¹⁴ One of these development trends is the coordinating and facilitating role in the labor market played by public employment services. Today they are the main institution responsible for carrying out labor market policy programs; in the past their role was confined merely to job brokerage. Outsourcing of services to competent providers has also become a growing necessity (SEOR 2008). In particular, some of the innovative approaches include, but are not limited to:

- A performance-driven approach with performance management, benchmarking;
- Use of ICT tools for clients, with databases for vacancies and jobseekers, self-service systems;
- Use of ICT tools for the internal communication of the staff (country-wide intranet, databases, email system);
- Customer-orientation with quality service delivery: individualized counseling of jobseekers, tailor-made services for employers;
- Partnership approach: cooperation with national, regional, local stakeholders, local employment initiatives, local employment pacts, etc.;
- Integration of services, for example, by creating one-stop shops at local employment offices;
- Capacity development: organizational development, modern management systems, staff training.

In particular, for activation strategies to be successful, it is essential to monitor and manage the performance of employment services that will be discussed below. Performance measurement systems, such as management by objectives (MBO) linked to bonus payments, have proven to be effective in some PES. An example of new developments in this area is the collaborative pilot project of European PES on performance measures, led by the Austrian PES. In order for such performance measures to be effective, they must use a limited number of clear and understandable targets, have staff commitment/buy-in to the targets, have simple administrative procedures, and have fair and transparent procedures for assessing and rewarding good performance (Kavanagh 2007).

¹⁴ This is confirmed by the member surveys conducted by the WAPES in 2002 and 2006. More information is available at: www.wapes.org.

Therefore, the efficiency of PES operations can be improved by setting up monitorable performance targets using the administrative data generated by PES activities (e.g., number of individuals served, types of interventions, follow-up, etc.) at various levels. Key performance indicators may include quantitative indicators: the number of visitors to the local employment offices, registered jobseekers, participants in ALMP, placements, and job vacancies filled within certain time; increasing the PES market share of notified vacancies; and reducing the incidence of long-term (over one year) and very long-term (two years and more) unemployment. Key performance indicators also may include qualitative indicators: client satisfaction (jobseekers and employers) with PES services; establishment of database of employers; and so on.¹⁵

For example, the Hungarian PES manual suggests the following performance indicators (AFSZ 2004):

- The employment service must maintain relations with at least X% of employers.
- Compared to the previous year, the number of reported jobs must increase by X%.
- Compared to the previous year, the number of placements must increase by X%.
- The ratio of customers involved in training must be X% of the number of recorded customers.
- The number of persons figuring in the unemployed register 90 days after the completion of a training course cannot be higher than X% of the total number of those having completed the course.
- The number of the long-term unemployed cannot be higher than X.
- The number of placed employees with reduced working capabilities must attain X.

By using such information on a comparative basis, an internal measure of the effectiveness of PES operations can be made. By measuring performance against such targets, management tools can be applied – ranging from discretionary budget allocations to more formal reward/penalty arrangements – to raise efficiency (World Bank 2003).

One of the ways to combat human resource and budget constraints is also to move away from costly face-to-face interactions and towards the extension of self-service facilities for jobseekers and employers. They then can contact each other through these self-service systems without the intervention of placement officers. In EU countries, many services are now delivered through the use of ICT including call centers where employers can notify vacancies and jobseekers can get help. There are big advances in internet access to PES registration systems, such as posting CVs, benefit claims, and job search. New ways of transferring data have been developed like the mutual sharing of CVs and Job Vacancy notifications between PES and private employment services (Kavanagh 2007).¹⁶

¹⁵ For a review of best practices regarding performance-based financing of regional employment offices in OECD countries, see for example Ivory and Thomas 2007.

¹⁶ **EURES** – the European Job Mobility Portal databank of job vacancies see: <http://ec.europa.eu/eures/main.jsp?acro=job&lang=en&catId=482&parentCategory=482>.

The most common development is the nationwide PES vacancy register that can be easily accessed via work stations (often equipped with touch screens) in local labor offices or online over the internet. Given low internet penetration rates in many countries in the region, the work stations can be set up in other public premises (i.e., shopping centers, libraries, and schools). In so doing, the switch is made for the PES staff from traditional job-brokering activities to providing intensive assistance to hard-to-place and severely disadvantaged individuals who cannot find jobs through the electronic services.

In some ECA countries, call centers for various types of contact have been established. In such a way PES staff is able to switch from traditional job-brokering activities to providing intensive assistance to hard-to-place and severely disadvantaged individuals who cannot find jobs through the electronic services. For that a relevant self-service infrastructure for employers and jobseekers to use needs to be built. But direct interaction between staff and the public will still be needed, particularly for those who are disadvantaged in the labor market.

Many transition countries have also built up CV-databanks, which can be accessed by employers electronically. Just as in the case of employers entering their vacancies, jobseekers can enter their CVs with the help of a placement officer or by themselves. They can enter this information from a home work station over the internet or from stand-alone facilities in local labor offices or other public premises. In order to access the databank over the internet, employers need to have a client code. Employers can ask to be regularly provided with incoming CVs that correspond to their recruitment needs just as it is possible for jobseekers to receive in their electronic mailbox (based on push-mail or subscription technology) information on incoming vacancies corresponding to their profiles (OECD 2000).

Some ECA countries are testing a new service model, called the one-stop shop. This is the case in Azerbaijan, in which the local employment office (LEO) at Sumqayit has recently (June 2008) started to provide more client-oriented services to jobseekers based on the new model, with less bureaucratic barriers and facilitation of self-help. This concept is inspired by labor office service models in European countries, where examples range from merging labor market advisory with social services and integrating benefits and job search in order to better reach people furthest from the labor market, to various forms of modernized service layout systems (See SEOR 2008 for the details).

The concept in Sumqayit foresees that all advisors of the LEO offer their services in an open access area in a large room on the ground floor. An area with a self-help desk, internet access, information material about professions, job vacancies, and companies in the region will encourage and facilitate independent job search. If needed, a head advisor will refer the client to specialized advisors, depending on his/her individual needs. The staff at the Sumqayit office comprises specialized advisors in addition to the head advisor, an advisor on benefits, a legal expert (advising on workers rights, problems with informal labor, etc.), and a psychologist. Two advisors are qualified for providing professional guidance. The office also provides sufficient capacity for working in a systematic way with employers: one head advisor and two advisors work with employers;

one coordinates between the service for employers and the service for jobseekers. The new concept also includes group counseling, services for specific target groups (e.g., persons with disabilities), and close cooperation with employers (round tables, visits of advisors to companies, etc.).

In Bulgaria, local employment offices also operate on the “one-stop shop” model with front offices that handle routine initial queries (and requests to certify unemployment – needed for social assistance applications), and “back offices” for higher-end services for jobseekers and employers. Client orientation is strong, and “clients” are profiled for skills, education, qualification, and needs via an interview with a trained interviewer who immediately enters the data into the MIS database of jobseekers. The local office and the job seeker also jointly fill out a tailored “mutual obligations” personal plan to signal co-responsibility for finding a job. The clients then access a range of activation services, including: (a) training (differentiated by skill level, ranging from basic literacy/remedial education to low-skill vocational training to higher skill vocational education and training; (b) counseling and job-readiness advice (for the hard-to-serve); and (c) intermediation and job brokerage services, etc. The centers interface not only with jobseekers but also with employers and offer employer services like holding recruitment events. Automated registries/databases and info systems are tools of the trade and greatly facilitate case management and tracking.

Overall, capacity building in PES and a more professional and efficient employment service is essential to raising the intensity and efficiency of the job search efforts of the unemployed, and thus leading to higher exit rates out of unemployment. Especially upgrading of staff skills, competence, and motivation are important areas of reforms. The issue of ongoing training is especially critical for employment counselors being highly skilled, working in different specialized areas yet, through job rotation, also able to acquire broad experience in the longer term.

1.5. Private sector involvement

ECA countries may consider more active involvement of the private sector in the provision of labor market services such as training, job brokerage, and other services, as an integral part of PES reform. This trend was recognized and further boosted by the Private Employment Agency Convention adopted by the ILO in 1997 (Convention 181 supported by Recommendation 188).¹⁷ It allows for lower pressure on public budgets and provides a wider array of options for a diverse range of clients. By late 2008, it is

¹⁷ The ILO Private Employment Agencies Convention No. 181 from 1997 encouraged “cooperation between the public employment service and private employment agencies (PRES) in relation to the implementation of a national policy on organizing the labor market.” It went on to say that “for this purpose, bodies may be established that include representatives of the public employment service and private employment agencies, as well as of the most representative organizations of employers and workers... Private employment agencies shall not charge directly or indirectly, in whole or in part, any fees or costs to workers. However, in the interest of the workers concerned, and after consulting the most representative organizations of employers and workers, the competent authority may authorize exceptions in respect of certain categories of workers, as well as specified types of services provided by private employment agencies.”

reported by the national PES that there are 530 private employment agencies registered in Bulgaria, 92 agencies in Latvia, 43 agencies in Lithuania, and 25 agencies in Armenia.¹⁸

Contracting out is the most frequently used method for making PES activities contestable at least to some degree. Service contracts with private providers typically include a performance-based element with placement incentives for providers. The rationale is to cover a provider's base costs but provide an incentive for placement through an outcome-dependent bonus. In the UK and Australia, a typical measure of success is whether an individual remains continuously employed in a referred job after 13 weeks.

Very few public employment services in ECA region possess their own training centers, and the role of PES in providing training is becoming increasingly contractual, seeking training services from other public and private sector agencies. Contracts are usually competitive. PES typically contract for a selected number of training slots or days of training. The training contractor may provide additional counseling services. Usually the contractor is required to accept a negotiated placement of a portion of the trainees in jobs. Thus, the governments are moving away from the role of direct provision of training and focusing more on addressing market failures in information and financing, while leaving more of the delivery to private providers.

Many countries in the region, for example, Bulgaria, Hungary, Poland, Romania, Serbia, and Slovenia purchase training programs from various providers through public tenders. In others (Ukraine, Azerbaijan) where PES possess the training centers, the training contractor provides flexible modular training recognizing that the unemployed need to schedule their training and have different skill levels. PES only provide the premises and cover operating and other related costs. A significant number of training modules can be prepared depending on the demand, and the provision of training to jobseekers is contracted out to private providers.

The same principle can be applied to other types of employment services while separating purchasers from providers of services. So too, core job matching and career counseling activities are increasingly outsourced and subcontracted with private providers and NGOs in Bulgaria, Poland, and Romania. In the Czech Republic, job counseling services may be contracted out to specialized agencies regardless of their status (i.e., either private or non-profit organizations). Expenses may include "appropriate" provider profits of up to a maximum 15 percent of incurred expenses, or

¹⁸ Australia has been using outsourcing of services to private and NGO-type agencies since the 1990s. Under its Job Network, hundreds of licensed Job Placement Organizations in more than 2,700 locations across Australia offer placement services to the unemployed. In 2003, the Australian government introduced the Active Participation Model (APM) for jobseekers, adopting a more intensive and individualized approach to placing jobseekers through Australia's Job Network service outsourcing system. Service providers are offered incentives through payment for placing jobseekers in work. Payments for the more difficult to place clients are higher than those for short-term unemployed clients. See Tergeist and Grubb 2006.

expenses on necessary equipment may not exceed CZK 2,000 per participant (Kalužná, 2008a).

In FYR Macedonia, the Law on Temporary Employment Agencies was adopted in 2006, with an overall objective to reduce the informal labor market. These agencies are expected to help regulate the temporary employment of workers and to prevent the unemployed from engaging in the grey economy by regulating their legal employment status. Many people were engaged in carrying out temporary work through youth cooperatives or directly from employers without employment contracts. So far, 25 agencies for temporary employment have been set up. Despite one of the highest unemployment rates in Europe, for almost a two-year period, around 14,300 registered unemployed were placed in jobs by the private agencies (World Bank 2008a).

The practice in the countries shows that the private agencies are often more efficient and effective in the provision of services of employment mediation than the public sector, bearing in mind that they can secure services within smaller and targeted segments of the labor market (comparing the costs), and are to a larger extent oriented towards the employers' requirements than the needs of the unemployed. Private agencies will likely address only a few labor market niches but will offer more proactive employment policy by tailoring it towards labor demand. In general, PES typically serve those individuals at lower skill levels and with limited education, while private employment agencies serve the better-skilled and better-educated.

Private agencies also offer a more specialized search, more exacting screening, and faster response times than most public services are equipped to offer. While private agencies also offer greater confidentiality to the employer, they choose large metropolitan areas and tend to ignore or underserve other parts of the country. In the absence of public regulation, private placement agencies will tend to concentrate on the most easily placed unemployed persons (i.e., "creaming off").

