

FLEXICURITY AND THE ROLE OF LIFELONG LEARNING IN UKRAINE



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PREFACE

In July 2008, the European Training Foundation (ETF) launched a project entitled 'Flexicurity and the role of lifelong learning in transition and developing countries' as part of its Innovation and Learning programme. The aim of this project was to explore the relevance and applicability of the flexicurity policy approach developed by the European Union (EU) in countries with large informal and/or unstructured labour markets, weak labour market institutions, tight public budgets, low unionisation rates and weak social partners. The project reflects the EU's commitment to promoting 'decent work throughout the world [as] part of its efforts to strengthen the social dimension of globalisation, both in the EU and outside' (European Commission, 2008a). At the same time, it reflects the principle that 'the EU's economic and social model cannot simply be transposed to other parts of the world'¹, and that the practices inherent in that model cannot be replicated in other countries without taking into account the different socioeconomic contexts.

Kazakhstan, Morocco, Turkey and Ukraine were the ETF partner countries selected to participate in the project. These four countries were chosen because, while all of them have a degree of economic and labour market dynamism, they differ considerably in their economic bases, development paths, labour market structures and demographic profiles.

The project took the form of an evidence-based policy debate on the flexicurity approach with the national authorities of all four countries. The resulting country reports highlight the key socioeconomic challenges to which each country must respond if it is to achieve a secure and flexible labour market.

As a transition economy, Ukraine faces the challenge of industrial restructuring. Key stakeholders agreed with the ETF in meetings in Kiev in October 2009 and March 2010 to focus on the link between flexicurity and socially responsible economic restructuring.

This report is based on information provided by Ukrainian partners and desk research carried out by Oleksandra Betliy, national expert, and Lizzi Feiler, ETF labour market specialist. Using the components of flexicurity as an analytical framework, it provides an overall picture of the Ukrainian labour market. Policy responses and the strategies used to cope with the challenges of industrial restructuring and the global economic crisis are described briefly, and international approaches and experiences with socially responsible restructuring are presented. However, there are also information gaps that reveal the need for further research on specific topics. After consultation with the Ukrainian Ministry of Labour and Social Policy and key stakeholders, this report was finalised and presented at a seminar in Kiev in October 2010. We believe it to be a timely contribution to the critical debate on flexicurity and are convinced that socially responsible restructuring is a key issue and challenge for transition economies.

The authors would like to express their gratitude to the Ukrainian government and institutions and their representatives for their contribution both in terms of the information they provided and the time spent in discussions. Special thanks go to the Ministry of Labour and Social Policy, the State Employment Centre, the Federation of Ukrainian Employers, the Confederation of Employers of Ukraine, and the Federation of Trade Unions of Ukraine.

The authors also thank ETF staff for their advice, support and comments on the report, in particular the members of the flexicurity team (Anastasia Fetsi, Ummuhan Bardak, Franca Crestani and Nadezda Solodjankina), the labour market specialists (Gabriela Platon and Ali Ercan Su) and the Ukraine country team (Timo Kuusela, Olena Bekh and Inna Dergunova). Finally they would like to thank Thomas Bredgaard (Ålborg University) for his comments on earlier drafts, as well as Andrea Broughton (Institute for Employment Studies, Brighton) and Eckhard Voss (Wilke, Maack und Partner, Hamburg) for contributing with their expertise to the stakeholder seminar in Kiev.

Lizzi Feiler
ETF Expert

¹ The Social Dimension of Globalisation, see <http://ec.europa.eu/social/main.jsp?catId=324&langId=en>.

EXECUTIVE SUMMARY

This report explores the applicability of the flexicurity approach in Ukraine in the framework of a transition economy while pursuing the objective of socially responsible economic restructuring.

Labour market outcomes in transition countries have shown that the policy mix used to date and the capacity of the existing institutions have not ensured the secure and flexible labour markets that would favour the transition of workers from less productive to more productive jobs. The proportion of total employment accounted for by state-owned enterprises (or enterprises with considerable government influence) remains high and labour regulations, while rigid *de jure*, tend to be flexible in practice. Labour markets are segregated, and vulnerable forms of employment have increased with the global economic crisis. The capacities and social dialogue mechanisms of social partners are weak.

Against the backdrop of these general characteristics, our aim was to assess the applicability of flexicurity to the labour markets of transition economies and to determine which components of flexicurity and which policy mix might be appropriate. The situation in Ukraine was used as a case study, although we recognise that not all transition countries are identical.

Flexicurity and the focus on socially responsible restructuring

Ukraine is a country with large traditional industries (coal mining, metallurgy, machine construction) undergoing continual change and restructuring. The salient feature of industrial change in Ukraine is underemployment, although the formal unemployment rate has remained low at 6.9% (Labour Force Survey [LFS] 2008, working-age population). Reduced working time (short-time work) and unpaid administrative leave have been used to keep workers in their jobs during periods of low production. These methods represent a form of internal numerical flexibility.

While these conditions create a window of opportunity, they also generate the need for socially responsible restructuring as well as retraining of the workforce to upgrade skills.

The Ukrainian economy and labour market

Since independence, major economic trends in Ukraine have been characterised by a recession that was much more pronounced than in other transition countries. During the 1990s, employment declined much less than the gross domestic product (GDP), which gave rise to a sharp decline in labour productivity and real wages. Structural reforms were delayed and labour market rigidities persisted. From 2000 onwards and until the global economic crisis, the average annual growth of the economy was 6.7%, mainly based on exports. However, due to inherited underemployment, the overall employment rate did not grow and the pattern that emerged was one of jobless growth.

Overall, labour market restructuring produced winners and losers. After two decades of moderate reforms, the questions that remain are why the social cost of the transformation has been so high and why job creation is so low that many people are forced to emigrate or work in the informal economy.

The impact of the global economic crisis has been particularly strong because of the lack of structural reform. In 2009, industrial output dropped by 21.9%, underemployment rose once again, and earlier wage increases were reversed. Labour market adjustments mainly took the form of cuts in real wages. Wage reductions and the more strict criteria governing eligibility for unemployment benefits meant that the negative effects of the downturn were borne chiefly by the workforce.

Government labour market policies were aimed primarily at keeping dismissals low and helping those really in need. The authorities launched schemes to support the training of

**HOW CAN
FLEXICURITY
CONTRIBUTE TO
SOCIALLY
RESPONSIBLE
RESTRUCTURING?**

**A WINDOW OF
OPPORTUNITY FOR
COMBINING SOCIALLY
RESPONSIBLE
RESTRUCTURING
WITH UPGRADING OF
WORKFORCE SKILLS**

**MACROECONOMIC
AND LABOUR MARKET
TRENDS IN UKRAINE**

**POLICY RESPONSE TO
LABOUR MARKET
SHOCKS**

workers at risk of redundancy and made available subsidies for short-time work (partial unemployment). However, these schemes were used very little by the companies and were eventually discontinued because of lack of funds.

Employers mainly resorted to the traditional wage cost reduction measures. The prevalence of uncompensated short-time work, unpaid administrative leave, and wage arrears once again increased, albeit not to the levels reached during the 1990s.

Ukraine has dropped to 82nd place out of 133 in the Global Competitiveness Index, ranking behind most EU accession countries. Labour productivity remains low, especially in the mining and metal production sectors. Due to a lack of investment in new technology, production remains energy and resource intensive. The economic crisis has put additional pressure on employers to modernise technical equipment and work organisation and to invest in upgrading the skills of the workforce.

Ukraine has one of the world's fastest declining populations. The population has shrunk by 8.3% in the last 20 years due to low birth rates, low life expectancy and outward migration. The formal retirement age is 60 years for men and 55 for women. This situation represents a challenge for both the pension system and the labour market. Unemployment was kept at a relatively low level (under 7%) in 2007 and 2008 but increased to 9.4% in 2009 (LFS, fourth quarter). Youth unemployment is also high at 13.3% (2008). The gender gap in unemployment rates is marginal. In contrast to the increase in unemployment reported by the LFS, numbers on the unemployment register decreased from 3.0% of the workforce in December 2008 to 1.9% in December 2009. This decline reflects the stricter eligibility rules for registering as unemployed and for receiving cash benefits as well as a reduction in the time unemployed workers remain on the register. These changes represent a reversal of the previous level of coverage and employment service provision (both active and passive labour market services) for the unemployed.

During the period of economic growth between 2000 and 2008, the employment rate increased only marginally (2.8%) to 67.3% of the working-age population. In the same period, employment increased to 60.8% in the service sector and dropped to 15.7% in industry. More striking statistics are that the percentage of self-employed people doubled, going from 8.1% to 16.8% of all employed and that the informal sector now accounts for 21.8% of total employment. This means that a growing section of the workforce is exposed to volatile working conditions and insecurity.

Compared to other transition economies, the job creation and destruction rates in Ukraine between 2000 and 2008 were relatively low and the balance was moderately positive. Three quarters of the new jobs were for skilled workers, but there is still a demand for low-skilled labour because of the delays in the restructuring and modernisation of industry.

As mentioned above, unemployment was cushioned by underemployment. In 2009, 4.3% of employed people were on unpaid leave, and 9.4% on short-time work. The Ukrainian labour market is characterised by structural underemployment rather than structural unemployment.

Flexibility without security?

The four relevant components of flexicurity are as follows:

- the legal framework governing contractual arrangements,
- active labour market policies,
- lifelong learning system,
- social security system.

The concept of flexicurity was used as an analytical framework to assess these policy components and the interplay between them.

COMPETITIVENESS OF UKRAINIAN INDUSTRY

SHRINKING LABOUR SUPPLY, UNEMPLOYMENT TRENDS

LABOUR DEMAND, JOB CREATION AND JOB DESTRUCTION

A HIGH PROPORTION OF EMPLOYEES ARE AFFECTED BY UNDEREMPLOYMENT

According to the World Bank's Doing Business Index, employment protection in Ukraine is relatively strict, indicating that employment relationships are overregulated compared with other central and eastern European (CEE) countries and member countries of the Organisation for Economic Cooperation and Development (OECD). However, there are differences in the details: Ukraine has more complex redundancy procedures but lower redundancy costs; working hours can be reduced but overtime work is strictly regulated; and there are no mandatory procedures for mass redundancies. There are also differences between *de jure* regulations and *de facto* practices. Wages, which are set by general agreements, have considerable impact on labour costs and also on social transfer payments (unemployment insurance). Social partners are involved in tripartite negotiations at national and sectoral level, but appear to play only a limited role at enterprise level, which is precisely where the differences between regulation and actual practice are most often found.

Social partnership has been developing in Ukraine since independence. The formal institutional framework has been consolidated in recent years with the establishment in 2005 of a trilateral body (the National Trilateral Socio-Economic Council) and joint representative bodies for both the employers' and the workers' side (2009).

The density of trade union membership is high (75% of employees belong to a trade union) and wage setting is at the top of the agenda. Despite positive developments, social dialogue is not yet functioning well in Ukraine — to the disadvantage of both employers and the workforce. The government makes important decisions without consulting the social partners. Business conditions are negatively affected by unstable policies, a high level of corruption and a growing informal sector. Workers have to contend with low wages, infringement of their rights and growing polarisation of wealth. Important new legislation, such as the new Labour Code, has not yet been enacted.

Active labour market measures, an important component of flexicurity, contribute to the creation of a flexible and inclusive labour market by easing job transitions and improving the employability of the workforce. These measures are implemented by the State Employment Centre (SEC) throughout the country. Ukraine spends about 0.1% of GDP on labour market measures (about the same as Armenia, Azerbaijan and Belarus, but far below the 27 EU Member States with 1.6%). Some 30% of this budget is available to fund active measures. The portfolio includes placement and job referral services, wage subsidies, training, and public works. Specific schemes to support workers threatened by redundancy were launched in response to the economic crisis, but with poor results owing to budget constraints.

A comparison of the number of job seekers and the number of vacancies reveals a mismatch between labour supply and demand: the highest number of unemployed people per vacancy is seen in the agriculture sector, followed by manufacturing and trade.

The population of Ukraine is well educated. Nearly 85% of people between 25 and 64 years of age have at least completed upper secondary education, and there is a rush to obtain higher education. However, higher education needs to be more responsive to labour market demands. Likewise, post-secondary vocational education and training (VET) needs to be strengthened, and the secondary VET system modernised. Large companies traditionally play a role in VET, but the administrative system for approving curricula is bureaucratic and overregulated.

With respect to lifelong learning, continuing VET is needed to adapt the workforce to changing skills demands. In addition to strengthening and diversifying the delivery system for continuing VET to meet the qualitative and quantitative demands of the market, incentives for employers and individuals are also needed.

Ukraine has a complex social welfare system with social insurance (based on employer and employee contributions) as well as universal and means-tested benefit schemes (state budget). The system is overloaded with many in-kind transfers and is not targeted at helping poor people in need.