In the EU, labor market programs are also increasingly organized on the basis of partnerships between a wide range of governmental and non-governmental organizations. Public employment services are well placed to play a central role in such partnerships. Local partnerships designed to deliver programs adapted to local needs or to provide services through a one-stop shop are particularly significant. These partnerships may include local stakeholders, such as local administration, labor market bureaus, major employers, trade unions, and nongovernmental organizations involved in labor issues.

Their collective involvement may include some of the following activities:

- a) identifying surplus enterprises and community assets (premises and equipment);
- b) identifying and developing economic development plans and initiatives to absorb the unemployed by expanding the local economic base;
- c) reviewing and recommending to authorities specific labor and employment policy measures;
- d) assisting in identifying local service providers; and

e) assisting in matching the unemployed to potential economic opportunities.

1.6. Financing of employment programs

In ECA countries, allocations to finance LMPs are relatively low varying from 0.01-0.02 percent of GDP in Kyrgyzstan and Azerbaijan to 0.6 percent in Hungary and Slovakia and 1.0 percent in Poland (2007). This is partially explained by the fact that overall expenditures on social protection in the region, as a percentage of GDP, are also relatively low compared to EU15 countries (for expenditures on LMP in EU10 states, see Table 6). Differences in the rate of registered unemployment may also explain the variance in expenditure levels.

Table 6: LMP Expenditure by Type of Intervention in EU27 and EU10 States, 2007 (Percent of GDP)

	LMP services (category 1)	LMP measure s (categor ies 2-7)	LMP supp orts (cate gorie s 8- 9)	Total LMP expe nditu re
EU 27 s)	0.193	0.470	1.020	1.683
Bulgaria	0.054	0.305	0.151	0.510
Czech Republic	0.134	0.121	0.204	0.458
Estonia	0.025	0.029	0.100	0.154
Latvia	0.064 e)	0.098	0.296	0.458 e)
Lithuania	0.088	0.230	0.114	0.431
Hungary	0.083	0.205	0.356	0.645
Poland	0.096 e)	0.405	0.514	1.015 e)
Romania	0.037 e)	0.083	0.2229	0.349 e)
Slovenia	0.087	0.111	0.300	0.498
Slovakia	0.106 e)	0.117 e)	0.364	0.587 e)

Note: s) Eurostat estimate. e) Estimated value.

Source: Eurostat 2009c.

Some non-EU10 transition countries spend even a higher share of GDP on LMP. In 2007, FYR Macedonia spent 1.43 percent of GDP; however, over 60 percent of these funds (0.90 percent of GDP) were actually spent on pension and health insurance contributions for the registered unemployed, followed by over 30 percent of the budget (0.47 percent of GDP) spent on passive programs. Only 0.06 percent of GDP, or four percent of the total budget, was spent on ALMPs (World Bank 2008a).

Despite the fact that both the fraction of the jobless that receive unemployment benefits (and an early retirement benefit for labor market reasons in some countries) and that the average size of the benefit are very small, passive programs comprise a large share of the total expenditures of PES.

The typical case is Bosnia and Herzegovina in which available funds are distributed first to cover staff expenditure and other expenses for running the Employment Services, and second, to cover for law-bound expenditure for benefits and costs related to people who are insured and entitled to benefits. All other activities, including active labor market measures, are funded out of what is left. The financing system makes planning of revenue, expenditure, and implementation of labor market measures uncertain and difficult.

In determining how different programs are financed, particularly in countries with high or rapidly growing unemployment rates, it is critical that a legal and budgetary distinction be made between the source of financing for income support and that for other employment programs. Without such distinctions, income support program expenditures (and coverage of health insurance and pension insurance costs of the registered unemployed) will "crowd-out" investments in employment services and other active programs (Fretwell and Goldberg 1991).

Budgetary expenditures on public employment services in many ECA countries are especially low when comparing expenditures of PES on ALMPs per one registered unemployed. By the WAPES member survey data, in 2006 the relevant expenditures were US\$13 in Serbia, US\$37 in Macedonia, and US\$93 in Croatia, primarily due to a large number of registered unemployed, while the figure was US\$1,029 in the Czech Republic, US\$712 in Hungary, US\$648 in Latvia but over US\$15,000 in Sweden. The same is true when comparing the administrative budget of employment agencies per one PES staff. FYR Macedonia spends around US\$10,000 annually on administrative expenditures per PES staff member, while in Montenegro, the figure is US\$32,000, in Hungary, US\$30,000 but US\$85,000 in Ireland (Annex Table 6). Low expenditures on administrative costs hinder, inter alia, introduction and enhancement of more cost-effective ICT solutions to the business process.

Different financial schemes are used to cover the costs of LMP. Some countries rely solely on an employment tax typically split between the employers and employees, or the programs are financed from overall social protection contributions, and the share of LMP is negotiated annually. However, the employment tax wedge is considered a disincentive for employers to create job positions and for employment of employees. Some countries use mixed system in which unemployment benefits are financed from an employment tax or social contributions, and ALMPs from budgetary allocations. Other countries rely entirely on budgetary transfers.

Overall, this report recommends that greater resources will be needed for ALMPs in the future. Additional funds may be found particularly through redirecting resources from

passive programs. In the current labor market situation, budgetary transfers will remain a major source of financing for the activities of PES in most countries of the region.

1.7. Regional economic development plans

The regional labor markets have differing development potential, and disparities are only widening. Thus, there is an increasingly important role for regional development strategies and the involvement of key actors in policy on employment, education, and training.

Many European countries have established regional economic development planning services, which are intended to help communities develop the local economy and generate new employment and investment by identifying and marketing regional resources, potential areas of development, and opportunities to potential investors (See EC 2004). Among other measures, regional economic development studies have been initiated that revolve around job creation, employment strategies, and targeted long-term unemployed populations to help communities experiencing high unemployment develop a systematic business growth and job creation approach to begin local economic development efforts. These studies will help strengthen capacities of poor communities and municipalities to find local solutions, including sources of funding.

As part of the World Bank employment projects, most recently local economic potential studies have been launched in Bulgaria, Macedonia, and Serbia, as kind of local Action Plans for Employment. They identify labor market resources available to promote and market local products and services, develop promotional materials on local economic potential and investment projects, and so on. By creating local partnerships and on broadening the normal base of participation to key business, social, and worker organizations, relevant studies in the region have been able to achieve sustainable job creation that draws on existing resources available in the community.

These activities could be supported by special programs to support disadvantaged regions. As an example, in Latvia, the Regional Fund provides support and facilitates entrepreneurial activities in territories approved by the Cabinet of Ministers. The largest part of the assistance granted consists of interest rate payments or partial interest rate payments for businesses, and co-financing for business training projects and municipalities developing their business support infrastructure (including funding to set up tourism and business support centers).

1.8. Improvements in labor market statistics

Good policy design is based on adequate and comprehensive information on the social and economic situation in the labor market. To date, information has been mainly collected from the following three broad groups of sources: (a) population censuses, labor force surveys, household surveys, and other specially designed surveys; (b) establishment surveys; and (c) administrative records/register-based statistics (Chernyshev 1997). In

particular, self-employment and informal employment, quite significant in many ECA countries, are calculated using the data from land registries and administrative registers.

Labor force surveys (LFS) tend to be the most reliable source of information on labor market trends, although none have been carried out in Belarus, Tajikistan, Turkmenistan, and Uzbekistan. Azerbaijan has conducted only two surveys in 2003 and 2006, with help from donor community. Kazakhstan and Kyrgyzstan initiated their surveys in 2001 and 2002, respectively. Only 14 of the 27 countries have conducted labor force surveys for a sufficient number of years to generate a time series of employment and unemployment rates with at least 10 annual observations (Brusentsev and Vroman 2008).

Other sources of information, in particular household surveys, may provide quite different estimates of labor market trends. In Armenia, for example, the Integrated Living Conditions Survey (ILCS) showed among the population 16 and over a decrease in the unemployment rate from 27.0 in 1998/99 to 19.3 in 2004 percent respectively (World Bank and NSS 2006). At the same time, the LFS data for the period and the 2001 population census showed unemployment rates that exceeded 30 percent (World Bank 2007a).

Having current labor market information also is essential to monitoring changes in employment and anticipating labor supply needs. PES must help develop labor market information through administrative records, short-term qualitative surveys, and regular employer surveys. Many transition countries have been conducting customer satisfaction surveys of the PES clients: Not only are they used to measure performance of individual employment offices but also the effectiveness of specific policy interventions or major labor market reforms.

Labor market information is also critical for educational and training institutions. These institutions need to know the trends in occupational demand in order to be responsive to labor market needs. This information is the used to shape their curricula and training offerings.

In addition to household surveys and labor force surveys, other survey instruments could also be useful. Employer-based surveys of current and projected labor market conditions, for example, could focus on actual and planned job creation and job destruction, and on key determinants of hiring and firing. They have been initiated in recent years in Armenia, Azerbaijan, FYR Macedonia, Kosovo, Moldova, and Ukraine. The objective of such surveys would be to determine the degree of labor market flexibility, and to prepare projections of likely changes in employment and unemployment.

A tracer survey of displaced workers would follow the changes in labor market status (earnings, employment compared to unemployment, career developments), depending on the educational status of workers or unemployed individuals. Such surveys were recently conducted in Serbia.

It would be useful to keep track of graduates, as part of labor market monitoring. A tracer study of VET graduates in Azerbaijan (years of graduation: 2000-2002) carried out by the ETF in 2004 indicated that VET graduates were not well positioned in the labor market: 65 percent of the respondents declared that they were not employed; only 6 percent were undertaking further studies; and only 28 percent said they had a job. The highest employment rates were recorded among the VET graduates of professions, such as consumer services, sports, and tourism, 43 percent, and the lowest, 22 percent, among VET graduates who studied culture, education, and arts. Furthermore, a large majority (59 percent) of the employed respondents worked in functions or jobs that were completely unrelated to the vocational qualification they obtained; only 29 percent of the employed graduates recognized a direct match between the job profile and their VET qualification, and 12 percent only a partial match (Castel-Branco 2007). Survey results indicate that the VET provision available is of narrow specialization, insufficiently varied to cover the necessary range of jobs, and above all, based on outdated curricula. Not surprisingly, VET graduates are not in demand.

In sum, the information and research function in the labor and employment sector throughout many Eastern Europe and Central Asia countries is underdeveloped and administration systems are not capable of collecting, processing, interpreting, and analyzing information on situation in the labor market. The systemic failure of information management has negatively impacted the preparation and implementation of adequate labor and employment policies and measures.

Chapter 2. Active Labor Market Programs

2.1. Objectives of ALMPs

Active labor market measures have a long tradition and were initially applied in periods of economic depression and high unemployment. They have two basic objectives: economic, by increasing the probability of the unemployed finding jobs, productivity and earnings; and social, by improving inclusion and participation associated with productive employment. Article 1 of the ILO Convention No. 122 states that "Each Member shall declare and pursue, as a major goal, an active policy designed to promote full, productive and freely chosen employment".

Since the 1980s, active labor market policies have regained momentum in order to cope with the structural change of European labor markets. The European Employment Strategy (Lisbon Agenda, 1997) finally gave high priority to active labor market policies (ALMPs). ALMPs were also widely used to cushion the negative effects of industrial restructuring in transition economies. In addition, they are used to integrate vulnerable people furthest from the labor markets.

The three overarching objectives of the European Employment Strategy, namely full employment, improving quality and productivity at work, and strengthening social and territorial cohesion, provide the overall framework for employment policies of the EU and Member States but can serve as a goal for non-EU ECA countries as well. The following targets and benchmarks have been agreed in the context of the European Employment Strategy relevant to the provision of ALMPs (EC 2008a):

- that every unemployed person is offered a job, apprenticeship, additional training or other employability measure; in the case of young persons who have left school within no more than 4 months by 2010 and in the case of adults within no more than 12 months,
- that 25 percent of the long-term unemployed should participate by 2010 in an active measure in the form of training, retraining, work practice, or other employability measure, with the aim of achieving the average of the three most advanced Member States,
- that jobseekers throughout the EU are able to consult all job vacancies advertised through the employment services of Member States,
- an EU average rate of no more than 10 percent early school leavers,
- at least 85 percent of 22-year olds in the EU should have completed upper secondary education by 2010,
- that the EU average level of participation in lifelong learning should be at least 12.5 percent of the adult working-age population (25-64 age group).