Social security contributions, paid mainly by the employer, increase the cost of wages by between 36.76% and 49.70% of the gross wage, with the lion's share going to the pension fund. This system tends to lead to evasion of social security contributions through informal employment or under-declaration of wages.

**THE LEGAL
FRAMEWORK:
DIFFERENCES
BETWEEN DE JURE
AND DE FACTO
FLEXIBILITY**

**SOCIAL DIALOGUE
NEEDS TO BE
FURTHER
STRENGTHENED**

**ACTIVE LABOUR
MARKET MEASURES
AND THE PROBLEM OF
SKILLS MATCHING**

**LIFELONG LEARNING
FOR A MORE
ADAPTABLE
WORKFORCE**

**UNIVERSAL BUT LOW
LEVEL SOCIAL
SECURITY SYSTEM**

The unemployment insurance system, a cornerstone of workforce security, covers 70% of registered unemployed people. Benefits, which can be paid for up to 12 months, range between 23% of the subsistence minimum wage and the average regional wage.

The concept of flexicurity is based on achieving an optimal policy mix between the four components described above, enhancing virtuous circles and avoiding vicious circles and trade-offs.

We can, at this stage, advance only preliminary and hypothetical conclusions, which must be verified by further in-depth analysis and research. Compared to other Commonwealth of Independent States (CIS) countries (with the exception of Belarus) and new EU Member States, labour market flexibility in Ukraine is low while workforce security ranks higher than in other CIS countries but lower than in EU Member States.

Internal numerical flexibility is a common form of flexibility in Ukraine, as evidenced by various forms of underemployment. Using this method, companies can adjust working hours and labour cost internally to meet changing demands. This means that job security has priority over income security.

Focus on restructuring

When hit by the economic crisis, companies in the EU have also used the option of temporary short-time work, but reductions in working hours have been partly compensated by public support for the workers and in many cases combined with further training.

Restructuring has gained importance in these times of rapid technical innovation and globalisation of the economy. Change is the norm in a dynamic economy and should also be promoted when things are going well.

A number of papers (comparative studies, guidelines, toolboxes, good practice descriptions) provide an overview of the approaches and instruments used throughout the EU and in south eastern European countries. Some instruments have existed for decades and others are recent (mostly those found in new EU Member States). Experience shows that there is no common ready-made solution for organising and supporting restructuring, but there are common criteria for success. These include a supportive regulatory framework, coordination, cooperation and negotiation among key actors (enterprise, workers' representatives, local authorities and the public employment service), cost sharing, and a rapid and effective provision of services to affected workers.

The paramount importance of training to maintain and develop the skills and qualifications of the workforce is emphasised by all stakeholders and researchers.

Conclusions and policy options

An assessment of the core flexicurity components (legal framework for contractual arrangements, lifelong learning, active labour market policies, and social security) leads to the overall conclusion that there is more flexibility than security in the Ukrainian labour market, especially when we take into account *de facto* practices and informal employment. Nonetheless, employers do have to cope with rigidities that tend to trap both the employers and employees in a vicious circle in which both sides lose. The positive effect of retaining workers in their jobs in large enterprises is relatively low open unemployment. The negative effect of ongoing underemployment in large and traditional industries is the creation of an ever less qualified workforce.

The option used widely in traditional industries to deal with the economic crisis was to cut labour costs but not the number of employees. This is a form of internal flexibility achieved by reduced working time, unpaid leave, and wage flexibility in the form of wage cuts and arrears.

**INTERACTION
BETWEEN THE FOUR
COMPONENTS OF
FLEXICURITY**

**INTERNATIONAL
POLICY APPROACHES
AND GOOD
PRACTICES DO NOT
PROVIDE
READY-MADE
SOLUTIONS BUT
THERE ARE VALUABLE
LESSONS TO BE
LEARNED**

**MORE FLEXIBILITY
THAN SECURITY?**

In the wider context of transition economies in general, we can conclude the following:

- labour regulation is weak and is applied mainly in the formal employment sector;
- active labour market measures and continuing vocational training are constrained by budgetary restrictions and low delivery capacities;
- implementation of costly active labour market policies represents only a drop in the ocean in terms of the real need for better labour market transition.

Weak social dialogue at tripartite and bipartite levels impairs effective articulation and resolution of diverse interests. Flexible contractual arrangements require control mechanisms, strong social dialogue, and last but not least, higher levels of job creation.

The concept of an integrated policy approach such as that proposed by the flexicurity approach is a big step forward compared to isolated piecemeal approaches, but flexicurity must be based on improved governance with steering and monitoring mechanisms and regular involvement of social partners and civil society organisations.

Training initiatives should be prioritised to support business competitiveness and facilitate the adaptation of the workforce to changing skills demands. When redundancies cannot be avoided, job creation measures and comprehensive and effective job transition services will be needed.

While a number of different policy options can be adopted for restructuring, socially responsible restructuring requires sharing responsibilities and costs and has two fundamental requirements:

- commitment on the part of social partners at all levels to tripartite negotiation in order to establish framework conditions, and to steering and monitoring implementation at bipartite and company level;
- cost sharing, with core contributions from enterprises and public subsidies.

The design of programmes based on a predefined framework in which the basic rules and regulations apply equally to all cases of restructuring should be given priority over case-by-case ad hoc solutions. In all cases, the impact on women and on small and medium-sized enterprises (SMEs) must be taken into account.

***MOVING TOWARDS
FLEXICURITY IN
UKRAINE***

***JOINT ACTION AND
RESPONSIBILITY
REQUIRED TO MEET
THE CHALLENGE OF
SOCIALY
RESPONSIBLE
RESTRUCTURING***

INTRODUCTION

Flexicurity is a comprehensive approach to designing labour market policies. It has been developed to address in a balanced way both:

- the needs of enterprises for a flexible labour force to enable them to adapt to changing economic conditions and become or remain competitive;
- the needs of workers for protection against labour market risks and for secure transitions between jobs or other situations (for example, from employment to unemployment, to education or training, and back to employment).

Flexicurity requires an integrated approach that enhances both the flexibility and the security of labour markets rather than ad hoc measures or actions that promote one or the other at the expense of both.

However, there is no single model for flexicurity. The balance between flexibility and security and the policy options that lead to flexicurity must be the outcome of negotiation between governments and social partners and will depend in each case on the specific national context, that is, the institutional setting and specific labour market challenges faced by each country.

Countries achieve different levels of flexicurity by combining different types of flexibility and security. Wilthagen, Tros and van Lishout (2003) identified the following types of flexibility and security.

Types of flexibility

- **External numerical flexibility** refers to the capacity of enterprises to easily modify employee numbers by taking advantage of relaxed employment protection regulation: easy hiring and firing procedures, including flexible, temporary, and atypical contracts, outsourcing, subcontracting, temporary work agencies, on-call workers and home-based workers.
- **Internal numerical flexibility** refers to the capacity of enterprises to modify working hours and arrangements without changing workforce size. This can be achieved by introducing flexible working hours, expansion of part-time work, overtime, variable shift hours, night and weekend work, and other similar measures.
- **Functional flexibility** refers to the capacity of enterprises to assign employees to different jobs and tasks through job rotation, teamwork, changes in work content, on-the-job training, multitasking, skills development (training), polyvalent skills, job enrichment (complexity) and other measures.
- **Financial or wage flexibility** refers to the adaptation of wages to changing labour market conditions, giving rise to wage variability including reward systems or performance-based pay.

Types of security

- **Job security** refers to continuing employment security with one employer, that is, a high job tenure. This depends on the type of employment contract and firing conditions, company size and type of ownership, and macro- and microeconomic conditions.
- **Employment security** (or employability) refers to job security with different employers, that is, the ability of workers to remain attractive in the labour market in terms of skills and qualifications. This depends on the marketability of workers' cumulative skills in terms of education level, prior work experience, gender, current and average job tenure, on-the-job learning, and formal training, and also on active labour market policies (ALMP) and task rotation.
- **Income security** refers to access to income in case of job loss and the protection of a minimum standard of living. It also encompasses the protection of vulnerable individuals who are unable to withstand income losses associated with illness, unemployment, disability, maternity, and other factors. Household structure and the available institutional safety net are two important indicators.
- **Combination security** refers to the ability to combine paid work with social and family life. It encompasses leave schemes for a variety of motives (parental care, family, sabbatical, career, education).

Relevance and specific objectives for Ukraine: the focus on socially responsible restructuring

The aim of this report is to explore the applicability of the flexicurity approach to Ukraine – a transition economy – while pursuing the objective of socially responsible economic restructuring.

The framework conditions of the Ukrainian labour market differ greatly from those of the Nordic EU countries where flexicurity was developed and has been implemented with positive results. Ukraine has limited financial resources available to upgrade its social protection system or finance active labour market measures.

Our specific objective for Ukraine is to support the debate on policy options for socially responsible restructuring. The rationale for this focus is based on the high incidence of industrial restructuring that has resulted in short-time work and unpaid administrative leave and the impact of the economic crisis in the form of underemployment. The potential benefit for stakeholders in Ukraine should be better dialogue between national decision makers, social partners and international experts. The applicability and transferability of international experiences of socially responsible restructuring to the Ukrainian context will be critically assessed.

Methodology and data sources

The main sources of information were discussions with stakeholders, official data (the relevant legal framework, policy papers and statistical data) and secondary information sources (studies, reports, analytical papers – see Annex 1 and Bibliography). The LFS, based on International Labour Organisation (ILO) definitions, was the primary source of labour market information, and this was complemented by administrative data provided by the SEC. The LFS has been conducted in Ukraine since 1995 and has been quarterly since 2004. However, no metadata or microdata were available. There was also a lack of qualitative information concerning internal flexibility practices at company level; this topic needs additional research based on surveys. We regret not having had the resources to adequately cover the gender dimension of flexicurity and the question of SMEs.

The desk research took account of recent key papers and sources. Our aim in interviews and discussions was to take into account the views and demands of Ukrainian stakeholders. The results of both the national report and the overall cross-country analysis should provide value added and policy information to national stakeholders and decision makers.

Structure of the report

Chapter 1 summarises the flexicurity policy approach and briefly describes some international debates on the topic. The relevant background and main challenges for Ukraine are discussed in **Chapter 2**, which gives an account of the main trends, structures and dynamics of the labour market, a broad outline of ongoing industrial restructuring and the phenomenon of underemployment. **Chapter 3** uses the four dimensions of flexicurity as a framework to analyse labour flexibility and security in Ukraine on the basis of evidence relating to each of the components of flexicurity: the legal and policy framework, ALMP, lifelong learning strategies, and the social security system. **Chapter 4** focuses on the issues of restructuring and underemployment, presenting international approaches to socially responsible restructuring. **Chapter 5** concludes with policy options. The annexes contain examples of international good practice in restructuring and additional statistical data.

1. FLEXICURITY REVISITED

1.1 FLEXICURITY, A CORNERSTONE OF THE EUROPEAN EMPLOYMENT STRATEGY

Flexicurity has been developed to address in a balanced and synergetic way the needs of enterprises to manage their labour force flexibly and the workers' need for protection against labour market risks.

Flexicurity, based on the cornerstones of a functioning market economy and a welfare state, is basically a supply-side and multi-level governance approach. This implies horizontal and vertical cooperation between policy makers, social partners and business. Various actors and stakeholders are involved in shaping flexicurity at different levels: the government and social partners at national and sectoral level; employers, workers' representatives and individual workers at company level. Social partners are involved at all levels. Flexicurity has been defined by the European Commission as a key component of the European Employment Strategy. This has been reconfirmed by the EU 2020 strategy and the Agenda for new skills and jobs (European Commission, 2010), in which flexicurity remains a key priority.

A brief summary of the key concepts of flexicurity as defined by the European Commission and Council – the core components, the pathways and the common principles – is presented below.

BOX 1.1 FLEXICURITY COMPONENTS

1. Flexible and secure contractual arrangements and work organisations, from both the perspective of the employer and the employee, through modern labour laws and work organisation.
2. Effective ALMPs that help people cope with rapid change, periods of unemployment, reintegration and ease transitions between jobs (transition security).
3. Reliable and responsive lifelong learning systems to ensure the continual adaptability and employability of all workers and to enable firms to maintain productivity levels.
4. Modern social security systems that provide adequate income support and facilitate labour market mobility. These will include provisions designed to help people combine work with private and family responsibilities, such as childcare.

European Commission, 2007a

To achieve optimal results, four typical pathways have been identified based on experiences in EU Member States (see **BOX 1.2**). It is unlikely that any of these pathways will be appropriate for the framework conditions in transition and developing countries, which will require a different, tailor-made approach. The policy options that may best address the specific conditions of transition countries are proposed in Chapter 5.