The actual situation of a labor market reflects many influences, most of which are beyond the reach of labor market interventions. Nevertheless, these interventions have the potential to significantly improve labor market performance. In particular, ALMPs are implemented to enhance labor supply (e.g., training), increase labor demand (e.g., wage/employment subsidies and public works), and improve the functioning of the labor market (e.g., employment services). Whether or not this potential materializes, however, depends on a number of factors, and the innumerable variables that intervene in the final outcome of their implementation. Thus, the positive impact of labor market policies cannot be taken for granted, which points to the importance of monitoring and evaluating their outcomes.¹⁹

International experience confirms that often ALMPs do not have a positive impact but do have substantial deadweight costs (program outcomes are no different from what would have happened in the absence of the program) and a significant displacement effect (vacancies, if any, would have been filled in any event). They also can have unintended consequences such as subsidized workers replacing unsubsidized ones, so the net employment effect is zero (“substitution” effect); or employers hiring subsidized workers and laying them off once the subsidy period ends; or “creaming off” when the most employable jobseekers may be selected into the programs. ALMPs can also provide “windfall benefits” to some employers who would have hired workers in the market to fill vacancies but under a subsidy, can hire at no cost or a much-reduced rate (See Calmfors 1994; Betcherman et al. 2004). The findings of various reviews of ALMPs imply that the programs are not a panacea for large-scale unemployment and that expectations must be realistic.

ALMPs also cannot substitute for structural labor market reforms, which aim to improve the functioning and efficiency of the labor market. While ALMPs are an important component of labor market policy, they mainly help disadvantaged groups, and often do not have a significant impact on unemployment or employment in general.

Even though some jobseekers may not require participation in an active measure at all, ALMPs are essential for others to gain skills or work experience to achieve sustainable integration in the labor market. As noted, while ALMPs are an important component of labor market policy, they mainly help disadvantaged groups.

Another dimension in the provision of ALMPs is that a variety of services are needed to address three conditions commonly experienced by displaced workers who are trying to re-enter the labor market (Fretwell 2004):

Frictional Unemployment: Displaced workers have marketable skills for which there is a demand, but they need intensive job placement assistance. These services can have a substantial positive impact on re-employment and have low unit costs.

Structural Unemployment: Displaced workers lack skills, or their skills are not in demand, and need some re-skilling to compete and re-enter the labor market. Different types of retraining,

¹⁹ For various cross-country reviews of evaluations of ALMPs, see Heckman et al. 1999, Dar and Tzannatos 1999, Martin and Grubb 2001, Kluge and Schmidt 2002, Betcherman, Olivas, and Dar 2004.

including on-the-job and/or institutional training, is needed in these circumstances to help facilitate re-employment at a moderate unit cost per worker.

Lack of Demand for Labor: This is a particular problem in areas of high unemployment and in mono-enterprise communities where many workers are laid off. Programs include small business consulting assistance, business incubators, public works, and microloans. These programs tend to be more expensive than other services, attract a limited number of participants, but can be quite effective.

Significant disparities exist in budget allocations for ALMPs among ECA countries: In the countries for which the data were available, the range in 2008 spanned from 0.03-0.04 percentage points of GDP in Armenia, Moldova, Croatia, and Estonia to 0.37 percent of GDP in Montenegro (excluding general services for jobseekers provided by PES)²⁰ (Annex Table 7). Future reforms of ALMPs should emphasize improving their design and effectiveness, rather than increasing spending levels only.

The countries also have different priorities in the provision of ALMPs. By the structure of budgetary allocations, in 2008 Estonia spent 71 percent of the total expenditures on training; Croatia, 75 percent of expenditures on employment incentives; Bulgaria, 71 percent on direct job creation programs; and FYR Macedonia, 72 percent on start-up incentives.²¹ (Annex Table 8). By the number of beneficiaries, the most popular programs tend to be career counseling and professional orientation (but students also benefit from the program); job search assistance, training, and public works (Annex Table 9).

²⁰ In 2006, Poland spent 0.359 percent of GDP on ALMPs, Hungary, 0.193 percent, and Slovakia, 0.143 percent, compared to, for example, the EU15 average of 0.531 percent (Eurostat 2008).

²¹ Labor market measures are divided into the following main categories: (1) general services for jobseekers provided by the public employment services; (2) training programs; (3) programs that facilitate the insertion of the unemployed or other target groups into a work placement by substituting hours worked by an existing employee; (4) programs that facilitate the recruitment of the unemployed and other groups, or help to ensure the continued employment of persons at risk of involuntary job loss; (5) programs that aim to promote integration of disabled persons into the labor market; (6) programs that create additional jobs; (7) programs that promote entrepreneurship by encouraging the unemployed and target groups to start their own business or to become self-employed; (8) cash benefits to compensate for loss of wage or salary; (9) programs that facilitate full or partial early retirement of older workers (Eurostat 2009a).

Table 7: Share of Expenditure on ALMP Measures in EU10 States by Category, 2006 (%)

	Training (2)	Job rotation and job sharing (3)	Employment incentives (4)	Supported employment and rehabilitation (5)	Direct job creation (6)	Start-up incentive (7)
EU-27*	41.1	0.7	24.2	12.2	14.1	7.7
Bulgaria	11.5	-	11.6	2.1	73.6	1.2
Czech Republic	8.8	-	23.5	42.3	22.1	3.4
Estonia	85.5	-	7.4	0.8	-	6.3
Latvia	60.0	-	28.8	3.3	7.9	-
Lithuania	39.7	0.0	32.0	1.8	26.5	0.1
Hungary	31.9	-	42.3	-	24.3	1.6
Poland	28.2	0.0	13.5	43.6	4.5	10.3
Romania	16.4	-	50.8	-	32.0	0.8
Slovenia	32.2	-	15.8	-	41.3	10.6
Slovakia	6.8	-	16.0	8.1	38.1	31.1

Source: Eurostat 2009a.

Improvements can be made in the provision of active labor market programs, and various cost-effective policy options can be proposed to enhance the menu of employment services in ECA. This section provides an overview of priority ALMPs in the region, challenges, and best practices in implementing relevant programs.

2.2. Career guidance counseling services

Career guidance policies and services are designed to assist individuals at any point in their lives to manage their careers, including making informed occupational and education and training choices. They can help to ensure that individuals' decisions are based on self-assessments and labor market information, thus reducing market failures. For developing and transition economies, most of which have limited resources, career guidance services can increase the efficiency of the use of scarce education and training resources. The services also promote social equity and inclusion by helping to ensure equal access to information on labor market and education opportunities (Watts and Fretwell 2004). The services may be on an individual or group basis, and may be face-to-face or at a distance (including web-based services). They include career information (in print, ICT-based, and other forms), assessment and self-assessment tools, counseling interviews, career education programs, and work taster programs.

The European Council Resolution 9286/04 of 18 May 2004 on strengthening policies, systems, and practices in the field of guidance stressed that all citizens should have access to guidance services at all life stages and that lifelong learning vocational guidance services contribute

towards lifelong learning development, EU economic development, human resources development, as well as towards the professional and geographic mobility of individuals.²²

As a preventive measure, relevant career guidance services should already be made available to students in general, vocational, and higher educational establishments, including free-of-charge vocational guidance and career counseling services.²³ Currently, the choice of specialization in education establishments is mainly based on the interest of young people in the given specialty (and in many cases the lack of alternative options or financial means also played a role) rather than on labor market considerations.

As an example, in Armenia a survey among the students of vocational education establishments—both at primary vocational and secondary specialized schools – indicated that although the youth with medical and pedagogical specialties have the highest unemployment rates, these specialties are still among the most popular areas of study in vocational schools and higher educational establishments. The choice of specialization was mainly based on the interest of young people in the given specialty (83 percent), but in 12 percent of cases the lack of alternative options or financial means also played a role in selection of a specialty (World Bank 2007a).

This indicates that vocational school students and their parents do not have a clear understanding of the demand in the labor market. Providing young people with information on labor market opportunities and payoffs to different levels and modalities of schooling can allow them to make more-educated guesses about their future returns, producing efficiency gains.

²² The European Union Expert Panel offers the following definitions: Guidance – a range of activities designed to assist people to make decisions about their lives (educational, vocational, personal) and to implement those decisions; Counselling – a purposeful relationship in which one person helps another to help him/herself and influences voluntary behavioural change on the part of the client (where the client wants to change and seeks the help of practitioners to change) (See Cedefop 2003).

²³ In many ECA countries, career guidance and counseling is provided in two concurrent systems. For example, in the Czech Republic, Education, Youth and Sports Ministry with its several substructures – Pedagogical-Psychological Counseling Institute and its special pedagogical centers, educational support centers, youth information centers, Technical and Adult Education National Institute and its Career Consulting Center are responsible for the professional orientation of students. The Labor and Social Security Ministry's Employment Service Agency provides relevant services to the adult population.

Table 8: Circumstances with a Decisive Influence on the Selection of Specialization by VET Students in Armenia (%)

Parents	50.7
Friends	6.7
General School	1.1
Employment Service	1.3
Advertisement of the Institution	2.7
Close Location of the Institution	2.6
Decided Themselves	33.7
Other	1.2
Total	100.0

Source: Survey of Students in Primary Vocational and Secondary Specialized Schools 2005 (World Bank 2007a).

The parents of respondents had the largest influence on the selection of specialization in VET for slightly more than half of the students (Table 8). The influence of the school and PES has been decisive for only a very small number of respondents. This indicates a need for closer cooperation between the educational and labor market institutions to assist the youth in making informed decisions.

Another example is Kosovo, with the highest unemployment rate in Europe. Currently, career guidance in education system is not provided, although the legal framework foresees it from lower secondary education from 6th to 9th grade (orientation year) through upper secondary and higher education. The youth have limited information about the likely benefits from training, are unaware of the variety and quality of training services that are available to them, and cannot gauge the uncertainty of the returns from the investment. At present, there are only eight employees on the PES staff who are advisors for career counseling.

Career guidance counseling for youth needs to be developed in many countries in the region to improve the efficiency of their choices of specializations, to inform students of the employment prospects associated with alternative specializations, and to inform their eventual labor-market choices. Access should be provided to information about various opportunities in education and continued education, as well as specialized job counseling, job placement, and professional orientation services – especially to unemployed youth.

In-school provision is generally preferred although external provision can target some of the hard to reach groups like those not in school, in training, or employed. The use of internet-based services is very important in targeting young people but as a complementary activity to more conventional support. Also, the involvement of employers is crucial – getting employers into schools to talk about the employment opportunities and getting students out to see employment situations are important.

As best practices, in Slovenia, in nine years of operation, a network of 35 centers and 6 information points on career guidance has been created. The partners are high schools, regional development agencies, libraries, and municipalities. Vocational Information and Guidance

Centers (VIGCs) are intended to assist young people in making their first decision on their future occupation, and adults (unemployed and those in employment) who are changing careers, seeking new employment, or wishing to continue their education, with correct and sufficient information to make it easier for them to make decisions independently. They also assist career advisors and job advisors who need information in order to improve their work results, and other interested parties. VIGCs provide information in a variety of media: in written form, on the internet, and through a variety of video presentations. In 2007, VIGC information was sought in person or over the telephone or was otherwise communicated to 74,000 users, with 72,000 beneficiaries in 2008.

In Lithuania, the portal on Open Information, Counseling and Guidance System (AIKOS) was launched, becoming the main information system to present learning opportunities in Lithuania. It is linked with the Portal on Learning Opportunities Throughout the European Space (PLOTEUS). In the period 2003–2008, 700 reference points of vocational information were set up, out of which 597 were established in secondary education schools, 39 in vocational schools, 20 in labor exchange branch offices, 44 in town education centers, municipal libraries, adult teaching centers, schools of children's non-formal education, and incarceration institutions.

2.3. Job search assistance and counseling

Job search assistance is a core employment service. This assistance is relatively inexpensive and by providing jobseekers with better information on jobs, it can also help in shortening unemployment spells. On the negative side, these interventions usually have “deadweight losses” that is, individuals who find jobs through these services are generally more qualified than most job-seekers and many likely would have found jobs even in the absence of these services. Also job search programs to support jobseekers by increasing access to information and labor market intermediation are not likely to have a large impact in times of weak labor demand. The performance of these programs can be also constrained in countries where informality is dominant and hiring relies mostly on informal channels, and in countries with weak public institutions.

The program usually covers the following counseling services:

Job counseling: the unemployed participants are counseled about the skills and qualifications they need to improve in order to increase their employability and the scope of measures they can use in order to improve them.

Labor market information: unemployed people can obtain information about the local and regional labor market situation, including jobs offered and the qualifications needed to apply for them. The labor market information may also include information about future labor market trends.

Job search: the counseling program also offers practical assistance to the unemployed in their efforts to find new employment. This assistance contains information about the latest jobs offered in the region, and practical guidance in drafting job applications and succeeding in job interviews.

This service is typically provided in the local employment office or at a convenient location. The participants may have access to resources to support their job search (e.g., internet and local newspaper access, transportation, computer/printer for resumes).

A report for the European Commission on careers services in PES identified three main types of activity (Sultana and Watts 2005):

- Personalized employment services;
- Specialized career guidance services;
- Other career guidance provision.