BOX 1.2 FLEXICURITY PATHWAYS

- Pathway 1** Reduce asymmetries between standard and non-standard employment by fully integrating non-standard contracts into labour law, collective agreements, social security and lifelong learning schemes, and consider making standard contracts more attractive to firms.
- Pathway 2** Enhance the adaptability of companies and workers by developing and strengthening transition security, that is, the security of being able to get a job and of remaining in employment by making timely job-to-job transitions and progressing in the labour market.
- Pathway 3** Address opportunity and skills gaps in the workforce by broadening and deepening investment in skills.
- Pathway 4** Enhance employment opportunities for benefit recipients, prevent long-term welfare dependence, regularise informal work and build up more institutional capacity for change.

European Commission, 2007a

Despite the very different framework conditions found across EU countries, the European Commission and Council have adopted a number of common principles of flexicurity (see **BOX 1.3**).

BOX 1.3 COMMON PRINCIPLES OF FLEXICURITY

1. Create more and better jobs, modernise labour markets and promote good work through new forms of flexibility and security to increase adaptability, employment and social cohesion.
2. Seek deliberate combinations of flexible and reliable contractual arrangements, comprehensive lifelong learning strategies, effective ALMPs, and modern, adequate and sustainable social protection systems.
3. Flexicurity approaches are not about any single labour market, working life model or policy strategy, but rather should be tailored to the specific circumstances of each Member State. Each Member State should develop its own flexicurity arrangements. Progress should be effectively monitored.
4. Promote more open, responsive and inclusive labour markets, overcoming segmentation. Support all those in employment to help them remain employable, progress and manage transitions both within a company and between jobs.
5. Internal (work organisation and working hours within the company) and external flexicurity (job-to-job transitions, staff size adjustment) are equally important and should be promoted.
6. Support gender equality by promoting equal access to quality employment for women and men and offering measures to reconcile work, family and private life.
7. Flexicurity requires a climate of trust and a broad-based dialogue among all stakeholders, where all parties are prepared to take the responsibility for change based on socially balanced policies.
8. Flexicurity requires a cost effective allocation of resources and should remain fully compatible with sound and financially sustainable public budgets. It should also aim at a fair distribution of costs and benefits, especially between business, public authorities and individuals, with special attention to the particular situation of SMEs.

European Commission, 2007a

1.2 OPINIONS AND DEBATE CONCERNING THE FLEXICURITY APPROACH

The flexicurity approach is a policy mix developed and implemented in EU countries during a period of economic prosperity to support the capacity of enterprises and workers to adapt to industrial and technological change in a global economy. Over time, the flexicurity policy mix has undergone changes, giving rise to considerable variation between countries.

ILO and the concept of decent work

Based on experiences in transition economies² and in line with its Decent Work concept, the ILO launched a flexicurity project in 2001 and published a comprehensive report on flexicurity in central and eastern Europe (Cazes and Nesporova, 2006). The report confirmed that the widespread phenomenon of jobless growth had not brought about the expected labour market flexibility despite reforms intended to reduce employment protection and social protection. It also identified cases in which such reforms had had adverse effects on employment and labour reallocation, particularly for women.

On the basis of recent research, the ILO concluded that the policy prescription enforced over the last decade in the region is 'a jacket that may not suit all sizes'. The divergence between the approaches applied in different EU Member States (for example, the predominance of internal or external flexicurity, the type of security and the differing role of social partners) suggests that the institutional settings that determine flexicurity and security are complex and vary from country to country. This means that trade-offs and complementarities need to be analysed in the specific context of transition economies, which offer a relatively wide range of policy choices. In conclusion, this perception of flexicurity is 'in line with both the ILO Decent Work Concept and the EU employment policy'³.

Views of European social partners

Employers' organisations at European level (BusinessEurope, the European Association of Craft, Small and Medium-sized Enterprises and the European Centre of Employers and Enterprises Providing Public Services) generally wish to see the flexicurity approach implemented more strongly. In their opinion, only a few National Reform Programmes have taken on board a systematic flexicurity approach.

² See Regional Office Budapest website: www.ilo.org/public/english/region/eurpro/budapest/index.htm.

³ www.ilo.org/public/english/region/eurpro/budapest/employ/flex/index.htm, accessed on 4 August 2010.

European workers' organisations take a different position. The European Trade Union Confederation has stressed the need to reinforce workers' rights and promote stable employment relations⁴. The Confederation has also called for a reversal of the trend towards precarious work and for greater investment in human resources through training and tailored support for workers between jobs⁵. According to the European Foundation for the Improvement of Living and Working Conditions (Eurofound), which has surveyed the views of social partners in the EU, a number of trade unions consider that the interpretation of and the debate on flexicurity focuses primarily on flexibility and neglects the issue of security⁶.

Tentative assessment of the relevance of flexicurity in transition economies

The labour markets of EU countries differ widely between north and south, between older Member States and the more recent adherents, which have also undergone a phase of economic transition. The differences in non-EU transition economies, such as Ukraine, are even more pronounced. These differences are found not so much in figures and statistics on employment and unemployment rates⁷, but rather in the employment and institutional structures. The share of employment in state-owned enterprises (or enterprises with considerable government influence) remains high, but regular wage employment is decreasing while vulnerable forms of employment (including undeclared labour) are on the rise. One of the main differences in labour market institutions is the weak enforcement of labour law, giving rise to a disparity between what is specified by law and what happens in practice. The weakness and characteristics of social dialogue mechanisms can obstruct the peaceful and effective articulation and reconciliation of the diverse interests of different groups. The relevance of flexicurity to the labour markets of transition economies must be critically assessed against the backdrop of these differences to ascertain which elements of flexicurity and which policy mix are appropriate. There is certainly a rationale for a flexicurity-type holistic approach and a need to apply it to the challenge of socially responsible industrial restructuring.

⁴ www.etuc.org/a/3944, accessed on 7 April 2010.

⁵ www.etuc.org/a/4288, accessed on 7 April 2010.

⁶ www.eurofound.europa.eu/eiro/studies/tn0803038s/tn0803038s_4.htm, accessed on 6 January 2010.

⁷ The problem of how to measure economic activity and the differences in the age groups in working-age populations makes it difficult to compare labour market indicators.

2. RELEVANT BACKGROUND IN UKRAINE: THE MAIN CHALLENGES

2.1 ECONOMIC AND LABOUR MARKET TRENDS AND CHALLENGES

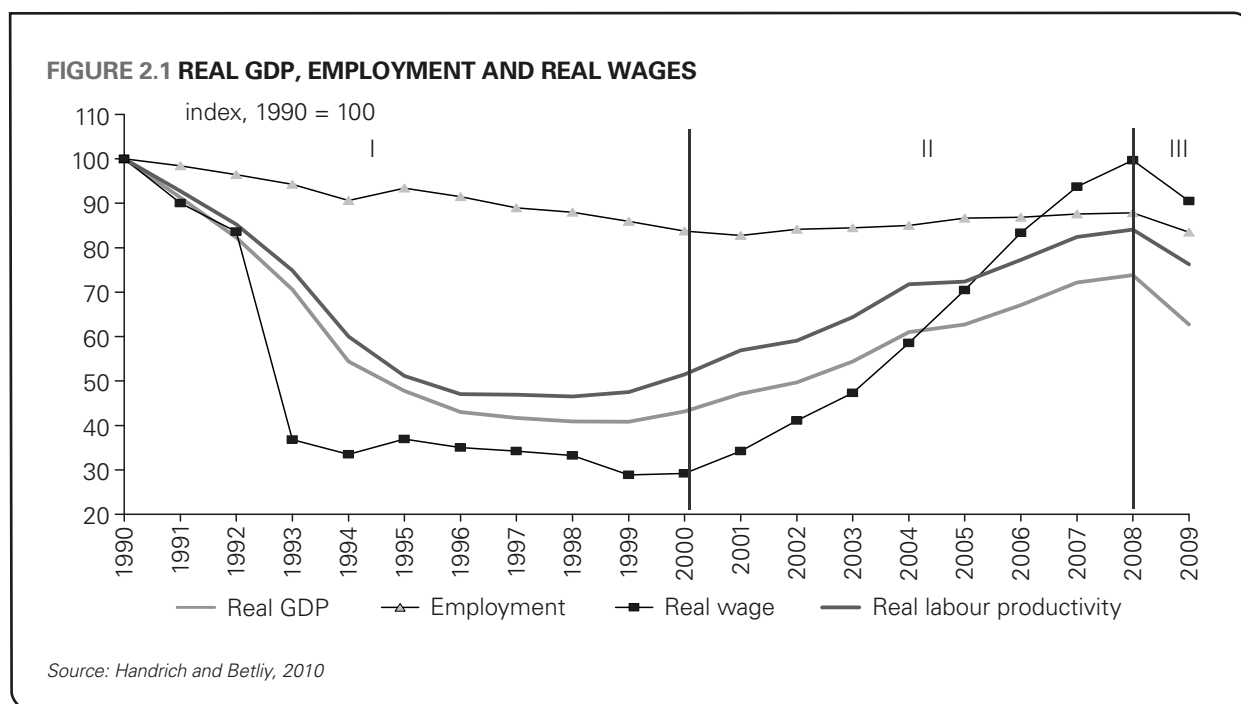
2.1.1 Major macroeconomic trends since independence

Ukraine's economic development in the 1990s was characterised by a recession that was much more severe than in other transition countries. This was accompanied by hyperinflation, largely attributed to inadequate fiscal and monetary policy. The employment index, however, declined much less than economic activity (Handrich et al., 2006). While real GDP contracted by 59% between 1990 and 1999, employment declined by only 14% during the same period. This relatively slight decline in employment can be explained by the high proportion of hidden unemployment in the form of unpaid administrative leave and short-time work. People were unlikely to leave their jobs even if they were not paid for long periods. As **FIGURE 2.1** reveals, labour market adjustments occurred primarily through a decline in real wages, which were reduced by 71% between 1990 and 2000 (Period I in **FIGURE 2.1**).

By the end of the 1990s, wage arrears had increased substantially because employers lacked the income to pay the wages of their large workforces. However, for a number of reasons many employees did not leave their jobs despite not being paid. Firstly, they had little chance of finding another job, and secondly, they expected to be compensated in better times. Employees who stayed in jobs without pay usually survived on some other source of income, either subsistence farming or informal jobs.

The limited decline in employment despite the drop in economic activity produced a sharp fall in labour productivity. This trend is a sign that restructuring has been hampered, market forces in both product and labour markets have remained weak, and an inefficient allocation of labour has prevailed (Handrich et al., 2006). In other words, the high employment level was not the result of a booming market economy with a vibrant labour market and substantial restructuring, but rather the consequence of a rigid labour market and lack of structural reform. The negative consequences of this situation are borne by a large section of the working poor.

Economic recovery in Ukraine started in 2000 (Period II in **FIGURE 2.1**). The average annual growth rate of real GDP was 6.9% between 2000 and 2008. Exports reached almost 50% of GDP during a favourable external conjuncture while domestic demand for Ukrainian products remained low. The employment rate did not, however, follow the trend of the



accelerating economic activity in the country. This can be explained by the low productivity and underemployment that characterised the previous decade, which allowed companies to enjoy relative productivity gains during the years of growth. Wage arrears declined and the improved financial state of businesses together with increases in the minimum wage gave rise to increases in average wage growth.

Between 2000 and 2008, GDP per capita based on purchasing power parity (PPP) in US dollars increased sixfold, reflecting improvements in the welfare of the Ukrainian population. The major driving force behind this economic growth was soaring private consumption (**FIGURE 2.2**).

However, at the end of 2008 and throughout 2009, economic activity in Ukraine largely deteriorated against the background of a global economic crisis (see Section 2.1.2). The decline in GDP per capita was more pronounced in Ukraine than in other CIS countries (for example, Russia and Belarus) or in the eastern European countries that had recently joined the EU (Razumkov Centre, 2010a, p. 36).

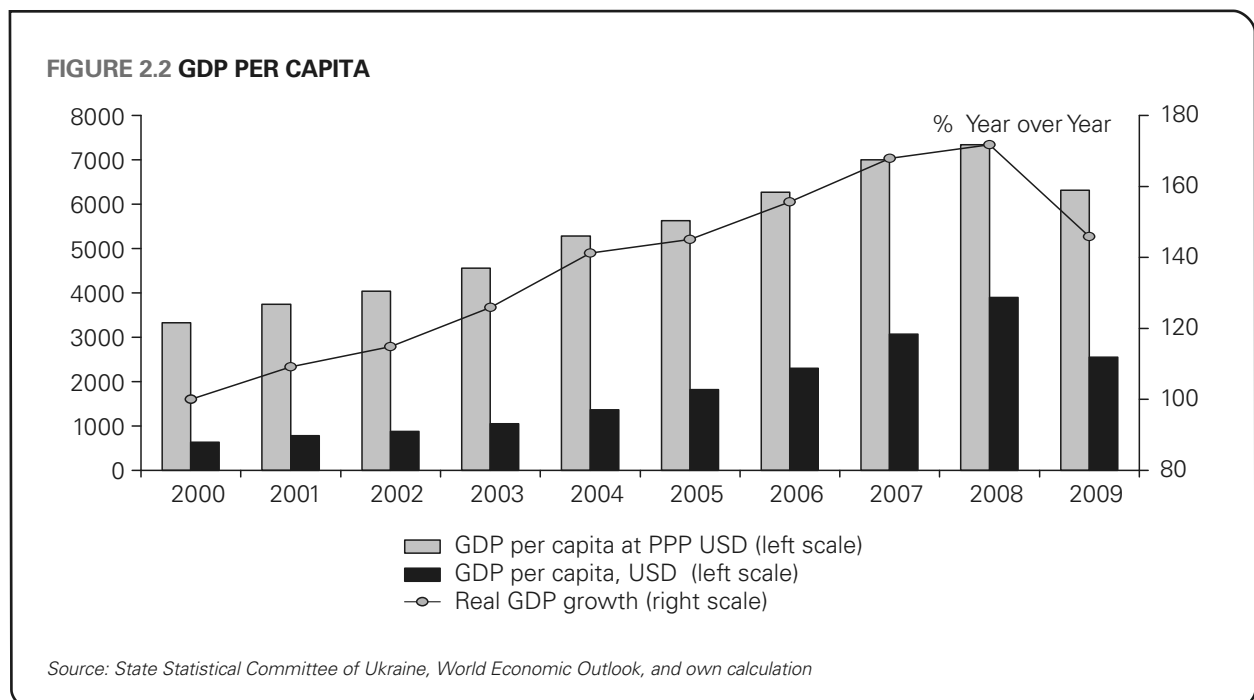
Consequently, the economic development of Ukraine between 1991 and 2009 can be divided into three major periods:

- the first period, from 1991 to 2000: sharp economic downturn, fall in wages and productivity, excess labour, job retention, lack of structural reforms;
- the second period, from 2000 to 2008: economic growth, upward wage adjustment, job reallocation (primarily between sectors), emerging jobs-skills mismatch, still few structural reforms, low rate of modernisation;
- the third period, starting with the impact of the global economic crisis: decline in economic activity, downward wage adjustment, job retention (but less than in the first period), continuing lack of structural reforms, more restricted access to unemployment insurance.

2.1.2 Impact of the global economic crisis in Ukraine

The global financial and economic crisis had a negative impact on Ukraine's economic development, substantially reducing the demand for traditional Ukrainian exports, especially metal and chemical products. Industrial output plunged in the fourth quarter of 2008 and the beginning of 2009. By January 2009, real industrial output had fallen 34.1% compared to January 2008. Although the situation recovered slightly, total industrial output in 2009 was 21.9% lower compared to the previous year.

The banking sector also faced problems in the fourth quarter of 2008 and throughout 2009 due to the outflow of deposits in conjunction with a sharp rise in the number of bad loans and significant external loan redemption obligations. As a result, banks drastically reduced lending to both private individuals and legal entities, causing a decline in real private final consumption and investments, which had been growing rapidly during the years of economic growth due to bank credit expansion (Burakovsky and Betliy, 2009). Shrinking credit led to the collapse of the real estate bubble, leaving construction companies facing liquidity problems and unable to complete even ongoing projects.



At the end of 2008 and the beginning of 2009, financial account inflows declined and payments increased, giving rise to financial and capital account deficits. This, together with a deterioration of the current account balance, resulted in sharp hryvnia devaluation. The economic slowdown led to a reduction in central fiscal revenues, which limited increases in social transfers and led to a decline in state investments.

The overall impact on Ukraine's economy of the global economic and financial crisis in 2009 was a 15.1% decline in real GDP. Gross regional product declined across all regions, but not uniformly. Regional economic development in 2009 was primarily determined by each region's economic structure. Regions heavily dependent on the production of non-metal mineral products, metals, machinery and equipment suffered more than those with an agrarian economy.

As labour market adjustment tended to take the form of wage cuts, employment declined much less than real wages (Period III in **FIGURE 2.1**). Regional labour markets mirrored the situation of their main industrial sectors. In the first quarter of 2009, the most marked rise in unemployment occurred in Donetsk and Dnipropetrovsk, *oblasts*⁸ with a high proportion of metal production, and in Zakarpatya, an *oblast* with a machine-building industry.

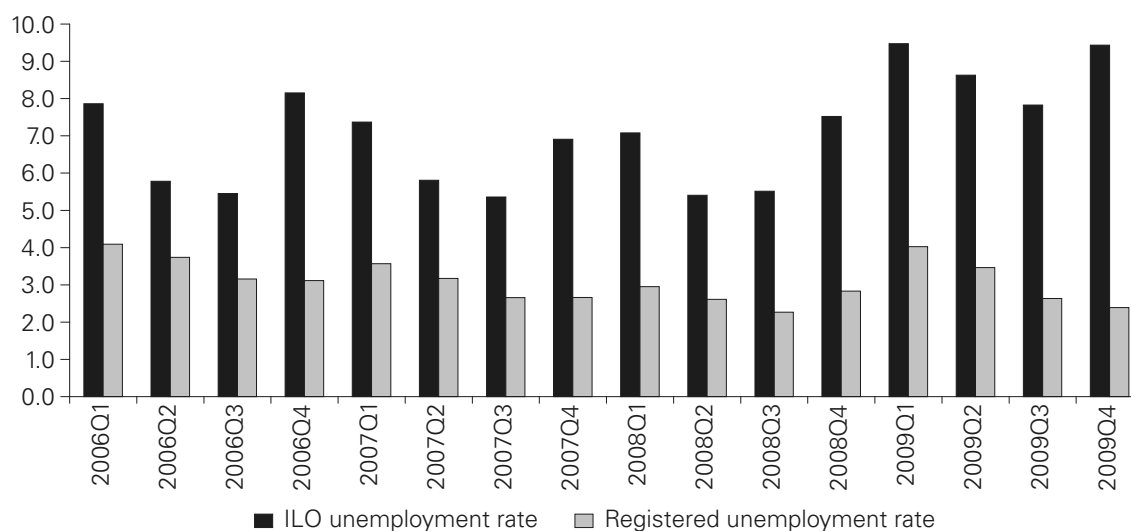
The rapid decline of the Ukrainian economy demonstrated how unprepared it was to meet the challenges of the crisis for several reasons (Burakovsky and Betliy, 2009). Firstly, the crisis once again underscored the low diversification of exports in an economy highly dependent on external demand (Movchan, 2009). Secondly, the level of industrial modernisation is low, giving rise to relatively high production costs. Another problem is the low quality of Ukrainian metal products. Overall, a lack of strategic thinking on the part of Ukrainian employers, who counted on a continuing favourable external environment, led to structural weakness in the main economic sectors (Institute for Economic Research and Policy Consulting, 2009).

The populism of the Ukrainian authorities before and even during the crisis reduced the government's room for manoeuvre and limited the financial resources that could be spent on important infrastructural projects. Instead, the government was forced to attract a loan from the International Monetary Fund (IMF, 2008) to fulfil major social liabilities. The impact of the global crisis has also been much greater in Ukraine than in other countries due to the lack of major structural reforms (Institute for Economic Research and Policy Consulting, 2009).

2.1.3 Recent labour market development

By the end of 2008, enterprises challenged by reduced revenues and limited access to domestic and external borrowing had to reduce labour costs. This led to an increase in the unemployment rate from 7.5% in the fourth quarter of 2008 to 9.5% in the first quarter of 2009 (LFS, 15 to 70 years of age). The number of unemployed people registered with the SEC also surged from 2.8% to 4.0% (same age group). The newly unemployed were mainly men since this was the population

FIGURE 2.3 UNEMPLOYMENT TRENDS (% OF POPULATION AGED 15-70)



Source: State Statistics Committee of Ukraine

primarily employed in the most affected sectors. In the third and fourth quarters of 2009, the unemployment rate (LFS) was higher than before the crisis. However, the number of unemployed people registered with the SEC by the end of the year was lower than at the end of 2008. This inconsistency can be explained by the diminished attractiveness of registration and the more restrictive criteria for receiving unemployment benefits introduced by the government.

Ukrainian employers preferred to cut wage costs rather than reducing staff sizes. Some employers reduced working time without wage compensation, a measure that immediately reduces employee wages. This strategy was used particularly during November and December 2008, when the number of employees working short time in manufacturing sectors increased by 26.5% to 490 900.

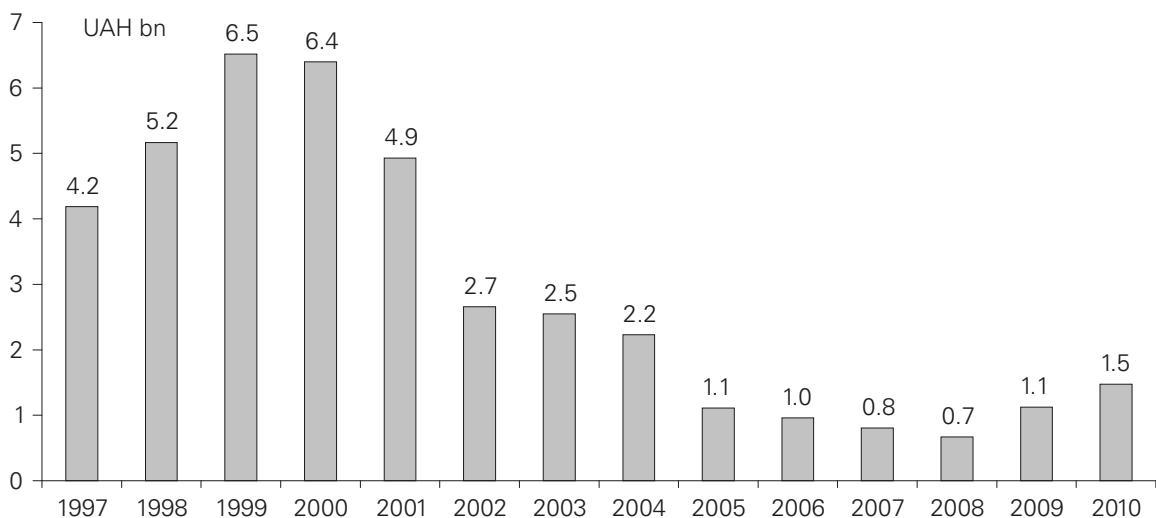
Employers also tried to negotiate wage cuts with their employees, in part by reviewing labour contracts. Bonus and premium payments were reduced or cancelled. Many employers also used the option of unpaid or 'administrative' leave. All of these measures resulted in wage cuts at the beginning of the economic crisis in 2008, with moderate growth resuming in February 2009.

Even with reductions in wages and staff numbers compared to 2008, companies also went into arrears on their wage payments. By October 2008, wage arrears had already risen to UAH 0.8 billion (1 billion = 1 000 million), 22.2% higher than the figure reported in the previous month. This figure passed UAH 1.0 billion as of 1 January and peaked at UAH 1.6 billion in October and November of 2009. This rapid accumulation of wage arrears forced the government to monitor the issue very closely and to enforce timely wage payments. The figure declined slightly in December, probably due to government pressure.

In a survey of business trends conducted in August 2009, 16.6% of respondents reported either accumulation of wage arrears since the start of the crisis or a high probability of such arrears occurring during the third quarter of 2009⁹. At that time, 20.1% of employers had already laid off some workers while 15.8% were planning layoffs.

Several factors may explain the accumulation of wage arrears during the crisis. Given the weak enforcement of sanctions and penalties for non-payment of wages, the strategy was one of the easiest ways of cutting labour costs to compensate for reduced revenue inflows. On the other hand, employers did not want to make major staff cuts because of the possible difficulty of finding qualified staff once demand for their products resumed. Moreover, labour regulations in Ukraine are rather rigid, making it difficult for companies with financial problems to lay off employees. As a result, most dismissals were made under the mutual agreement scheme.

FIGURE 2.4 WAGE ARREARS (BEGINNING OF THE YEAR)



Source: State Statistics Committee of Ukraine

⁹ The Business Tendency Survey is conducted by the Institute for Economic Research quarterly. For more information see: www.ier.com.ua/en/publications/regular_products/business_idea_industry/

2.1.4 Policy responses to labour market shocks and the economic crisis

The government's labour market policies during the economic crisis were primarily aimed at minimising layoffs and helping those really in need (Institute for Economic Research and Policy Consulting, 2009). One of the strategies used by the government to maintain employment rates was to sign memoranda of agreement with the representatives of different sectors. In particular, agreements were signed with metal and chemical producers, two sectors particularly affected by the crisis. One common provision in all memoranda was the employer's obligation not to dismiss employees. In compensation, companies received discounts on railroad transportation and gas. There was also a mutual agreement in the mining sector, where the decline in employment was mainly achieved by the retirement of older employees and disability pensions. To ensure timely wage payment in mining companies, the government provided a central fiscal transfer earmarked for wage payments.