The trend in Europe has been for PES to offer a more-customized and personal service to their clients – inevitably requiring a higher level of resources. The main activity of the average PES office is to register and process clients, involving a range of guidance-related activities that lead up to the main objective of placing the individual in a suitable job. Typically this includes interviewing the client, preparing the necessary administrative documentation (which might include testing for eligibility for benefits), and preparing a personal action plan.

The second approach of specialized career guidance services represents a more intensive and specialized level of support. Staff must have the requisite guidance and counseling skills and knowledge and may need to be in specialized areas in order to service disabled clients or those with criminal records, for example. This kind of service will not be required by all clients and in some countries the provision is outsourced to other organizations (e.g., the private sector and NGOs.).

The third category of other careers guidance provision recognizes that PES have a wider role than simply helping those that visit the employment offices, including career guidance to students and other youth discussed above. For example, PES might produce information on the labor market (occupational trends as indicated by vacancies, etc.) and should interact with groups, such as school and college leavers and re-entrants to the labor market, which could entail visiting schools and universities or providing electronic support. However, it should be noted that there tends to be a different approach to careers guidance from PES staff compared to those in education. The former is more-focused on employment opportunities in the real labor market while the latter may take a more open stance on future opportunities.

As an example of successful implementation of the program, in the Macedonian Social Support Project, participation in the counseling program approximately doubled a person's probability of being employed compared to the non-participants in the control group. The average cost of relevant improved services per participant was US\$9 and the unit cost per employed was US\$37, which has to be considered a low cost (MoLSP 2002).

In the Serbian Employment Promotion Project, new strategies for job search were developed. They include determining effective job search methods, developing job interviewing skills, motivation, self-respect, and self-confidence, and devising psychological methods for overcoming barriers to a job search (including fear, uncertainty, and discouragement). This assistance is being

provided to jobseekers who need assistance in developing resumes, updating interviewing skills, and reviewing job search methods.

2.4. Job clubs

One of the cost-effective ways for job search assistance is through job clubs. They aim to train and assist jobless persons in acquiring active job search skills and knowledge in order to gain employment.

There might be different types of the job clubs, including as: (i) meeting places of unemployed, (ii) the centers of unemployed, and (iii) the service centers for unemployed.

As meeting places of unemployed, the job clubs are called to create opportunities for unemployed to meet each other, as well as organize meetings between unemployed and employed people, NGOs and other organizations. The clubs have to be able to provide qualified consultation to the unemployed on the issues of unemployment, as well as provide them with up-to-date information about the developments in the job market.

When necessary the job club may become a “center of unemployed” where, in addition to the activities listed above, various social support programs and events on general and vocational education are implemented too.

The modernization and further-development of the centers for the unemployed assumes the creation of the “service centers for unemployed”. These have the goal to support the unemployed not only in organizing meetings and establishing connections but also their re-entry in the job market.

Among these services are:

- Individual and group provision of consultations and information for the unemployed (this consultation may also be provided anonymously).
- Visits to different enterprises and companies can be organized for the unemployed.
- Various trainings are organized for the unemployed (on skills necessary while applying for jobs, collection and preparation of necessary documents, job interviewing skills, etc.).

These clubs are recommended for those with low self-confidence, who have been unemployed for extended periods of time, or who are displaced. Job clubs help individuals in a methodological way to regain self-confidence and maintain an active role in their job search. The participants are trained in developing methods of self-presentation for employers, preparing resumes, applying for jobs, filling out job application forms, using newspapers and other documents in a job search, and conducting interviews. Job clubs are especially popular in Lithuania where 27,400 beneficiaries participated in their activities in 2008 (Annex Table 9).

2.5. Vacancy and job fairs

Another cost-effective program could be vacancy and job fairs. A job fair is an event usually held in urban areas once to several times a year where a number of employers and jobseekers come together for the purpose of applying and interviewing for jobs. Defined more precisely, a job fair is an employment strategy to fast-track the meeting of jobseekers and employers. Companies participate in job fairs to screen candidates for existing or future job openings. Companies also participate to introduce themselves as a desirable place to work and to promote their company. At the very least, companies gain exposure at job fairs, while at the most they can make rapid hires of highly qualified applicants. Participation in job fairs is the most appropriate for youth.

Job fairs are the most common ALMP in Azerbaijan: the National Employment Program for 2008 indicates that 56,564 persons found relevant work at job fairs organized in 1997-2007 (or around one fifth of participants), of which 850 people (1.5 percent) were disabled persons. In 2008, 29,400 individuals participated in job fairs.

These fairs are open not only to the unemployed but to the general population as well. Job fairs appear to be less important as far as the registered unemployed are concerned. The survey conducted in Azerbaijan by the Scientific-Research and Training Center on Labor and Social Issues among participants of Job Fairs in 2006 shows that the registered unemployed made up only 6 percent of the 4,460 participants, whereas 81 percent were unregistered unemployed, 10 percent employed (either formally or informally) and the remainder involved in education. Other findings are that 45 percent of the participants of job fairs had no prior work experience, while 22 percent had worked less than 10 years. Finally, more than half the participants were long-term unemployed (more than one year unemployed) and 43 percent of the participants were unemployed for more than two years (SEOR 2008). Respectively, the most vulnerable groups dominate among the participants. However, despite that fact, only around one third to one half of the proposed vacancies are filled.

Apparently, there is a mismatch between the requirements of employers and the qualifications, skills, and other characteristics of attendants of job fairs. There may however also be cases in which the vacancies that are offered do not meet the expectations of the job fair participants.

Table 9: Job Fair Participation and Placement in Azerbaijan

	2004	2005	2006	2007*
Number of persons who participated in job and vacancy fairs	32,141	38,093	39,991	43,966
Of which: placed in jobs	6,185	7,212	7,842	9,056
Percentage of participants placed in jobs	19.2	18.9	19.6	20.6

Note: * First nine months.

Source: MLSP, SEOR 2008.

This type of ALMP also works best where it is properly targeted. For example, support to the higher education establishments to hold graduate recruitment fairs at the end of the university

year can be used as a preventative measure to preempt graduates from becoming unemployed; or occupational/sector-related fairs (for example, construction, health, education, services, and tourism, or targeted at SMEs) on a national or regional basis.

2.6. Employer contact services (job intermediation services)

Among the critical activities for PES are employer contact services to meet employer needs and promote continual use of employment services. By identifying job-related skills, knowledge, and abilities needed by the employer, the local offices can match applicant skills and refer the best qualified applicants to employers. Typically, employer contacts are established through workplace visits, telephone contact, direct mail, or local employer group meetings. This service is typically provided by the advisers/counselors of local employment services.

Although job counselors may spend a significant amount of time on the service, most jobs reside in the “hidden job market” and beyond the reach of local employment offices. The challenge for developing modern employer contact services by PES, given its staff constraints, is also that the enterprise sector in most countries in ECA region is dominated by a large number of microenterprises who, however, tend to generate most of the new jobs. So it is a difficult task to keep track of employers in microenterprises.

As a result of improved employer contact services, it is more likely that the workforce needs of employers will be met, employers will come to view employment services positively, and trust will be enhanced. Understanding the needs of employers and working to solve their problems will forge long-term partnerships based on common goals: workforce quality, enhanced productivity, and economic competitiveness. This involves establishing and developing good relations with employers and the gradual transformation of the employment agencies into a genuine service enterprise (including modernization of the range of services, creation of specific enterprise and sector desks, improvement of its public image, and use of information technologies) (Table 10).

Table 10: Elements of Different Cultural Approaches toward PES Customers

Employers as partners and customers of the employment service	Traditional way towards employers
Subsidies (for staff training, for employment of vulnerable persons)	Quota system with sanctions for non-compliance with quota obligations
Voluntary notification of job vacancies	Compulsory notification of job vacancies
Providing assistance for recruitment (e.g. pre-selection of suitable candidates for job vacancies, etc.)	Referring candidates without specific pre-selection to job vacancies
Develop and maintain close links with the employer with service-orientation, applying a marketing strategy	No systematic communication with employers

Source: ÖSB Consulting GmbH/SEOR 2008.

Austria exemplifies best practices in the provision of employer contact services by PES, where services to employers are defined as the second core activity (ÖSB Consulting GmbH/SEOR 2008). The Austrian PES deploys a staff of 250 specifically trained company counselors who provide free-of-cost services to employers. These services cover:

- Referral of suitable candidates for job vacancies
- Assessment of staff qualification needs (in cooperation with external consultants)
- Grant schemes for staff training
- Development of solutions in the case of crisis or announced mass layoffs
- Information, advice, and subsidies for employees with special needs (elder workforce, employees with disabilities, etc.).
- Screening and clustering of clients: In order to maximize efficiency of services, the companies are clustered according to their record of taking unemployed persons from the labor office. Targets with performance indicators are set for each labor office and for individual company advisors (e.g., number of vacancy positions notified, number of vacancies filled, percentage of vacancies filled within one month, etc.).
- Evaluation of client satisfaction: Surveys of client companies on their satisfaction with the employment office services are conducted on a regular basis. These surveys are carried out by external consultants, and the results are used for benchmarking the performance of labor offices.

The company counselors keep close contact with their clients and regularly visit the employers, requesting new vacancies notifications. The final aim of these services is ‘job canvassing’ – getting requests for filling as many job vacancies as possible. The critical aspect of this approach is the interface with the “service for jobseekers”. Close cooperation between the parties is needed to achieve optimal matching and placement results.

2.7. Training programs

A recent World Bank report on new EU Member States noted the shift in these countries from a shortage of jobs to a shortage of skilled workers (World Bank 2007d). This is true in many other ECA countries as well. Labor Market Training (LMT) that is, training for those who have already left the formal schooling system, can play an important role in combating skills shortages in specific sectors and occupations. LMT aims to improve the skills of unemployed jobseekers and marginalized workers, while at the same time fulfilling the needs of the labor demand. Some programs are designed to develop basic job readiness only; others offer a comprehensive array of services that includes vocational classroom and on-the-job training. This includes training that is publicly supported, usually through either direct provision (e.g., through public or private training institutes) or financial support (e.g., funding training costs and/or subsidizing trainees).

Among EU10 countries, in Estonia training predominates, accounting for almost 86 percent of the total spent on LMP measures, followed by Latvia with 60 percent. On the other hand, training accounts for less than 13 percent of the expenditure on LMP measures in Bulgaria, the Czech Republic, and Slovakia (Eurostat 2009a).

Evidence on ECA shows rather positive impacts of training, compared to OECD countries. Five out of six evaluated vocational training programs reported positive labor market impacts for participants, with relatively proven cost-effectiveness. The programs increased the likelihood of employment among the young by a minimum of 6 percent in Hungary and a maximum of 57

percent in Bosnia and Herzegovina.²⁴ This wide range of effects on employment is mostly determined by gender and level of education: female participants and the less-educated tend to obtain higher gains from the programs than male participants and those with university degrees, respectively (Puerto 2007).

In some countries (e.g., Bulgaria), in order to improve the outcome of training programs, local organizations proposing training programs must show evidence of demand for trained workers and agree to a negotiated registered job placement rate, which may be different for institutional training and for employer-provided on-the-job training.

Table 11: Net Impact of Some ALMPs on Employment in Transition Countries, Late 1990s –Early 2000s (Percent of Increase in Net Employment)

	Training	Start-up allowance (lump-sum payment)	Wage subsidy
Estonia	1 yr after grad=7 2 yrs after grad=15	24	20
Czech Republic	8	11	9
Hungary	10	13	- 10
Poland	10	30	NA
Bulgaria	10-11	42.7	38.7

Source: Leetmaa et al. 2003.

As regards training, various evaluations conducted in the region indicate that narrowly targeted and small-scale training programs addressing well-identified needs of both the unemployed and the employers tend to have a positive net impact (Wilson and Fretwell 1999; Leetmaa et al. 2003; Table 11). On-the-job training (as opposed to classroom training) provided by private firms has proven particularly effective. In contrast, broadly targeted large-scale training or retraining programs, for example for workers laid off en masse, have little impact. Similarly, training has proved of little effectiveness as a means of addressing youth unemployment. Training cannot substitute for general education and cannot make up for the failings of the educational system.

ECA countries have different preferences in the provision of training. In the EU10, for example, Latvia, Hungary, and Slovakia rely exclusively on institutional training; Lithuania uses predominantly alternate training; Poland provides special support for apprenticeship; and the Czech Republic relies on a mixed system (Table 12).

²⁴ Employment effects in Bulgaria, Romania, and Poland are within this range.