In December 2008, legislation was enacted that increased unemployment insurance contributions and introduced several measures tightening the eligibility criteria for registering as unemployed (for example a subsistence farmer who had worked less than 24 weeks during the previous year was no longer eligible). Rules governing job search, participation in public works, and retraining were streamlined by further new measures introduced at the beginning of 2009 (Institute for Economic Research and Policy Consulting, 2009).

These new measures also modified the criteria regarding 'suitable employment' offered by the SEC and stipulated additional reasons for stopping payment of unemployment benefits. In particular, benefits are discontinued if the recipient refuses two suitable job offers or two proposals to participate in training programmes¹⁰. Public works are considered to be suitable employment for individuals who are unskilled, have previously worked in an unskilled job, have been registered for more than nine months or have been out of work for more than 12 months.

At the same time, the unemployment insurance contribution was increased (compensated by a reduction in the contribution for temporary disability insurance), and pensioners and military personnel were made compulsory contributors to the unemployment insurance scheme. While the inclusion of military personnel could be welcome, it seems illogical to require pensioners to pay unemployment insurance.

In order to discourage employers from further layoffs, the government introduced a scheme supporting partial unemployment that would compensate employers for the wages of employees transferred to other jobs. Another scheme envisaged the possibility of subsidising costs for employers who provided training for staff at risk of being dismissed. However, because of insufficient resources, the SEC was unable to adequately finance or fully implement this programme. According to the Federation of Trade Unions, only 20 medium-sized companies received funds to train workers at risk of layoff.

As a further measure, the government implemented stricter rules with respect to such benefits as low-income assistance, housing assistance, and utility subsidies. Under the new regulations, families lose their right to such benefits if a family member is unemployed and not registered with the SEC. Thus, the reduction in the number of registered unemployed also reduced the number of social assistance recipients.

These crisis measures represent a deterioration of the social security system, with fewer people eligible for unemployment or social assistance benefits, and fewer people entitled to job search assistance, labour market training, and other services offered by the SEC.

2.1.5 Competitiveness

The economic downturn in the 1990s gave rise to widespread corruption, a depleted infrastructure, weak institutions, delay in economic restructuring, and populist policies (Drzeniek Hanouz et al., 2008). The sharp downturn in economic activity during the recent crisis was also the result of these deficiencies. In 2009, Ukraine dropped 10 places to rank 82nd out of 133 in the Global Competitiveness Index (World Economic Forum, 2009). In order to return to growth, the Ukrainian government must continue urgent reforms, upgrade the institutional environment (120th place), strengthen financial markets (106th place), and increase goods market efficiency (109th place). Compared to EU accession countries, Ukraine is performing worse in certain variables, such as technological readiness, institutions, infrastructure, and financial markets, and almost equally well in labour market efficiency, although its labour market is considered to be fairly rigid¹¹.

¹⁰ Before these changes were introduced, those receiving unemployment benefit had the right to decline all job offers and were not obliged to retrain during the entire benefit period (up to one year).

¹¹ According to the Global Competitiveness Index, an efficient labour market is one in which companies can adapt their employment structure and wages to their business needs fairly flexibly and without major barriers. This presupposes the availability of a skilled and talented workforce and flexible labour market regulations. The index differentiates between two sub-pillars: flexibility and the efficient use of abilities.

TABLE 2.1 THE GLOBAL COMPETITIVENESS INDEX FOR UKRAINE

	Ukraine		EU accession countries	EU 15	
	2008 rank	2009-10 rank	2008 score	2008 score	
Overall index	72	82	4.0	4.3	5.1
Basic requirements	90	94	4.1	4.7	5.5
1 st pillar: Institutions	115	120	3.1	4.1	5.3
2 nd pillar: Infrastructure	77	78	3.1	3.8	5.5
3 rd pillar: Macroeconomic stability	82	106	4.7	5.1	5.3
4 th pillar: Health and primary education	74	68	5.4	5.9	6.2
Efficiency enhancers	66	68	3.9	4.6	5.0
5 th pillar: Higher education and training	53	46	4.2	4.6	5.2
6 th pillar: Goods market efficiency	101	109	3.7	4.4	5.1
7 th pillar: Labour market efficiency	65	49	4.3	4.4	4.5
8 th pillar: Financial market sophistication	85	106	4.0	4.7	5.4
9 th pillar: Technological readiness	93	80	2.7	4.0	4.9
10 th pillar: Market size	26	29	4.6	3.6	4.7
Innovation and sophistication factors	75	80	3.5	3.8	4.9
11 th pillar: Business sophistication	81	91	3.8	4.2	5.2
12 th pillar: Innovation	65	62	3.2	3.4	4.6

Sources: World Economic Forum

Ukraine's competitiveness is hampered by a complex and unstable taxation system. According to the World Bank's Doing Business Index 2010, Ukraine ranked 181st (out of 183) for the indicator related to paying taxes because of the complexity and cost of tax compliance. In particular, Ukrainian companies spend much more time on tax-related issues than companies in many other countries, spending on average 848 hours annually on complying with enterprise profit tax, value added tax and payroll tax requirements, a task requiring less than 200 hours in most OECD countries.

The relative costs of tax compliance are even higher for smaller companies. Consequently, most small companies try to take advantage of the simplified system of unified taxation introduced in 1999. However, this system has tended to give rise to an increase in informal employment. As many employees of small businesses that have opted for the simplified taxation system are employed unofficially, they are not secure. It has also led to the breakdown of medium-size companies into smaller units to take advantage of the simplified system.

But tax regulations are not the only problem for Ukrainian business; unstable policy, limited access to capital and corruption are also mentioned very frequently (World Bank, 2009a). Overall, the country ranks low on the competitiveness index. Structural reforms could help to increase competitiveness and improve the investment climate.

Labour productivity

Labour productivity surged after 2000 against a background of accelerating economic activity due to increased demand. Productivity gains varied enormously with metal production and the mining sector (both extraction and manufacturing) at the bottom of the table; the stars are transport equipment, electrical and optical equipment and wood processing. Machinery and equipment production also scored high. New equipment and technologies were mainly imported

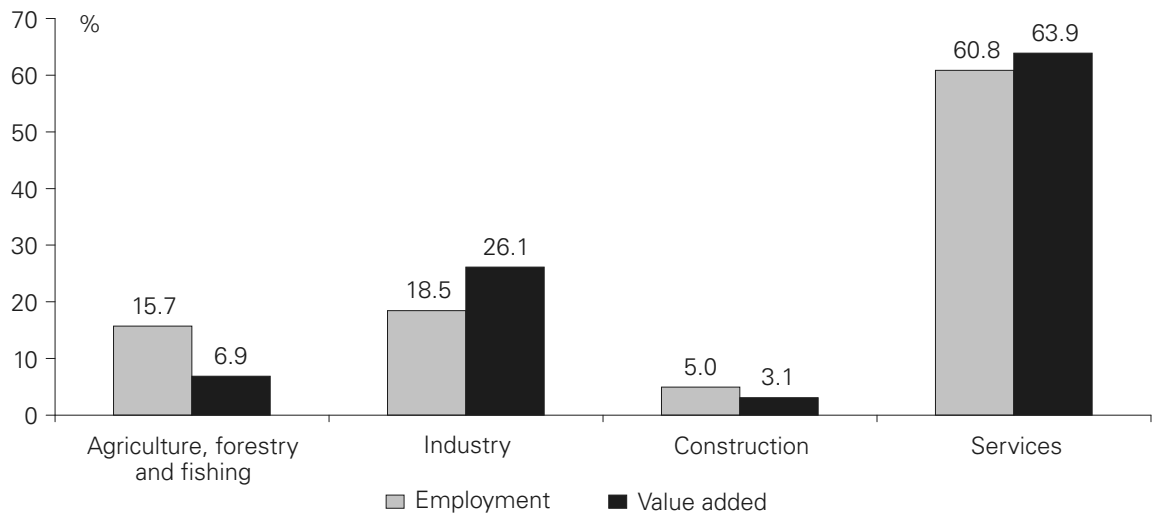
(TABLE 2.2). Labour productivity in Ukraine remains low overall, primarily due to a lack of restructuring. During the crisis, it is estimated that labour productivity will once again decline as layoffs have been much lower than the drop in economic activity. There are also considerable regional differences in labour productivity. The highest productivity gains between 2000 and 2007 were achieved in Volynskaya and Zakarpatskaya *oblasts*, while Dnepropetrovskaya, Donetskaya, Odesskaya and Khersonskaya *oblasts* lagged behind.

TABLE 2.2 LABOUR PRODUCTIVITY INDEX BY INDUSTRIAL SECTOR, 2000 = 100

Industrial sector	2000	2002	2004	2006	2007
Total industry	100	132.6	178.4	203.1	232.2
Mining and quarrying	100	112.5	127.5	143.3	150.4
Mining and quarrying of energy producing materials	100	111.6	124.2	136.2	137.3
Mining and quarrying excluding energy producing materials	100	112.1	129.2	147.4	161.9
Manufacturing	100	141.0	198.0	226.8	264.2
Food products, beverages and tobacco	100	130.5	175.3	217.9	246.9
Textiles and textile products	100	140.6	192.8	228.5	261.8
Leather and leather products	100	152.4	210.5	236.0	263.4
Wood and wood products	100	167.3	262.1	384.9	495.4
Pulp, paper and paper products; publishing and printing	100	125.6	198.7	248.6	281.2
Coke, refined petroleum products and nuclear fuel	100	193.1	200.5	161.1	170.6
Chemicals, chemical products and man-made fibres	100	127.1	180.0	211.3	233.7
Rubber and plastic products	100	126.3	189.6	224.7	257.5
Other non-metallic mineral products	100	137.7	195.3	265.7	318.4
Basic metals and fabricated metal products	100	110.0	139.6	149.0	168.0
Machinery and equipment	100	138.1	221.5	284.6	352.1
Electrical and optical equipment	100	161.4	319.4	345.6	438.5
Transport equipment	100	169.6	336.3	483.7	707.2
Electricity, gas and water supply	100	94.0	93.1	103.0	107.6

Source: State Statistics Committee of Ukraine, own calculations

Labour productivity is particularly low in agriculture, a sector that accounts for almost 16% of employment but contributes only approximately 7% to the national value added.

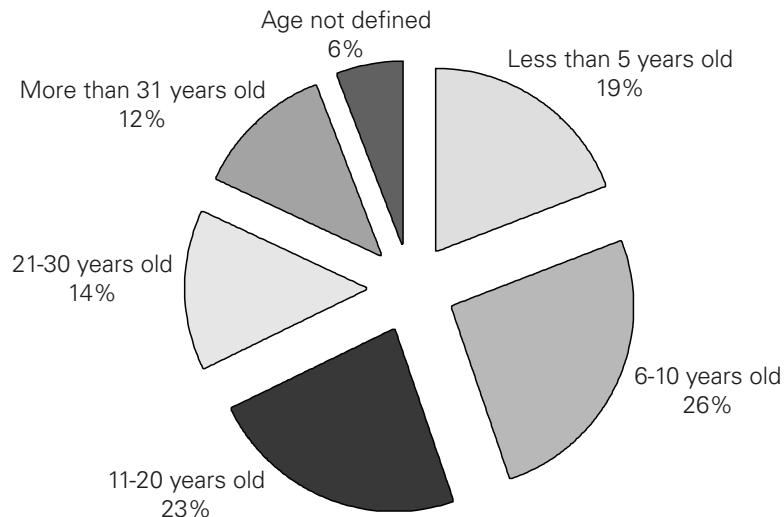
FIGURE 2.5 STRUCTURE OF EMPLOYMENT AND VALUE ADDED, 2008

Source: State Statistics Committee of Ukraine, own calculations

Disaggregation analysis indicates that the sectoral distribution of employment does not correspond to the needs of innovative development (World Bank, 2009b). In particular, jobs in trade and restaurants account for a large proportion of employment in services while employment in financial services and real estate remains low. Public sector employment, namely education and health care, also remains high, and a high proportion of workers are employed in low-productivity sectors.

Restructuring is lagging behind

Many large Ukrainian companies and certain industrial sectors are characterised by a lack of investment in new products and technologies. According to the State Statistics Committee, in 2009 only 19.2% of manufacturing enterprises were using technologies less than five years old; just over one quarter of companies were using technologies acquired five to ten years earlier, and the rest even older technologies. Challenged by rising energy prices and ever tougher competition, companies plan to accelerate their investment in modernisation projects and new technologies as soon as the banks resume credit facilities or private investors can be found.

FIGURE 2.6 AGE OF EQUIPMENT IN MANUFACTURING ENTERPRISES

Source: State Statistics Committee

Most of the enterprises with equipment and technology under five years old operate in the food industry. Companies in the information technology sector are also likely to have modern equipment. Office equipment manufacturers and information technology companies are the most active in introducing innovations. This is easily explained by the rapid pace of change that characterises these sectors. Traditional industries lag behind; the most obsolete equipment appears to be found in coke production companies and refineries, where 36.4% of the equipment is over 30 years old, but metal and non-metal industries also use outdated technologies. The outdated equipment in these sectors results in low competitiveness in world markets and low quality products.

Due to a lack of investment in new equipment, Ukrainian companies remain energy and resource intensive.

The infrastructure for innovation transfer in Ukraine is underdeveloped. According to the Ukrainian Ministry of Science and Education, as of end 2008 there were around 150 entities in the country supporting technology transfers (innovation intermediaries), including innovation centres, innovation business-incubators, regional innovative information centres, and similar initiatives. There are also 12 registered technology parks, which in 2008 produced UAH 0.9 billion of innovative products (as compared to a total manufacturing output of UAH 589 billion).

The percentage of manufacturing companies introducing any kind of innovation remained relatively stable at around 10% to 11% of all manufacturing enterprises during the period 2003 to 2008. (There were 1 142 registered manufacturing businesses in Ukraine as of January 2009.) Sales of innovative products accounted for between 5% and 7% of total industrial sales, and the majority of these products were sold on the domestic market.

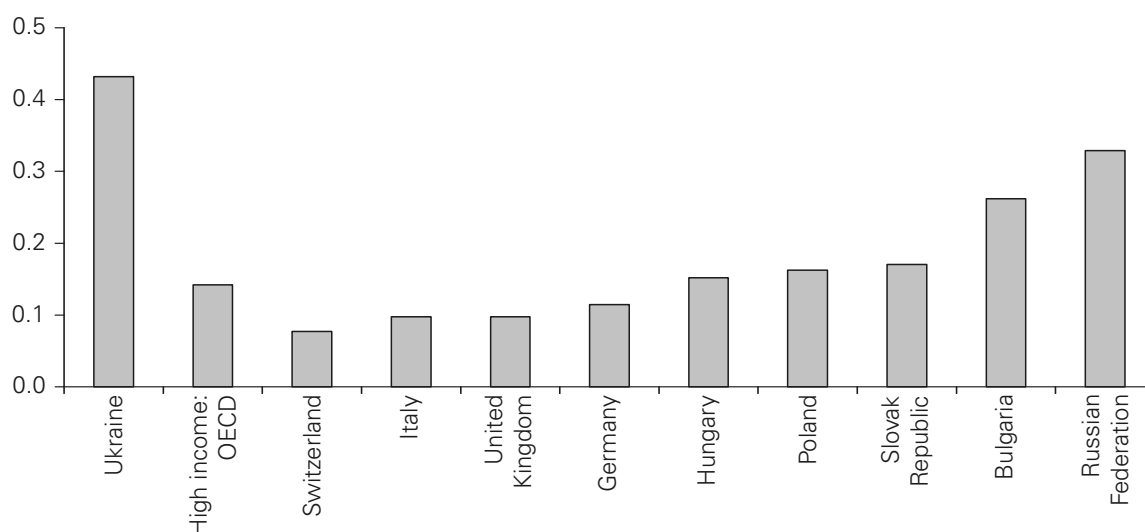
According to the State Department of Intellectual Property, the average number of inventions registered annually between 2005 and 2008 was 4 000, and the average number of registered contracts dealing with the disposition of economic industrial property rights for inventions was 160.

Corruption

Corruption in Ukraine is widespread in all spheres of public life and this adds to the difficulty and expense of running a business. Corruption is seen as one of the major obstacles to doing business in Ukraine. In 2007, 60.7% of companies cited it as a major obstacle to the development of their business¹².

In 2009, Ukraine and Russia occupied 146th place on the Corruption Perceptions Index and Bulgaria and Romania 71st place¹³. Estonia and Slovenia shared 27th place, the highest ranking among the CEE and CIS countries.

FIGURE 2.7 ENERGY USE IN SELECTED COUNTRIES*



Source: World Development Indicators, 2007

(*) Kilogram of oil equivalent per \$ of gross national income at PPP in current US dollars.

12 European Bank for Reconstruction and Development and World Bank, *Business Environment and Enterprise Performance Survey*, 2007.

13 www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table

In most countries in the region, anti-corruption procedures were introduced in the late 1990s under pressure from international organisations, such as the World Bank, the OECD and the Council of Europe. The EU played a major role in developing anti-corruption policies in the CEE countries in the context of the accession process. Moreover, the fight against corruption is also high on the agenda of the European Neighbourhood Policy (European Commission, 2004). In particular, European Neighbourhood Policy reference documents include provisions for combating corruption as part of the reforms in partner countries (European Commission, 2005). Since participating countries are subject to the standard EU anti-corruption policies and procedures, Ukraine should introduce anti-corruption measures, including EU rules for transparency and accountability.

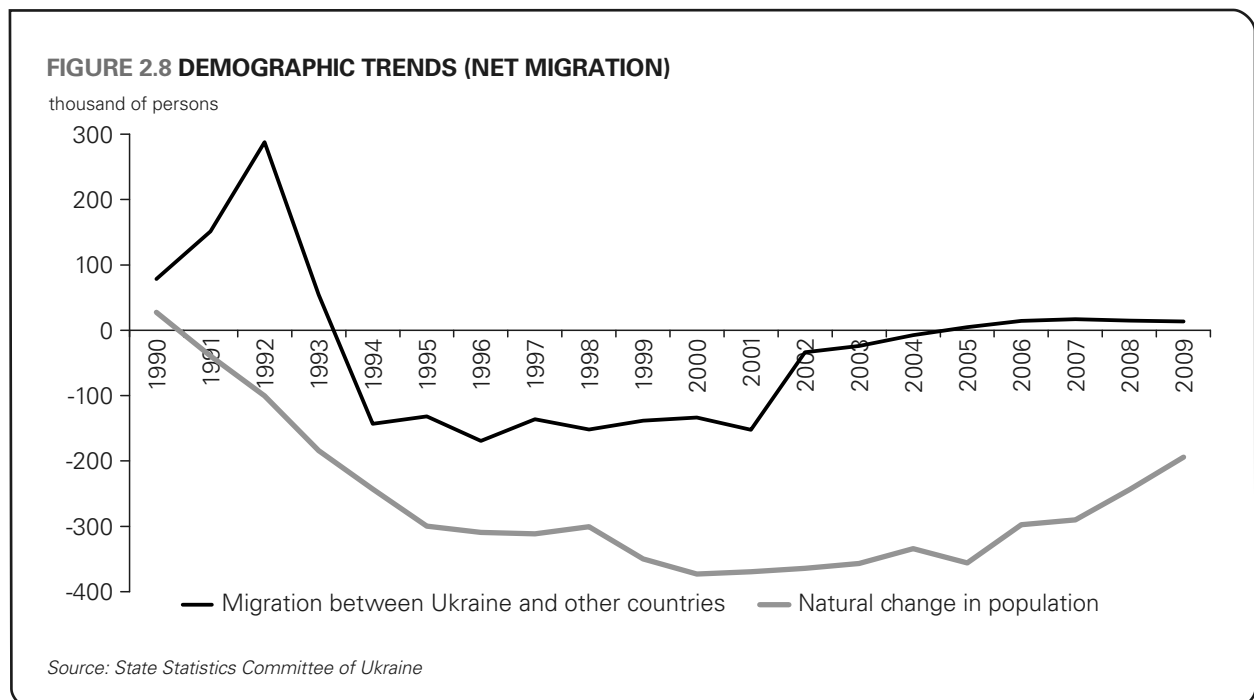
2.2 LABOUR SUPPLY

2.2.1 Demographic trends

Since independence, there has been a dramatic reduction in the Ukrainian population, which fell by 8.3% between 1990 and 2009, making it one of the fastest declining populations in the world. This decline continued despite economic recovery, with the country losing on average 3 467 citizens per year between 2000 and 2004. This loss was mainly the result of very low birth rates, high mortality rates and outward migration. In 2005, an increase in the birth rate lowered the rate of natural population decline. In 2009, the birth rate was 11.1 per 1 000 population while the death rate was 15.3 per 1 000 population.

Between 1994 and 2004, roughly one quarter of the total net reduction in population was due to outward migration. But since 2005, Ukraine has been a net recipient of migrants. However, official statistics seem to under-report migration flows. According to a survey of migrant families in 2008¹⁴, around 2.3 million Ukrainians were working abroad. Even when qualified, Ukrainian migrants generally work in low-skill jobs and are predominantly employed in the construction sector or work as nurses or housekeepers.

Another dramatic demographic trend is the ageing of Ukrainian society (Handrich and Betliy, 2004). As a result of very low fertility rates, the percentage of children aged under 14 declined by 7.4 percentage points to 14.1% of the total population between 1990 and 2009. During the same period, the proportion of people aged 65 and older increased by 3.9 percentage points to 15.9% of the total population. The changes in population structure and the early retirement age (55 years for women and 60 for men) resulted in a significant increase in the old age dependency ratio. The burden on the employed population increases every year, raising doubts about the sustainability of the pension and social insurance system. The already difficult situation in the Ukrainian labour market will deteriorate further as a result of demographic trends.



2.2.2 Activity and employment rates

The economically active population declined by almost 5.0% between 1999 and 2009 owing to outward migration and low fertility rates. The continuation of such trends could harm Ukraine's future economic recovery.

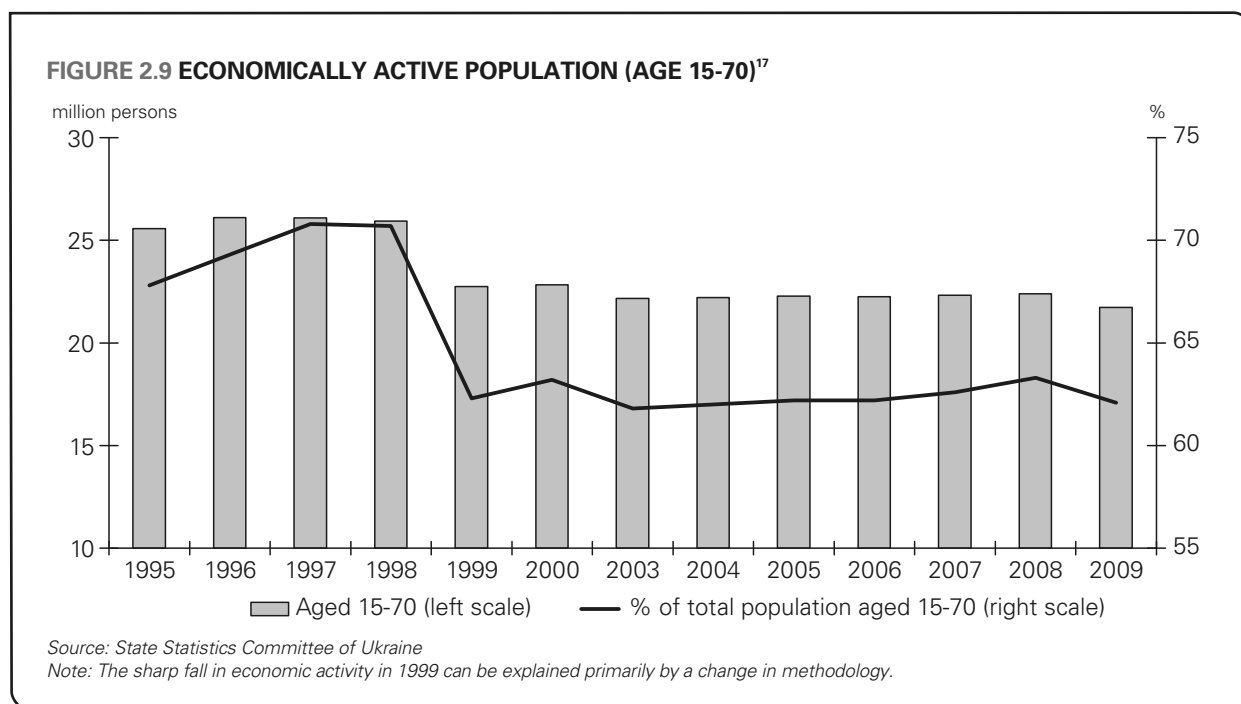
Another reason for the decline in the economically active population was the restructuring process. In particular, many older workers were dismissed or offered early retirement during the 1998 economic crisis, and many people supported by relatives also became inactive.