Table 12: Distribution of Participants by Type of Training in EU27 and EU10 States, 2006 (%)

	Institutional training	Workplace training	Alternate training	Special support for apprenticeship	Mixed or not known	Total
EU-27*	40.9	6.7	1.5	24.5	26.4	100.0
Bulgaria	56.9	-	-	43.1	-	100.0
Czech Republic	:	:	:	:	100.0	100.0
Estonia	77.8	9.8	-	12.4	-	100.0
Latvia	100.0	-	-	-	-	100.0
Lithuania	3.2	-	96.8	-	-	100.0
Hungary	100.0	-	-	-	-	100.0
Poland	7.5	19.6	0.2	72.7	-	100.0
Romania	95.5	-	4.5	-	-	100.0
Slovenia	90.8	9.2	-	-	-	100.0
Slovakia	100.0	-	-	-	-	100.0

Note: *Eurostat estimate.

Source: Eurostat 2009a.

Recent evidence indicates that program designs that combine different training approaches have a higher probability of yielding positive labor market impacts on employments and/or earnings outcomes of trainees. In particular, compared to in-classroom training alone, the interaction of in-classroom and workplace training increases the likelihood of positive labor market impacts by 30 percentage points, and when combined with other services, the probability of a positive impact increases by 53 percentage points.²⁵

As noted, a number of studies point to the observation that on-the-job training and employer involvement and sponsorship seem to be associated with more positive outcomes than classroom training and programs that do not have connections to the private sector. This type of training is demand-driven; it is based on strict and monitorable financial incentives; it allows combining the resources of the state, employers, and jobseekers themselves, and secures much higher placement rates for graduates.

The on-the-job training program delivered by the Employment Service Agency (ESA) in FYR Macedonia is solely demand-driven (i.e., employer-specific). This secures high placement rates for participants. The program may last up to three months. During the training, beneficiaries

²⁵ The evidence is based on recent meta analysis of 345 studies of training programs from 90 countries around the world (Fares and Puerto 2008). Also in Argentina, Chile, Peru, and Uruguay the *Joven* training programs have been widely recognized as successful in reaching disadvantaged youth. Critical to their success is the nature of the training – from technical to life skills and from lectures to internships – and the sound support services and course certifications that foster continuing participation.

receive MKD4,000 (around 25 percent of the average wage) and are entitled to health and disability insurance, whereas employers receive a fixed amount of MKD2,000 per worker from ESA toward training costs and bear the costs of transport and food for trainees (Mojsoska-Blazevski 2006). Starting in April 2005, employers have been obliged to employ a minimum of 70 percent of all trainees that successfully complete the training for an indefinite period (open-ended work contract). The number of trainees who completed training in 2007 was 2,751, and 2,526 trainees or, 91.8 percent of the total, were placed in jobs. Training is mainly delivered by the employer as on-the-job training or by training contractors.

In Azerbaijan, Poland, Russia, Ukraine, for example, where PES own the training centers, they have instituted a modular vocational training technique known as Modules of Employable Skills (MES) developed by the ILO experts to meet the requirements of labor markets in flexible, cost-effective, and individualized training.

In contrast to the standardized knowledge-oriented training, the MES approach is aimed at acquiring the competency (or occupational skill) required to become employable after training, and building on those skills by additional training. The teaching program is divided independently into specifically designed and correlated teaching and learning units (i.e., modular and training units), which relate to knowledge, skills, and attitudes required in the realization of occupational tasks in a workplace. Candidates for training can start their education from different introductory levels; different learning paths can be adjusted to different levels of previously acquired knowledge as well as individual predispositions and needs (Table 13).

Table 13: Comparison of Modular Training with Traditional Training

	Traditional training	Modular training
Structure of training programs	All trainees are trained in the same program during the training course. The training schedule is fixed and universal to all trainees. The list of subjects to be learned is defined and universal to all trainees regardless of their initial education level.	A personal training program is created for each trainee. The training schedule is not fixed and depends on the ability of the trainee to learn intensive material, as well as his/her initial education level and required profession. The list of subjects for each trainee depends on his/her relevant knowledge and ability to understand the required material.
Function of trainer	The main function of the trainer is to teach the trainees; therefore, personal, team, and collective works are used. In general, however, all trainees work with the same training material and solve the same problems.	The main function of the trainer is to guide the personal work of the trainee. He/she fulfils the tasks of consultant and assistant, and helps the trainee correctly organize his/her personal education.
Duties of trainees	Mainly passive. The trainee does not take part in the organization of his/her training and does not have the opportunity to amend his/her training process.	The trainee organizes his/her training with the trainer. He/she takes part in the formation of training programs and can propose amendments to his/her training materials.

Source: Nazarov and Dayiyev 2008.

In many transition countries, a large part of the training courses are adjustment courses to introduce the unemployed person to the realities of the new market, to help them “sell” their work history and professional knowledge, and to facilitate their reintegration into the labor force in general. Companies themselves may organize training of employees but their focus is primarily on management skills and team work, as far as core skills are concerned, and foreign languages, entrepreneurship, and computer skills, as far as transferable skills are concerned. Relatively few companies provide basic professional training, expecting that relevant specialists can be found on the labor market.

Very few PES in the region own their own training centers, increasingly shifting their role as contractors, seeking training services from other public and private sector agencies. Contracts usually are competitive and stipulate a selected number of training slots or days of training. The training contractor may provide additional counseling services. Thus, the governments are moving away from the role of direct provision of training and are focusing more on addressing market failures in information and financing, while leaving more of the delivery to private providers. Vouchers are one way to ensure that training is market-oriented; they are targeted at private employers and contribute towards their costs of on-the-job.

In general, younger workers with basic educational levels and skills are most likely to improve their labor market outcomes from retraining. In contrast, retraining programs are of limited applicability for older workers, as well as for workers with little formal education or vocational skills.

2.8. Virtual enterprises

One of the new cost-effective forms of training, especially for youth in the region, is virtual enterprises (a practice firm or simulation models of a business enterprise). The aim is to improve interactive learning, obtain and develop business skills for work in operating a real enterprise, and introduce jobseekers and students to the day-to-day business life and labor market realities.

A practice firm is a virtual company and a center of vocational learning that runs like a "real" business silhouetting a "real" firm's business procedures, products, and services. Each practice firm trades with other practice firms. It provides a transparent view of internal business processes, external business relationships, and other business practices.²⁶

European - PEN International is the worldwide practice firms network with over 5,500 practice firms in 42 countries. In the ECA region, the network of virtual enterprises is the largest in Slovakia with 545 practice firms, 395 in the Czech Republic, 145 in Slovenia, and 87 in Romania (as of June 2009).

In some countries, such as in Austria, the virtual firm as a place of learning is a compulsory part of the curriculum in all schools and academies of business, and is recommended for business training in all schools. A virtual enterprise it is basically a software/training program simulating a small business, including its financial management, bookkeeping, accounting, marketing, sales

²⁶ See: <http://cms.europen.info/>.

and purchases, human resources, taxation, etc. Since it enables a direct connection between the theory and practice following the principle of learning-by-doing, it is the optimal method of business education and training.

But it is not always the case that virtual enterprises are integrated in the school system. The accumulated experience demonstrates that they can be aimed at the unemployed and located at the public employment services, training centers, enterprises, etc.

The European Commission (Structural Funds) approved the implementation of the Virtual Innovation and Cooperative Integration (VINCI) for the region of Tuscany in 2006-2007. It is based on wide use of the Virtual Enterprise/Virtual Organization model. The 2003 EC Green Paper “Entrepreneurship in Europe” also refers to virtual enterprises as one of the new instruments and provides an example of the Athens Technical School, which developed virtual enterprises as a training aid for students (EC 2003a).

Virtual enterprises were piloted in Serbia as part of the Employment Promotion Project. Currently, the country has 28 practice firms. In Serbia, after the completion of the training at a virtual enterprise, 36 percent of participants found a job, but six months later this percentage increased to 39 percent, which reflects a positive effect of this measure on employment and suggests more frequent implementation. Subjective indicators also confirm extreme usefulness of the measure for employment. Namely, more than 83 percent of beneficiaries identify it as a key factor for getting a job. The strength of the training at virtual enterprises also reflects the fact that employed persons have the opportunity to use the acquired knowledge (SEOR 2006).

2.9. Public works

Interventions to directly create jobs are controversial since they can have significant costs and uncertain benefits, especially beyond the short term. A large-scale direct job creation program is justified at times of economic downturn, when aggregate demand is depressed and there are few vacancies (EC 2006b). Direct job creation programs are sometimes intended to increase demand in the economy or to provide work experience with a view to improving employability, or to achieving both of these objectives. They include public sector work programs, assistance to self-employed businesses, wage subsidies, and work trials. As is the case of training programs, the role of PES may simply involve referring participants to public works or it may extend to organizing and sponsoring programs.

Public works programs have proven to be an effective measure for creating short-term employment for truly jobless workers if they are carefully targeted and if the wage is set below the equilibrium wage for unskilled labor (For a stocktaking of these programs and their impacts, see Subbarao 2003; Betcherman et al. 2004; Ravallion 2008; Del Ninno, Subbarao, and Milazzo 2009). This may be an appropriate intervention for needy prime-age workers who have little chance of finding scarce private-sector jobs.

In the ECA region, public works are more common in Armenia, Belarus, Bulgaria, Russia, and Ukraine but are not very popular in other countries. In Belarus, in 2008, out of 95,500

beneficiaries of public works program, only 53,400 were registered unemployed (Annex Table 9).

Public works were initially invented to address demand-deficiency unemployment; however, they have increasingly turned into income support programs largely targeted at the low-skilled long-term unemployed. The underlying concept, known as workfare, is that able-bodied individuals should receive income support conditionals or in return for performing some publicly useful work. Another advantage is that these programs can be self-targeting on those most in need: If well designed, they are good short-term poverty reduction interventions. On the negative side, their long-term labor market impact is often insignificant and in some countries, a stigma is attached to public works jobs, which may decrease the market employability of participants over the long run.

There are costs as well as benefits to public works that may have kept transition economies from adopting them more comprehensively. In most ECA countries, unemployment benefits are low so that the salaries earned by participants in public works act as sufficient economic support to the unemployed, especially if they are targeted to the neediest jobseekers. Participation in public works also allows PES to test and monitor the willingness of the registered unemployed to participate in other labor market programs. Temporary work can reach informal sector workers and the poor for income support where the administrative capacity is weak. This form of temporary employment enables some of the unemployed to establish contacts with employers and provides information on the local labor market. Often temporary employment turns to permanent employment, especially if the public works are organized by private firms. In certain areas, such as in environmental protection programs or in the social services sphere, public works might significantly contribute to the well-being of the local community.

On the other hand, public works are not very popular among employers or jobseekers themselves. Such works are criticized as being too expensive per additional job created; entail large non-labor costs; are often temporary in nature; and often do not help increase wages or employment prospects (Betcherman 2000). In many transition countries, highly skilled labor prevails among the unemployed, who were previously engaged in capital-intensive industries, so their participation in unskilled jobs carries stigma. In several countries, most of the public works are organized in the regions of high economic growth and low unemployment, not in the regions of high unemployment. In many countries, fiscal limitations restrict local authorities, potentially the major purchasers of such services, from using them while local employment services are not very active or experienced in organizing public works.

These works are usually seasonal, with few temporary employment offers during the highest unemployment periods from autumn to spring. The organization of public works is often complicated due to a mismatch in the skills needed and the qualifications possessed by the jobseekers. There are also some social and psychological aspects of participation in public works, such as low prestige and low qualifications for the work, which are not desirable or sufficient to satisfy certain jobseekers.

Based on the evaluation of outcomes of relevant programs in the world, Dar and Tzannatos (1999) came to the conclusion that public works can help the more-disadvantaged groups (e.g.,

older workers, the long-term unemployed, those in distressed regions) as a poverty/safety net program.

Among transition countries, Bulgaria launched a massive public works program “From Social Assistance to Employment”. The program was introduced in 2002, with 55,300 participants and scaled up in 2003 and 2004 to over 80,000 participants, but around 30,000 beneficiaries in 2008. Its primary objective has been to reintegrate the unemployed on social assistance into the labor market, restore their work habits and motivation, and reduce their dependency on the social safety net. The program covers the most disadvantaged and hardest-to-place groups—that is, those with a low level of education, the Roma, the long-term unemployed, and the social assistance recipients. It has provided employment for a group of unemployed that would otherwise have remained unemployed much longer, and positively impacted their work discipline, habits, and qualifications.²⁷

However, the results of the program’s impact analysis indicate that only 8 percent of program participants found employment at the end of the program, while in the control group this proportion was 16 percent. If getting a job was their only goal, the participants would have done better looking for work themselves (De Koning et al. 2005).

A survey among employers in Bulgaria indicated that 68 percent of the employers reported lower productivity of the employees hired under the program. They also reported making additional investments in mentoring and firm-level supervision to bring the work habits and discipline at the workplace up to the level of ‘regular’ workers. In addition, participation in the program reduced the time for job search compared to the control group.

The priority for participation is given to the long-term unemployed, meaning those registered at the employment agency and out of work for more than 24 months and receiving social assistance for more than 18 months; member(s) of the family in which the parents are unemployed and are receiving social assistance; and unemployed single parent–recipients of social assistance. For some of the participants from ethnically mixed regions, employment is combined with literacy enhancement and vocational training. The target is to employ around half of participants in construction and renovation works, in social and other such works, and around 30 percent in environmental clean-up. It is anticipated that a person can stay in the program in total for not more than three years. Wages are set at around 110 (minimum wage) to 125 leva (around US\$60-70) but those employed have to give up the social assistance benefit (on average 40 leva per recipient in 2002). Among the reasons for the attractiveness of the program might be that the participants are also covered with pension and health insurance (including maternity benefits).

2.10. Wage and tax subsidies

These are subsidies to encourage employers to hire new workers or to keep employees who might otherwise have been laid off for business reasons. They usually take the form of direct

²⁷ Participants can enroll in a literacy course combined with part-time employment (five hours), and a daily four-hour study session. However, 67 percent of the employers involved in the program stated that they did not train their workers either before or during the project (De Koning et al. 2005).

wage subsidies (directed to either the employer or the worker) or social security payment offsets. These programs typically are targeted to the long-term unemployed, areas/sectors with high unemployment, and special groups of workers (e.g., youth) to get them into real workplaces (ideally with some training) so that they can get a foothold in the labor market.

While these programs serve a social objective, it is difficult to design subsidies that actually meet the goal of creating jobs in a cost-effective manner. As with most other hiring subsidies, tax exemptions are also liable to have only a small net effect on employment due to significant “deadweight” effects (subsidies to recruitments that would have happened anyway). But they may be worthwhile if they reduce informality. These programs need to be carefully targeted and limited in scope, or they may become expensive and even counterproductive.

In the region, one of the successful tax wedge reduction schemes targeted at young people was launched in Hungary. In particular, employers that employ young people who hold a START card (valid for a maximum of two years) are eligible for a considerable contribution payment allowance during the period of employment as follows: (i) exemption from the itemized healthcare contribution for two years (currently HUF1,950 per month); (ii) instead of the combination of the 3 percent employer contribution and the 29 percent social security contribution, employers are only required to pay an amount equal to 15 percent of the gross wages in the first year of employment, and 25 percent of the gross wages in the second year of employment. The START card has been very popular with young people (and employers as well) since its introduction on October 1, 2005 (and until August 2007); more than 60,000 young people have claimed the card, one third of whom are recent university/college graduates. More than one fourth of the participants have found employment (Kuddo 2008). However, the net impact of the program has not been assessed.

In Kyrgyzstan a Youth Job Vouchers scheme has operated since 1996. A survey found both employers and young people to be highly satisfied with the scheme, although employers claim that it would be possible to create even more jobs if they only had to commit themselves to the young people for one year. Vouchers opened the door to a career start for 180 young women and 80 young men; 75 percent of the jobs were assessed to be genuine new jobs (Betcherman et al. 2007).

In Serbia, a new hiring subsidy was introduced in the form of exemptions from the wage tax and employers’ social insurance contributions. These can last for two years after hiring registered unemployed persons under age 30, or for three years if they are recruited as trainees. The employer is obliged to retain the worker for another three years after the subsidy period. Trainee jobs can usually last up to a year. They are intended for first- time jobseekers and others who lack the work experience required for particular jobs (OECD 2008).

Judging from the OECD experience of targeted exemptions from social insurance contributions, they may soon carry a higher budgetary cost than all the other ALMPs. To increase the chances of success in this respect, the exemptions should be linked with systematic checks of employer compliance with other tax obligations and labor law.

2.11. Entrepreneurship assistance

Support for self-employment is usually an effective measure, helping the unemployed with the entrepreneurial skills (which is admittedly a relatively narrow group) necessary to start their own business and escape unemployment. Based on international experience, the strategy has been successfully used by only a small portion of the unemployed (2-3 percent), given that such programs usually reach a higher-skilled segment of the unemployed (Betcherman et al. 2007). The participants are primarily male, better-educated, and in their 30's. The programs tend not to attract women.²⁸

These programs offer assistance to unemployed workers to start their own enterprises. This can involve providing financial and advisory support for start-up or supporting operating costs of small businesses. They have been offered either on a universal basis or to particular groups, such as the newly unemployed or the long-term unemployed. Program conditions vary: participants may receive assistance to set up their businesses as a lump-sum payment or periodic allowances, often supported by technical services such as training, counseling, and assistance in developing and implementing a business plan. Often there is "screening" whereby potential beneficiaries undergo an assessment to evaluate their likelihood of success.

Public programs to support small business loans can contribute to the removal of distortions arising from credit rationing. However, on the negative side, very few among the unemployed typically take up opportunities for self-employment. Another problem with these programs is the potential displacement effect, whereby small businesses that do not receive assistance are disadvantaged relative to those that do.

Self-employment loans are a dominant ALMP measure in Montenegro. This program has been implemented since 1999 and it is a credit line to registered unemployed individuals and companies who hire unemployed individuals registered in at the Employment Agency. In 2008 the Government of Montenegro and the Employment Agency launched a revised self-employment program in which the amount of loan was increased from EUR3000 per job created to EUR5000 per job.

The loan conditions are as follows: (i) the amount of loan per employed worker is EUR5000 (for up to three jobs and a maximum amount of EUR15,000); (ii) the grace period is one year and the repayment period is three years for unemployed individuals and two years for small companies and entrepreneurs; and (iii) the annual interest rate is 3 percent. From 1999 to June 2009, the number of approved loans was 9,779, and the total amount of approved loans for that period was EUR50.5 million, while 15,779 jobs were created.²⁹

Another good example in this respect is the Job Opportunities through Business Support (JOBS) project in Bulgaria (ÖSB Consulting GmbH/SEOR 2008). A project of the Ministry of Labor and

²⁸ In Bulgaria, self-employment program for young entrepreneurs reported significant gains in employment probability for participants, with particularly higher effects on female young participants; however, costs per placement exceed those of training and subsidized employment programs (Betcherman et al. 2007).

²⁹ Information provided by Ana Krsmanovic.

Social Policy supported by the United Nations Development Program, JOBS started in October 2000 and will continue until the end of 2009. It has created an extensive network of 42 business centers, 10 Business incubators, and 17 window offices across Bulgaria. They support the establishment and strengthening of micro- and small enterprises through the provision of various services and promote sustainable job creation in communities facing high unemployment. The centers facilitate cooperation between the municipalities, non-government sector, and business and civil society actors to accelerate local economic development. The JOBS business centers and business incubators provide a wide range of information, financial and office services, consultancy in various areas, market information, training, and business plan development. Information Technology (IT) centers are operational at 40 business centers. To date, the JOBS incubators have sheltered more than 120 new and expanding companies that have created 900 jobs. The business centers have provided 116,798 business services to local companies. To date thousands of people have profited from specialized training courses organized by the JOBS business centers in finance, marketing, computer skills, and foreign languages. The association of the JOBS business centers, the National Business Development Network, has licensed its Vocational Training Center, which provides certified vocational training in 109 professions. Until now, the center has trained over 13,000 people in various vocational courses.

The JOBS project provides a microfinance mechanism with a revolving fund of US\$5.5 million available in the form of financial leasing. Each business center manages a leasing fund of US\$150,000–450,000. Financial leases are provided to purchase manufacturing and agricultural machinery as well as equipment for the service sector. Access to the program is linked with the requirement for creation of new employment. Until end-September 2007, some 1,525 local businesses were approved to access financial leasing. The utilized leases under the program total BGN14.7 million. Clients came from various industries: wood-processing companies, sewing enterprises, service providers, electronics firms, food companies, agricultural producers, etc. Of supported companies, 26 percent are start-ups. The financial leasing program has enabled companies to create and safeguard about 7,000 jobs.

Various special initiatives with a wide range of partners build on the successful practices of the business centers and offer new opportunities for local economic development and job creation. These include, among others: support for producers of herbs and alternative agricultural products through a network of eight support hubs; social inclusion initiatives targeted at entrepreneurship and employment promotion in minority communities; a comprehensive support program providing grant assistance in the range of BGN20,000 (US\$13,500) to novice entrepreneurs; and, two support programs to introduce the Hazard Analysis and Critical Control Points (HACCP) system in food industry enterprises.

2.12. Special programs for vulnerable groups

Special employment programs for vulnerable groups (including but not limited to youth, the disabled, long-term unemployed, and minorities) aim to provide assistance in determining appropriate fields and employment opportunities. Relative to prime-age workers, youth are especially likely to be more affected by negative output shocks as their productivity is generally lower given differences in skills and experience. The programs for relevant vulnerable groups

typically include the provision of the employability and training plans, job and career counseling services, various aptitude tests and vocational assessment tests, and wage subsidies.

Slovakia has a specially targeted program where a financial contribution for employing a disadvantaged jobseeker was introduced to target disadvantaged jobseekers, who include school leavers/graduates aged under 25, people over 50, the long-term unemployed, the disabled, single parents, and individuals who have been granted asylum. The employer is granted a financial contribution to cover the costs of employing the jobseeker for a minimum period of 24 months, particularly in regions with high rates of unemployment (EC 2007b).

ECA countries with peaking youth populations and those due to peak within the next 20 years include Azerbaijan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, and Uzbekistan. Certain other regions in ECA, such as the Northern Caucasus republics of the Russian Federation and Kosovo in SEE, also have growing youth populations. Youth unemployment, or more broadly youth joblessness (i.e., youth neither in school nor in work), is a serious issue especially in these but in many other ECA countries. In Southeast Europe as a whole, for example, 90 percent of vocational school graduates reported in 2003 that they had been unemployed one to five years upon graduation. (For an overview of youth employment policies in the ECA region, see for example, World Bank 2007e and Stavreska 2006; for youth employment policies from a global perspective, see O'Higgins 2001).

International practice confirms that a combination of preventive and curative policies is needed – to try to prevent the emergence of youth employment problems and to deal with those that, nevertheless, do emerge (Godfrey 2003). Among preventive policies, in addition to achieving a healthy rate of increase in the overall demand for labor, or relaxing labor regulations (especially setting minimum wages at a lower level for young people), improvements in the national education and training system, and especially improving functional literacy among 15-24-year olds (e.g., more broadly defined literacy skills) seem to be key components to reduce unemployment among youth. Curative policies are not particularly successful.

Youth programs in transition countries have a marked orientation towards unemployed youth with low levels of education or out of school. About two thirds of all programs in ECA have a focus on school leavers and students who have already completed or are about to finish their studies. Most of these programs offer skills training and wage subsidies. Improvement in the provision of information and counseling is also likely to be a universal priority.³⁰

In particular, in transition and developed countries, wage subsidy programs have shown that they can work for young people. Four out of five evaluated programs reported positive impacts on employability or earnings. In the Czech Republic and Poland, the net employment effect improved from 12 to 15.6 percent. Young women and low-educated participants tend to benefit

³⁰ By the World Bank Youth Employment Inventory from 84 countries, the most popular youth interventions are skills training (particularly vocational training and apprenticeships systems), and multi-service or comprehensive programs (combining job and life skills training, work experience, subsidies, and other support services); which account for 38 and 33 percent, respectively, of all interventions covered by the inventory. Other prevalent categories are interventions to make the labor market work better for young people (such as wage subsidies, public works, information, and job placement), and entrepreneurship schemes (Betcherman et al. 2007).

the most. The impact on monthly earnings is slightly negative (Puerto 2007). In ECA countries, a small positive impact is likely to be outweighed by the considerable costs of such programs.

As a preventive measure for youth, as discussed above, comprehensive career guidance and professional orientation can be a useful starting point. Other countries are addressing young people's lack of practical experience through the provision of training internships in the public or private sector, tax benefits and social security exemptions for interns, or internships at low wages with public wage support.³¹

A background paper for the 2006 OECD Employment Outlook includes a useful summary of what features of ALMPs appear to work for youth in member countries (Quintini and Martin 2006; see also Betcherman et al. 2007)

- Programs should come into play early – after a period of unemployment of at most six months;
- Job search assistance programs are found to be the most cost-effective for youth, with wage and employment subsidy programs having a positive short-term impact but a less positive impact on the longer-term employment prospects of participants;
- In order to connect training programs to local and national labor market needs, the private sector and local communities need to be mobilized and involved in project design;
- Targeting of programs is crucial, distinguishing between teenagers (who should be helped to remain in school and acquire qualifications) and young adults (who need help in acquiring work experience), and focusing on school dropouts.
- Programs should insist on tight work-search requirements, in the interests of an early exit from unemployment;
- Integration of services into a combined, comprehensive package seems to be more successful than separate provision; and,
- Effectiveness of programs is increased by greater involvement of social partners and of public authorities at all level.