During the last five years, activity and employment rates have remained relatively stable. The activity rate is higher for men than for women (74.1% and 68.4%, respectively). During the period of restructuring, the workforce decreased in sectors traditionally employing more women, such as light industry. As a result, women with family care responsibilities tended to withdraw from the labour market and did not seek work. Although job opportunities are scarce, retired people attempt to supplement low pensions with additional income. This is seen in the 23.8% activity rate in the 60-70 age group (2009).

The low activity rate among young people (41.9% in the 15-24 age group in 2009) is mainly owing to their participation in education. Most young people try to obtain a higher degree. Moreover, the supply of internships and jobs for students is very limited. The participation of young people in the labour force may decrease even further because of the extension of the secondary school cycle. However, Ukraine already lags behind the EU average for the participation of young people in labour force (ETF, 2009).

High school and college graduates comprise the majority of the economically active population and they represent a higher proportion of the labour force than of the total population (ETF, 2009). Individuals without third-level education are more likely to become inactive. This could be explained by the fact that a wide range of public and private education institutions now offer third-level education (many education entities were first licensed in the 1990s). In addition, some employees try to obtain a tertiary degree through distance learning¹⁵.

The employment rate is 70.6% among men of working age (15-59 years) and 63.9% among women (15-54 years). These rates are higher than those found in accession countries, but the age cohorts are not comparable because of the early legal retirement age in Ukraine. Employment rates correlate with education level¹⁶. (See **TABLE A2.2** in Annex 2 for more detailed data.)



¹⁵ In Ukraine students can obtain degrees without studying full time. Workers can take advantage of distance learning programmes. Students in such programmes must complete part of their assignments at home. They must also attend the education establishment where they study during one or two weeks to attend lectures and sit exams, usually twice a year but sometimes more often. Such courses usually last two years. Employers are obliged to provide employees with additional vacation to enable them to attend to their studies.

¹⁶ With the exception of graduates with basic higher education, a group with an employment rate of only 44.2%.

¹⁷ The economically active population of working age (15-55/60) was on average 1.6 million people smaller than that of people aged between 15 and 70.

TABLE 2.3 ACTIVITY AND EMPLOYMENT RATES, 2005–09

		2005	2006	2007	2008	2009
Activity rate (%)						
Total	Workable population(15-70)	62.2	62.2	62.6	63.3	63.3
	Working-age population (15-54/59)*	70.9	71.2	71.7	72.3	71.6
Male	Working-age population (15-59)	74.1	74.5	75.0	75.8	74.1
Female	Working-age population (15-54)	67.6	67.8	68.2	68.7	68.4
Employment rate (%)						
Total	Workable population (15-70)	57.7	57.9	58.7	59.3	57.7
	Working-age population (15-54/59)*	65.4	65.9	66.7	67.3	64.7
Male	Working-age population (15-59)	68.2	69.0	69.8	70.6	66.6
Female	Working-age population (15-54)	62.4	62.8	63.6	63.9	62.7

Source: State Statistics Committee of Ukraine, LFS

(*) The legal retirement age is 55 years for women and 60 years for men.

2.2.3 Structure of unemployment

Trends in employment and unemployment are monitored on a quarterly basis by the State Statistics Committee, the body responsible for the LFS. The administrative unemployment rate derived from the SEC register is traditionally lower than the LFS unemployment rate. This discrepancy can be explained in part by the low incentive for unemployed workers to register with the SEC because the level of unemployment benefits remains low and the job offers are primarily in the low-wage sector. Since 2000, the gap between LFS and administrative data has narrowed because of improvement in the service capacities of the SEC.

The unemployment rate (LFS) increased considerably, rising from 6.9% in 2008 to 9.6% in 2009. It is probable that these job losses were in the informal economy, especially in construction and trade, because no decline was registered by official employment data. The increase in unemployment was greater in urban areas than in the countryside, where small-scale farming is more shock resistant. Layoffs in large industries (metallurgy, machine-building and the chemical industry) meant that the unemployment rate rose more for men than for women (10.8% and 8.3%, respectively).

Following a global trend, the most alarming increase has been in the young population (15-24 age group); unemployment in this group rose from 13.3% in 2008 to 17.8% in 2009. Youth unemployment, an issue of particular concern, can be attributed in part to a lack of incentives for employers to hire young people, the absence of properly organised internship programmes and a lack of practice-oriented learning content. However, it is also a result of an inflexible labour market that creates barriers for entering regular employment.

Unemployment is also high among people with basic higher education, which is usually a qualification between bachelor and master called a 'specialist degree'. The high unemployment rate in this group can be explained in part by the lack of demand for the knowledge and skills acquired through this intermediate degree course. Moreover, these degrees are often given by institutions that do not provide the highest quality education¹⁸.

The almost zero unemployment rate in the population with the lowest education level (primary education or lower) raises a number of questions. It may be explained in part by the withdrawal of this group from the labour market, a phenomenon also evidenced by the low employment rate of this group (21%).

¹⁸ This type of intermediate degree also existed in Belarus, where it was eliminated when it proved to be inefficient and unpopular.

TABLE 2.4 UNEMPLOYMENT RATES, 2005–09

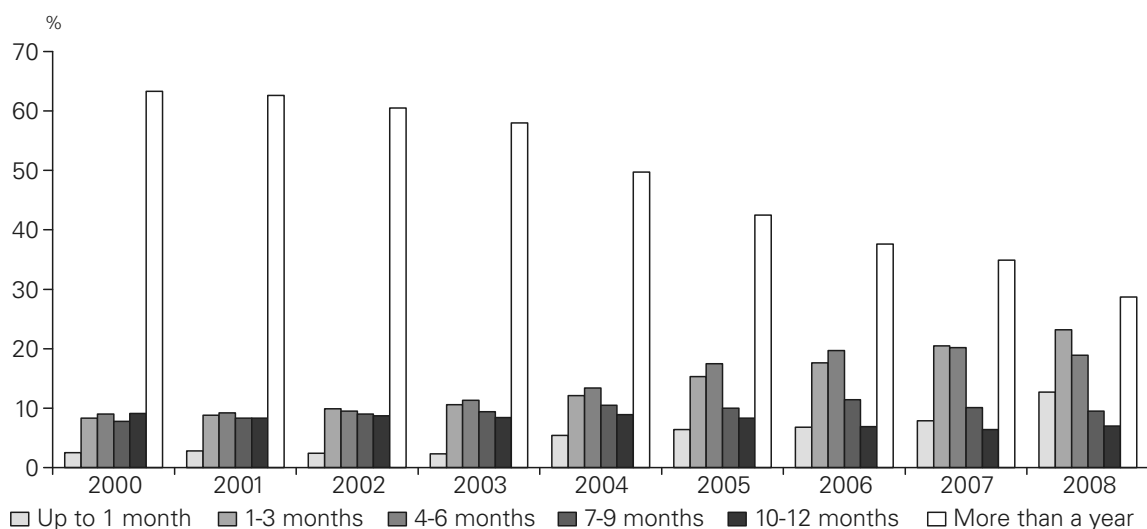
		2005	2006	2007	2008	2009
Unemployment rate (%)						
Total	Workable population (15-70)	7.2	6.8	6.4	6.4	8.8
	Working-age population (15-54/59)*	7.8	7.4	6.9	6.9	9.6
	Youth unemployment (15-24)	14.9	14.1	12.5	13.3	17.8
	Rural areas (15-54/59)	6.6	6.6	6.2	6.5	8.2
	Urban areas (15-54/59)	8.3	7.7	7.1	7.0	10.2
Male	Working-age population (15-59)	7.9	7.3	7.0	6.9	10.8
Female	Working-age population (15-54)	7.7	7.4	6.7	6.9	8.3
Unemployment rate by education level (%)						
Total	Primary education or lower	2.2	0.9	0.6	0.3	1.4
	Basic secondary education	7.1	6.2	5.9	5.6	7.7
	Complete secondary education	8.9	8.3	7.6	7.4	10.3
	Incomplete higher education	6.9	6.7	6.0	6.8	8.7
	Basic higher education	7.4	8.0	6.8	10.0	15.3
	Tertiary education	4.2	4.4	4.6	4.2	6.7

Source: State Statistics Committee of Ukraine, LFS

(*) The legal retirement age is 55 years for women and 60 for men.

The discrepancy between LFS unemployment rates and those reported by the SEC increased over the last two quarters of 2009, reflecting changes in the eligibility criteria for registering as unemployed (see **FIGURE 2.10** below).

FIGURE 2.10 UNEMPLOYED POPULATION BY LENGTH OF UNEMPLOYMENT



Source: State Employment Centre, Labour market in Ukraine in 2008

It is interesting to note that the two largest groups of unemployed in the SEC register are VET graduates and people with higher education, and that the share of these two groups has been relatively constant since 2001. One implication is that jobseekers with a medium or higher education level tend to use the services of the employment offices, but it may also point to a jobs-skills mismatch if, in fact, skilled workers are having difficulties in finding employment.

2.3 LABOUR DEMAND

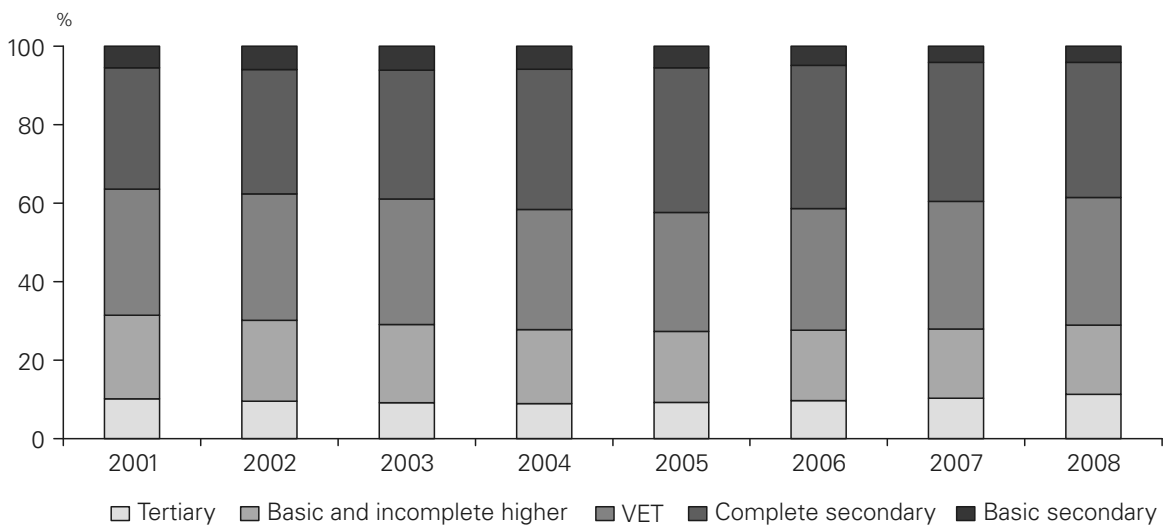
2.3.1 Structure of employment

Employment by sector

The structure of employment by sector has changed moderately in recent years. Employment in agriculture decreased from 21.6% in 2000 to 15.6% in 2009. Employment in industry also declined, falling from 22.8% in 2000 to 18.5% in 2008 and 17.6% in 2009. By contrast, the service sector grew, reaching 62% in 2009.

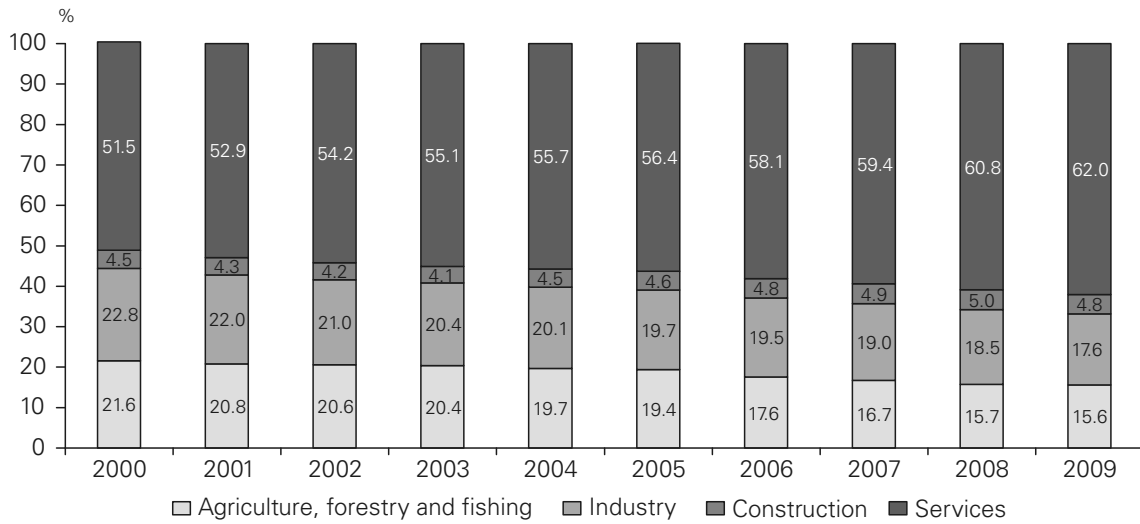
In 2009, the greatest share of employment in services was attributed to four areas (trade, repairs, hotels and restaurants) representing 37.8% of total employment in the sector. Employment in the primarily public sectors of education and health care remained high (representing 13.6% and 10.8% of employment in the service sector, respectively). The transport sector accounted for 11.1% of employment in the service sector in 2009. The public administration is still a large employer in Ukraine, accounting for 8.6% of employees in the service sector and 5.3% of the total employed population (LFS).