Youth employment programs are a dominant labor market intervention in Kosovo. More than EUR12 million are spent on youth LMPs in a yearly basis, benefiting approximately 14,000 youth (about 8 percent of all the pool of unemployed individuals in this age group). Most LMPs are targeted to “semi-skilled” unemployed youth, and only a few target unemployed and “vulnerable” youth. Most programs are focused on strengthening vocational education, providing temporary employment, and promoting youth entrepreneurship. In terms of the costs and coverage, most LMPs currently being implemented in Kosovo have high unit costs (oscillating between EUR1,000 and EUR3,000 per beneficiary per year) and limited number of participation. This finding is worrisome since the government currently does not allocate its own

³¹ See European Commission's youth homepage at http://ec.europa.eu/youth/index_en.htm, and youth portal at <http://europa.eu/youth/index.cfm>

funding for LMPs and thus is fully dependent on donors to finance youth employment policy (World Bank 2008b).

As far as policies for the disabled are concerned, in the period of economic transition their situation has deteriorated sharply. A large number of jobs performed by people with disabilities have disappeared and employers are not willing to offer them new jobs. Employers assume that disabled workers would be less productive than able-bodied people, that they would need expensive adjustments to the workplace, and that they would often be absent.

Many ECA countries (Azerbaijan, Bulgaria, Czech Republic, Poland, and Uzbekistan, for example) have established an employment quota system for disabled workers. Employers have to create jobs for the disabled and accept them without a probation (trial) period. In Hungary, businesses with a high ratio of disabled employees might receive special subsidies. The labor market integration of people with disabilities is promoted by rehabilitation groups in the labor centers. In addition, comprehensive services are available in the so-called Rehabilitation Information Centers (RIC) in 16 county labor centers.

However, the system has not been strictly enforced and enterprises failing to fulfill the quota usually escape the penalty. Instead, the governments may consider other strategies for developing efficient activation programs for groups with limited work capacity, such as improving their job search skills, vocational rehabilitation, subsidies to private employment, sheltered employment, or adaptation of the workplace and post-employment counseling.

A similar system of employment quotas for disabled individuals exists in Turkey but new incentives for employers were introduced recently. The Employment Package of reforms regulates that the hiring quota for people with disabilities for firms with 50+ employees be maintained (3 percent of workforce) but that the Treasury will assume all employer's social security contribution payments within the quota. Also, as an additional incentive, the Treasury would also assume half of the employer's social security contributions for people with disabilities hired beyond the firms' quota.

Estonia has introduced new employment initiatives for people with disabilities. Registered disabled individuals will be entitled to a personalized job search plan. Measures include support to employers for adaptations to premises and equipment needed when hiring a disabled person and support from public employment service employees to help disabled people at job interviews (EC 2007a).

Relevant policies are rather costly. In FYR Macedonia in 2007, the biggest share of expenditures on ALMPs was directed to wage subsidies, education, and training for integration of the disabled (114 million denars, over 50 percent of the total budget on ALMPs, excluding services provided by ESA staff). But only 267 individuals got support from the program, with the unit cost of 428,000 denars (around US\$10,000) per beneficiary (World Bank 2008a).

High unemployment in many ECA countries is compounded by its long duration. Many of these jobless have no qualification, and/or a low level of education. They may have multiple employment barriers, including cognitive and health-related barriers, and difficult home lives

(for example, lack of transportation, many children, child care problems, domestic violence), which makes their employability a problem. To tackle long-term unemployment, a policy mix combining training opportunities with active counseling and information on job opportunities has proved quite effective in a number of European countries. However, the experience of some transition countries shows that such measures are often insufficient. The long-term unemployed should resort to a combination of temporary employment (public works or subsidized employment), on-the-job training, and regular job-placement assistance (Egger 2003; for country experiences in tackling long-term unemployment in EU, see EC 2006a). In transition countries, where labor demand has been more sluggish, such measures are often insufficient.

To prevent an inflow into long-term unemployment and to retain employability, and as suggested by the European Employment Strategy, especially youth, the unemployed must be provided with effective job search assistance or active labor market measures within the first 6 months of unemployment, while adult unemployed should be provided with the above services within the first 12 months of unemployment.

Also PES should develop, as noted earlier, a profiling system to prevent long-term unemployment by classifying customers at an early stage. Profiling helps employment officers conclude, during the first interview, whether the customer is capable of self-service and placement on his/her own, or whether he/she is in a disadvantaged position, and hence they can allocate more of their time to the latter.

In sum, a variety and a combination of policy interventions is needed to tackle unemployment, especially among the most disadvantaged groups of jobseekers.

Conclusions

Active labor market services, in and of themselves, do not create jobs. In reviewing international evidence on the impacts on employment outcomes of different interventions, including in transition countries, in general a favorable investment and business climate, and rapid economic development are key to job creation.

The impact of ALMPs on aggregate employment depends highly on the context. A higher employability of the unemployed as a result of ALMPs is not sufficient to create more jobs. This also depends on factors like wage flexibility, the incentives for the unemployed to accept jobs, the attractiveness of the country for foreign investors, etc. If owing to these other factors aggregate employment is more or less fixed, ALMPs can only contribute to less inequality in the labor market, a reduction in long-term unemployment, and an easier filling of the existing vacancies.

In ECA countries, the much larger informal labor markets and weaker capacity to implement programs may limit what some programs can achieve in terms of creating formal employment or increasing wages. On the other hand, some other programs, such as youth training programs or job counseling programs, have much more positive impacts than are seen in industrialized countries. It may be that such programs in these labor markets have more potential because abundant supplies of skilled workers are not available.

Some main findings in the delivery of ALMPs from the regional ECA experience can be highlighted:

- Well-designed and -targeted programs may have a positive net impact, but poorly-designed and -targeted programs probably will not have any economic impact. Careful program targeting also can help eliminate “creaming” whereby program operators select the best participants, as opposed to those who may benefit the most from the program, to help ensure observed program success;
- Assess and screen applicants before entry in programs to increase impact and cost-effectiveness;
- An increased emphasis on job search assistance. This assistance often has been linked with closer monitoring and tighter job search requirements for unemployment registrants;
- An increasing reliance on private delivery of services (e.g., for training, employment services, and public works if any). The government’s role in these situations has been to establish overall priorities, ensure quality, and provide financing, especially to address equity concerns;
- If appropriate and possible, use performance-based contracting (i.e. negotiate job placement or business start-up rates) with service providers to maximize impact and quality;
- Implement ongoing gross impact evaluation, perhaps through the introduction of a Performance Information and Management System, and infrequent net impact

evaluations (at least once every five years, using for example donor funds in less-developed ECA countries);

- Experience elsewhere has shown that the development of partnerships of key stakeholders at the local level – for example, municipalities, education/training institutions, regional development agencies, NGOs – can result in the development of imaginative and effective approaches to ALMPs (locally developed solutions for local problems).

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ANNEXES

Table A 1: Employment and Unemployment, General Level (Thousands), Annual Average (1000³)

COUNTRY	Employment				Net employment growth	AGE	Unemployment in 2008	
	SOURCE	COVERAGE	2007	2008			LFS-based	Registered
Belarus	OE	Total employment	4530	4491	-39			44
Bosnia and Herzegovina	EOR	Employees	687*	706*	19			493
Bulgaria	LFS	Total employment	3253	3333	80	15+	199	234
Bulgaria	LFS	Employees	2891**	2987**	96	15+		
Croatia	LFS	Total employment	1661**	1681**	20	15+	126**	220**
Croatia	LFS	Employees	1290**	1299**	9	15+		
Czech Republic	LFS	Total employment	4922	5003	81	15+	230	324
Czech Republic	LFS	Employees	4125	4196	71	15+		
Estonia	LFS	Total employment	655	657	2	15+	38	20
Estonia	LFS	Employees	597	606	9	15-74		
Hungary	LFS	Total employment	3926	3879	-47	15-74	329	442
Hungary	LFS	Employees	3410	3405	-5	15-74		
Latvia	LFS	Total employment	1118	1125	7	15-74	91	58
Latvia	LFS	Employees	998	1011	13	15-74		
Lithuania	LFS	Total employment	1534	1520	-14	15+	94	73
Lithuania	LFS	Employees	1324	1345	21	15+		
Macedonia, FYR	LFS	Total employment	590	609	19	15+	310	350
Macedonia, FYR	LFS	Employees	427	437	10	15+		
Moldova	LFS	Total employment	1247	1251	4	15+	52	4
Moldova	LFS	Employees	832	850	18	15+		
Poland	LFS	Total employment	15240	15800	560	15+	1211	1526
Poland	LFS	Employees	11665	12179	514	15+		
Romania	LFS	Total employment	9353	9369	16	15+	576	362
Romania	LFS	Employees	6197	6317	120	15+		
Russian Federation	LFS	Total employment	70573	70965	392	15-72	4804	1400
Serbia*	LRES	Employees	1428	1424	-4			828
Serbia*	OE	Total employment	1997	1997	0			

Slovakia	LFS	Total employment	2358	2434	76	15+	256	230
Slovakia	LFS	Employees	2044	2094	50	15+		
Slovenia	LFS	Total employment	985	996	11	15+	46	63
Slovenia	LFS	Employees	929	855	-74	15+		
Ukraine***	LFS	Total employment	20836	21002	166	15-70	1440	604

Notes: LFS – labor force survey; OE – official estimates; EOR – employment office records; LRES – labor-related establishment survey

* - December; ** - 3rd quarter

Source: ILO online <http://laborsta.ilo.org/STP/guest>.

Table A 2: Dynamics of Registered Unemployment between March (February) 2008 and March (February) 2009 (1000')

	Month	2008	2009	Growth rate 2009/2008, in %
Tajikistan	February	49.9	44.3	-11.22
Belarus	March	48.8	43.9	-10.04
Montenegro	March	31.3	29.2	-6.71
Bosnia and Herzegovina	February	517.0	492.0	-4.84
Serbia	March	795.0	758.0	-4.65
Azerbaijan	March	45.3	44.2	-2.43
FYR Macedonia	March	357.7	351.3	-1.79
Kosovo	March	336.4	338.6	-1.00
Albania	March	140.9	141.5	0.43
Bulgaria	March	251.6	254.9	1.31
Kyrgyzstan	March	66.1	67.8	2.57
Poland	March	1702.2	1758.8	3.33
Croatia	March	255.0	267.0	4.71
Armenia	March	74.7	78.7	5.35
Hungary	February	477.0	543.0	13.84
Kazakhstan	March	62.0	71.2	14.84
Romania	March	433.0	513.6	18.61
Slovenia	March	64.3	79.7	23.95
Czech Republic	March	336.3	448.9	33.48
Slovakia	March	229.6	311.8	35.80
Ukraine	March	639.6	879.0	37.43

Russian Federation	March	1534.1	2177.0	41.91
Moldova	March	22.1	35.4	60.18
Latvia	March	52.8	116.8	121.21
Lithuania	March	75.6	175.3	131.88
Estonia	March	19.4	58.1	199.48
TOTAL		8617.3	10079.0	16.96

Source: National Employment Services.

Table A 3: Characteristics of the Registered Unemployed in ECA Countries, End-2008 (%)

	Registered unemployed, 1000'	Ratio of unemployment beneficiaries	Ratio of long-term unemployed (on the roster more than 12 months)	Ratio of youth unemployed aged 15-24	Ratio of unemployed with below secondary general education	Ratio of unemployed with secondary general education	Ratio of unemployed with vocational, secondary specialized or higher education
Czech Republic	352.3	39.3					
Hungary	477.0						
Poland	1,473.8	18.4					
Slovakia	248.6						
Slovenia	66.2	25.2	46.4	12.7	40.7	25.5	33.8
Estonia	32.5	32.0	28.4	13.5	18.8	26.7	47.6
Latvia	76.4	48.4	11.1	13.6	19.5	28.3	49.9
Lithuania	95.0	34.3	3.3	12.1	0.0	0.0	0.0
Bulgaria	232.3	29.7	39.1	8.1	55.8	8.6	35.6
Romania	403.4						
Albania	141.7	6.0	64.9	21.7	0.0	31.8	68.2
Bosnia and Herzegovina	483.0						
Bosnia and Herzegovina, Republica Srbska	134.0	2.3	72.5	12.8	32.3	24.4	42.4
Croatia	240.0	27.1	55.4	17.5	32.1	26.3	41.7
Kosovo	335.9			30.3			
Montenegro	28.4	36.9	55.6	15.6	56.1	0.1	43.7

Serbia	728.0	10.2	76.9	16.9 ³²	36.8	26.8	36.4
FYR Macedonia	343.4	6.9	30.8	14.4	52.8	24.0	7.1
Belarus	37.3	46.6	8.3	40.2 ³³	11.5	39.7	48.8
Moldova	4.2	4.1					
Russian Federation	1,521.8	82.4	14.4	19.2	18.8	31.5	49.7
Ukraine	844.9	77.2	7.4	38.7 ³⁴	4.9	28.6	66.6
Armenia	74.7	22.2	63.9	6.0	5.1	49.5	45.4
Azerbaijan	44.5	4.7	63.5	16.1	2.3	9.7	87.9
Georgia	0.0						
Kazakhstan	48.4	0.5					
Kyrgyzstan	0.0						
Tajikistan	43.6	1.8	31.2	25.9	0.0	64.4	35.6 ³⁵
Uzbekistan	0.0						

Source: National Employment Services.

Table A 4: Inflow and Outflow of Registered Unemployed from the Roster of Unemployed, 2008

Country	Monthly average inflow of registered unemployed in 2008 / Monthly average number of registered unemployed in 2008	Monthly average outflow of registered unemployed (sum of found a job + erased/other) in 2008 / Average monthly number of registered unemployed in 2008	Monthly average found a job in 2008 / Average monthly number of registered unemployed in 2008	Total found a job in 2008 / Number of registered unemployed in January 2008	Total erased from the record in 2008 / Number of registered unemployed in January 2008	Average monthly number of registered unemployed in 2008 / Average monthly number of registered vacancies in 2008
Czech Republic	0.149	0.145	0.089	1.064	0.603	2.323
Hungary						
Poland	0.135		0.057	0.689	0.580	23.188

³² Youth ages: 15-25

³³ Youth ages: 16-29

³⁴ Youth ages: Under 35

³⁵ Includes professional education

Slovakia	0.100	0.095				9.218
Slovenia	0.093	0.096	0.055	0.659	0.452	3.154
Estonia	0.181	0.109	0.055	0.660	0.797	3.484
Latvia	0.162	0.128	0.078	0.939	0.651	5.469
Lithuania	0.243	0.229	0.134	1.610	1.099	4.213
Bulgaria	0.120	0.129	0.078	0.931	0.523	11.788
Romania						
Albania	0.046	0.007	0.007	0.089		84.004
Bosnia and Herzegovina						
B&H, Republica Srpska	0.038	0.041	0.019	0.226	0.267	103.287
Croatia	0.070	0.075	0.045	0.542	0.329	20.286
Kosovo	0.005	0.005	0.001	0.017	0.039	581.209
Montenegro	0.071	0.195	0.115	1.375	0.914	5.461
Serbia	0.045	0.078	0.035	0.425	0.483	11.481
FYR Macedonia	0.024	0.027	0.014	0.172	0.146	
Belarus	0.384	0.397	0.250	3.005	1.546	0.702
Moldova						0.946
Russian Federation	0.271	0.166	0.081	0.969	0.925	1.043
Ukraine	0.157	0.129	0.070	0.844	0.645	3.353
Armenia	0.040	0.048	0.010	0.116	0.482	54.193
Azerbaijan	0.008	0.010	0.001	0.017	0.089	3.827
Kazakhstan						2.808
Tajikistan	0.091	0.105	0.044	0.531	0.720	3.370

Source: National Employment Services.

Table A 5: Jobseekers-to-Vacancy Ratio, and the Number of Job Placements per 1,000 Registered Jobseekers, March 2008 and March 2009

	Ratio of jobseekers per one registered vacancy		Job placements per 1,000 jobseekers per month	
	March 2008	March 2009	March 2008	March 2009
Czech Republic	2.2	8.1	115	72
Poland	24.0	38.2	55	42
Slovenia	3.2	9.6	64	45
Estonia	2.6	18.7	61	23
Latvia	4.0	81.5	84*	19
Lithuania	3.8	20.6	115	42
Bulgaria	9.6	11.9	94	75
Romania	...	...	...	...
Albania	82.9*	70.8*	7*	9*
Bosnia and Herzegovina	106.2*	227.6*	17*	14*
Croatia	17.0	20.5	46	33
Kosovo	899.5	501.6	1	2
Montenegro	5.2	6.3	120	85
Serbia	12.0	13.1	34	27
FYR Macedonia			16*	14*
Belarus	0.95*	0.93*	240*	237*
Russian Federation	1.24	...	79	...
Ukraine	3.3	10.4	89	43
Armenia	86.1	134.8	9	11
Azerbaijan	4.3	5.1	1	1
Tajikistan	4.1 *	2.4*	39*	50*

Note: *- February

Source: National Employment Services.

Table A 6: Main Indicators of Activities of Public Employment Services in Some of the European Countries, 2006

	Population 1000'	GDP per capita in US\$	Number of registered unemployed 1000'	Total number of PES staff	Number of PES staff in contact with jobseekers and employers	Staff caseload	Ratio of frontline counselors to total PES staff, %	Annual budget for ALMPs in 1000' US\$	Annual budget for ALMPs per one unemployed in US\$	Administrative budget in 1000' US\$	Administrative budget per PES staff, in US\$
Bulgaria	7385	9600	368	2825	2099	175	74	131337	357	16486	5836
Croatia	4495	12400	301	1185	723	416	61	27979	93	28849	24345
Czech R.	10235	20000	480	5007	4202	114	84	493724	1029	136341	27230
Estonia	1324	17500	18	289	239	75	83	6504	361	3952	13674
Hungary	9981	16300	407	3500	2280	178	65	289806	712	105384	30110
Latvia	2275	13700	74	679	...	...	...	47946	648	6679	9836
Macedonia	2051	7800	363	505	311	1167	62	13323	37	5248	10392
Montenegro	631	3800	43	342	285	150	83	20205	470	11056	32327
Serbia	9396	4400	911*	1807	1151	791	64	11555	13	23926	13241
France	60876	29600	2425**	27118	21749	111	80	1438492	593	1911402	70485
Germany	82422	30100	4467	74099	63419	70	86	17884077	4003	5282137	71285
Ireland	4062	41100	153**	530	274	558	52	42154	276	44788	84505
Sweden	9017	29800	211	11206	8715	24	78	3188668	15112	651758	58162

Note: * - mid-2006; ** - 2005; Staff caseload – the ratio of registered unemployed to employment counseling staff.

Source: Population and GDP: CIA “World Factbook”; Registered unemployment: ILO online; PES data: ILO/WAPES online.

Table A 7: Budget for ALMPs in Some ECA Countries, 2008 (Percent out of GDP)

Country	Training	Job rotation and job sharing	Employment incentives	Integration of disabled	Direct job creation	Start-up incentives	Total ALMPs
Armenia	0.004	-	0.001	-	0.019	-	0.025
Belarus	0.019	0.017	0.001	0.003	0.034	0.006	0.079
Moldova	0.019	-	0.001	-	0.008	0.001	0.029
Ukraine	0.024	-	0.027	-	0.040	0.030	0.121
Tajikistan	0.0001	-	-	-	0.0000	0.0001	0.0003
Bulgaria	0.022	-	0.033	0.008	0.216	0.027	0.307
Croatia	0.008	-	0.029	-	0.002	-	0.039

Estonia	0.027	-	-	-	-	0.004	0.031
Latvia	0.019	-	0.026	-	0.018	0.001	0.064
Lithuania	0.065	0.001	0.070	-	0.015	0.002	0.153
FYR Macedonia	0.013	-	0.005	0.024	0.005	0.122	0.170
Montenegro	0.063	0.004	0.108	0.001	0.076	0.115	0.368
Serbia	0.028	-	0.025	-	0.039	0.016	0.108

Note: GDP for 2008 – IMF estimate.

Source: National Employment Services.

Table A 8: Share of the Budget for ALMPs in Some ECA Countries, 2008 (%)

Country	Training	Job rotation and job sharing	Employment Incentives	Integration of disabled	Direct job creation	Start-up incentives	Total ALMPs
Armenia	15.9	0.1	5.4	1.6	76.8	0.2	100.0
Belarus	24.0	20.8	0.7	3.9	43.3	7.4	100.0
Ukraine	9.8	-	10.8	-	16.3	12.3	100.0
Bulgaria	7.1	-	10.8	2.7	70.5	9.0	100.0
Croatia	19.8	-	74.6	-	5.6	-	100.0
Estonia	70.7	-	1.2	1.0	-	10.3	100.0
Latvia	29.8	-	39.7	0.6	28.4	1.4	100.0
Lithuania	42.5	0.8	45.4	-	10.1	1.2	100.0
FYR Macedonia	7.5	-	3.2	14.2	2.8	72.2	100.0
Montenegro	17.2	1.2	29.4	0.4	20.7	31.2	100.0
Serbia	25.5	-	23.6	-	36.5	14.4	100.0

Source: National Employment Services.

Table A 9: Participation in Active Labor Market Programs (Number of Program Beneficiaries) in Some ECA Countries, 2008

	Job search assistance and counseling	Career counseling and professional orientation	Job clubs	Vacancy fairs	Training programs	Wage/tax subsidies	Entrepreneurship grants	Public works	Programs for disabled unemployed	Specially designed youth programs	Other (indicate)	Other (indicate)	Other (indicate)
Armenia	144854	21647		9700	5075	2141	62	12434	63				
Azerbaijan		8441		29419				1907					
Belarus		107500					2695	97500 incl.53400 unemployed	643	1500	39500 a)		
B&H, R. Sprska	13,250			13,250		1,700	84			1,500			
Croatia	454577	81834		40000	3466	3350		715	971				
Estonia		9891			5451	67	162	235	30				
Kosovo	480				3515			1488	30		182		
Latvia	65296	67939			8579	1136	93	9983		11222	78 b)	10 c)	625 d)
Lithuania	1080141		27394		11195	7011		16388	1153	11554			
Montenegro	168424	3988			4843	2076	3	1190					

			1486	17 l)	16307	2235	2015	3936		195			
Ukraine	409900	3740800			245200	44700	31000	429800			1508200		m)

- a) Temporary employment for youth
- b) Vocational training by employer
- c) Complex support measures for specific target groups
- d) Work trials
- e) Business startup loans
- f) Education of management trainers
- g) Social adaptation on labor market
- h) Psychological support for unemployed
- i) Job placement on temporary job
- j) Services and training in the business center
- k) Subsidies for employers to create new jobs

- l) Number of vacancy fairs
- m) Participation in job counseling seminars

Source: National Employment Services.

Table A 10: Share of LMP Expenditure by Type of Action in EU27 and EU10 States, 2007 (%)

Country	LMP services (category 1)	Training (2)	Job rotation and job sharing (3)	Employment incentives (4)	Supported employment and rehabilitation (5)	Direct job creation (6)	Start-up incentives (7)	LMP measures (2-7)	Out-of-work income maintenance and support, and early retirement (8-9)	Total LMP expenditure
EU 27 s)	11.5	10.7	0.1	7.2	3.8	4.1	2.0	27.9	60.0	100.0
Bulgaria	10.6	8.1	-	8.5	1.2	41.3	0.7	59.8	29.6	100.0
Czech Republic	29.1	1.7	-	4.8	14.9	4.2	0.6	26.3	44.6	100.0
Estonia	16.3	17.3	-	0.5	0.2	-	0.7	18.8	64.9	100.0
Latvia	13.9 e)	8.2	-	8.6	0.1	2.8	1.8	21.4	64.7	100.0 e)
Lithuania	20.3	22.7	0.2	23.4	1.8	4.6	0.5	53.2	26.5	100.0
Hungary	12.9	9.0	-	15.3	-	6.9	0.6	31.8	55.3	100.0
Poland	9.4 e)	10.0	...n)	7.0	16.6	1.8	4.6	39.9	50.7	100.0 e)
Romania	10.7 e)	4.6	-	12.1	-	6.8	0.2	23.6	65.7	100.0 e)
Slovenia	17.5	6.8	-	3.8	-	11.0	0.7	22.3	60.2	100.0
Slovakia	18.1 e)	0.8	-	2.8 e)	2.3	7.0	7.0	19.9 e)	62.0	100.0 e)

Note: s) Eurostat estimate; e) Estimated value; n) Not significant.

Source: Eurostat 2009c

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Summary Findings

The objective of this paper is to look at employment services and labor market policies in the transition countries of Eastern Europe and Central Asia, and identify key benefits and constraints of active labor market programs, as well as the main characteristics and features of successful policy interventions. Various policy options are discussed on how to enhance public employment services but also private employment agencies which might be relevant to and suitable for the countries in the region given their macroeconomic and labor market situation. Overall, this report recommends that greater resources will be needed for active labor market programs (ALMPs) in the future. However, the emphasis should be put on improving the design and effectiveness of ALMPs, rather than on increasing spending levels only.

HUMAN DEVELOPMENT NETWORK

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