FIGURE 2.11 UNEMPLOYED POPULATION BY EDUCATION LEVEL



Source: State Employment Centre, *Labour market in Ukraine in 2008*

FIGURE 2.12 EMPLOYMENT BY SECTOR



Source: State Employment Centre, Labour market in Ukraine in 2008

Employees working in enterprises owned by state or municipal authorities account for almost half of the employed population, and the share of employment in the private sector is still far below that of other CEE countries. At around 18%, employment in SMEs also remains low by international standards.

Employment by status

The structure of employment by employment status changed significantly during the transition period. While the proportion of employees declined from almost 100% in 1990 to 82.0% in 2008 (ETF, 2009), the proportion of self-employed rose to 16.7% during the same period. Self-employment is highest in rural areas (more than 40% of all employees), where subsistence farming and precarious seasonal jobs have increased. People in short-term jobs work under trade contracts that define the job and the fee, and they are not considered to be employees under Ukrainian law. The use of self-employed staff has also increased in other areas, such as commerce, hotels and restaurants. Self-employment is a highly vulnerable form of economic activity characterised by a low level of social protection and little access to training.

TABLE 2.5 EMPLOYMENT BY STATUS (% OF TOTAL), 2000–09

		2000	2002	2004*	2006	2008	2009
Total	Employees	90.1	88.0	83.6	81.0	82.0	81.5
	Employers	0.7	1.0	0.8	1.0	1.0	1.0
	Self-employed workers	8.1	9.2	15	17.6	16.7	17.1
	Contributing family workers	1.1	1.8	0.6	0.4	0.3	0.4
Male	Employees	90.7	88.4	83.4	82	83.1	82.2
	Employers	1.0	1.4	1.0	1.3	1.3	1.3
	Self-employed workers	7.5	8.8	15.1	16.2	15.2	16.0
	Contributing family workers	0.8	1.4	0.5	0.5	0.4	0.5
Female	Employees	89.4	87.6	83.8	80	80.8	80.9
	Employers	0.4	0.6	0.7	0.6	0.7	0.7
	Self-employed workers	8.8	9.6	14.9	19.1	18.2	18.1
	Contributing family workers	1.4	2.2	0.6	0.3	0.3	0.3
Rural	Employees	78.1	73.4	61.5	54	58.4	59.9
	Employers	0.2	0.4	0.3	0.5	0.6	0.6
	Self-employed workers	18.3	20.5	36.9	44.5	40.2	38.7
	Contributing family workers	3.4	5.7	1.3	1.0	0.8	0.8
Urban	Employees	95.4	94.3	93.1	93.4	92.8	91.8
	Employers	0.9	1.2	1.1	1.2	1.2	1.2
	Self-employed workers	3.6	4.3	5.6	5.2	5.9	6.8
	Contributing family workers	0.1	0.2	0.2	0.2	0.1	0.2

Sources: Ukraine State Statistics Committee (LFS); ETF, 2009

(*) The apparent sharp increase between 2002 and 2004 in the percentage of self-employed workers is mainly an artefact of changes in the methodology used by the LFS in the definition of the employed population.

In recent years, regular registered employment has accounted for almost 50% of the total (LFS). About 80% of all employees are covered by collective agreements defining the main labour conditions. Almost all employees in the extractive industry and about half of those in financial sectors are covered by collective labour agreements.

Informal employment

Informal employment includes self-employed workers, unpaid family workers, employees holding informal jobs (whether employed in formal or informal enterprises, schemes or households) and subsistence farmers (self-employed workers whose produce is exclusively for the use of their own households). The informal economy constituted 31.1% of GDP in 2008 and has shown a tendency to increase¹⁹. According to the LFS, informal employment accounted for 21.8% of the total in 2008, with the largest share in agriculture (71% of all informal jobs). Informal employment as well as under-declaration of wages ('envelope payments') are relatively frequent practices in trade, construction and hotels. The groups with the highest proportions of informally employed workers are young people (28.7%) and those aged between 60 and 70 years (61.6%) who need to supplement their pensions.

TABLE 2.6 PERCENTAGE OF EMPLOYEES COVERED BY COLLECTIVE LABOUR AGREEMENTS

	2006	2007	2008
Ukraine	82.7	82.4	83.4
Agriculture, hunting and related service activities, forestry	87.2	84.9	86.8
Fishing	78.7	83.3	86.9
Extractive industries	98.8	99.2	99.8
Manufacturing	90.5	90.0	90.0
Production of gas and electricity	98.9	96.4	98.5
Construction	79.5	77.3	78.3
Wholesale and retail trade; repair services	52.4	50.7	51.7
Hotels and restaurants	63.4	61.8	61.4
Transport, storage and communication	92.8	92.7	90.9
Financial intermediation	51.6	53.8	58.2
Real estate, renting and business activities	83.0	80.5	80.2
Public administration and defence; compulsory social security	57.2	63.8	73.7
Education	84.3	86.0	87.7
Health and social work	87.5	88.6	89.6
Other community, social and personal service activities	68.1	69.4	70.8

Source: State Statistics Committee of Ukraine

2.3.2 Job destruction and job creation

The moderate employment growth between 2000 and 2008 was the result of the slight prevalence of job creation over job destruction. However, job creation and job destruction are lower in Ukraine than in most other transition economies in CEE countries (World Bank, 2009b). Until the recent economic crisis, job creation was high in construction and market services, and job destruction was highest in industry and agriculture. In 2008, only three sectors (financial services, state administration and personal services) showed a positive balance between hiring and dismissals.

The same World Bank study shows that job creation is stronger in newly established private firms. Although the job creation rate is higher in smaller than in larger companies, in absolute terms most jobs were created by large enterprises. Most of the jobs losses in recent years were in old firms.

Three quarters of the jobs created in 2007 involved skilled manual work, revealing an increasing demand for skilled labour (World Bank, 2009b). Employers report a shortage of workers with high vocational, manual skills and difficulties in finding qualified labour.

Investment in modernisation of equipment and technology is likely to result in redundancies over the next three to five years. However, job creation may intensify in hi-tech, service, and energy-saving industries (including the alternative energy production sector).

Employment turnover in Ukraine is increasing. Between 2001 and 2009, almost 29.4% of employees left their jobs, while 26.5% were hired (annual average).

In 2009, Ukraine's real industrial output declined by 21.9% while employment declined by 6.4%. Output declined most in three manufacturing sectors: transport equipment, machinery and non-metallic mineral products. These three sectors also had the largest contraction in employment. The regions most affected were the Zakarpatskaya and Volynskaya *oblasts* (see **FIGURES A2.1** and **A2.2** in Annex 2).

2.3.3 Incidence of underemployment

During the transformation period, employers (including state-owned enterprises) preferred to reduce labour costs rather than their workforce. In the mid-1990s, around one-fifth of employees were on unpaid administrative leave. By 2008, this practice had diminished considerably for several reasons. Firstly, most of the redundant workforce had already been dismissed during the economic crisis of 1998. Secondly, and more importantly, the economic recovery of the 1990s required labour. Moreover, the law had become more restrictive and stipulated that unpaid leave could only be applied when requested by an employee and for clearly defined reasons. However, after 2008, employers once again resorted to using this mechanism, finding ways to make the practice legal. Some 7.5% of employees were on unpaid administrative leave in 2008 and 3.5% in 2009. Uncompensated short-time work affected 8.5% of employees in 2008 and 9.4% in 2009. In those two years, 16.0% (2008) and 13.7% (2009) of the workforce in formal employment suffered wage cuts.

Another form of underemployment in Ukraine is reduced working time. Since Ukrainian legislation does not yet regulate minimum working hours, employers can shorten the work week as much as they want. Before 2009 there was no provision for wage compensation for short-time work. The possibility of compensation was introduced in 2009, but in practice it is rarely paid.

In total, 16.0% (2008) and 13.7% (2009) of the formally employed workforce were affected by underemployment; wage arrears increased during the same period.

2.3.4 Changing skill demands and the mismatch problem

Intersectoral adjustments and changes in skill demands, due mainly to a shift from agriculture and industry to services, is a common pattern worldwide that does not only affect transition economies. Intrasectoral skills adjustments involving changes in skills requirements – the result of employment shifts within a sector – are usually due to technological and organisational changes. There is strong evidence that the VET system is not responding to the demands of the changing economy. Another question that should be posed is whether the retention of workers in large enterprises without further training (whether retraining or skills upgrading) is contributing to the skills shortage.

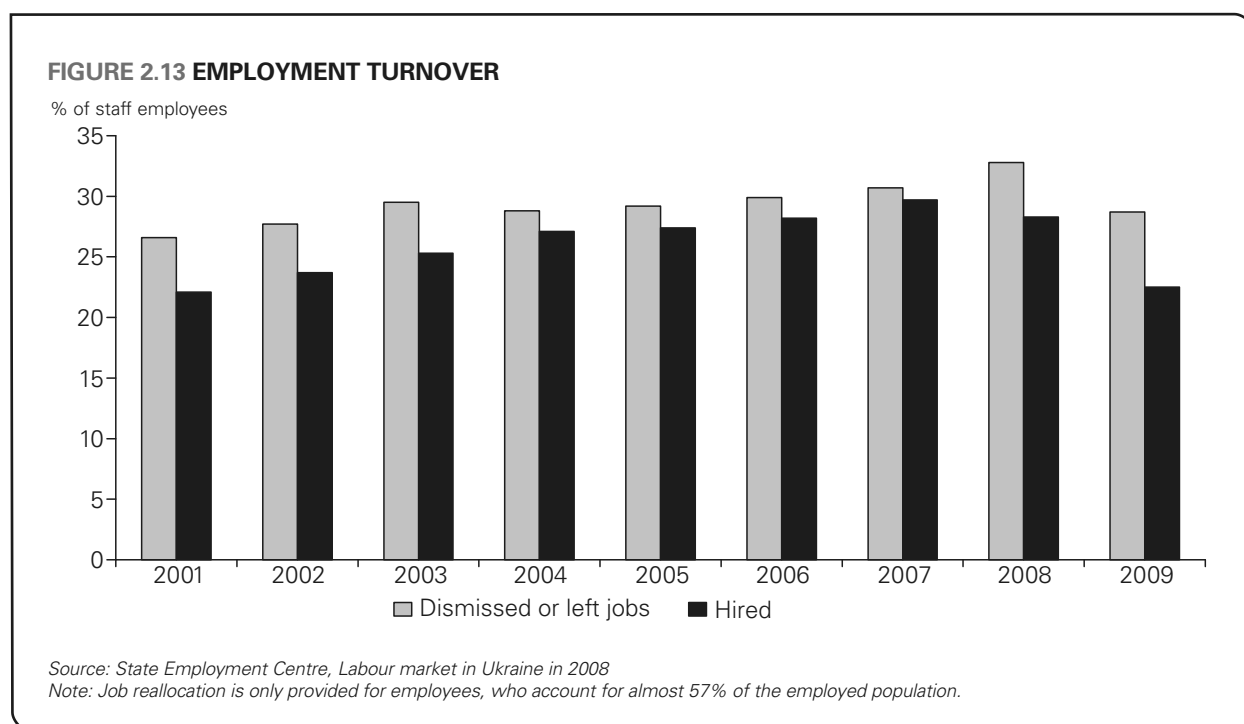


TABLE 2.7 UNDEREMPLOYMENT INDICATORS

	Administrative unpaid leave		Involuntary short-time work*	
	Number of employees (thousands)	Percentage of the average registered number of employees	Number of employees (thousands)	Percentage of the average registered number of employees
1994	3 430	21.5	1 035	6.4
1996	3 391	23.8	1 232	8.6
1998	2 793	22.4	2 178	17.5
2000	2 199	16.1	1 819	13.3
2002	622	5.1	1 519	12.4
2004	221	2.0	997	8.8
2006	137	1.2	620	5.4
2008**	829	7.5	928	8.5
2009	447.6	4.3	1 078.6	9.4

Source: State Statistics Committee of Ukraine

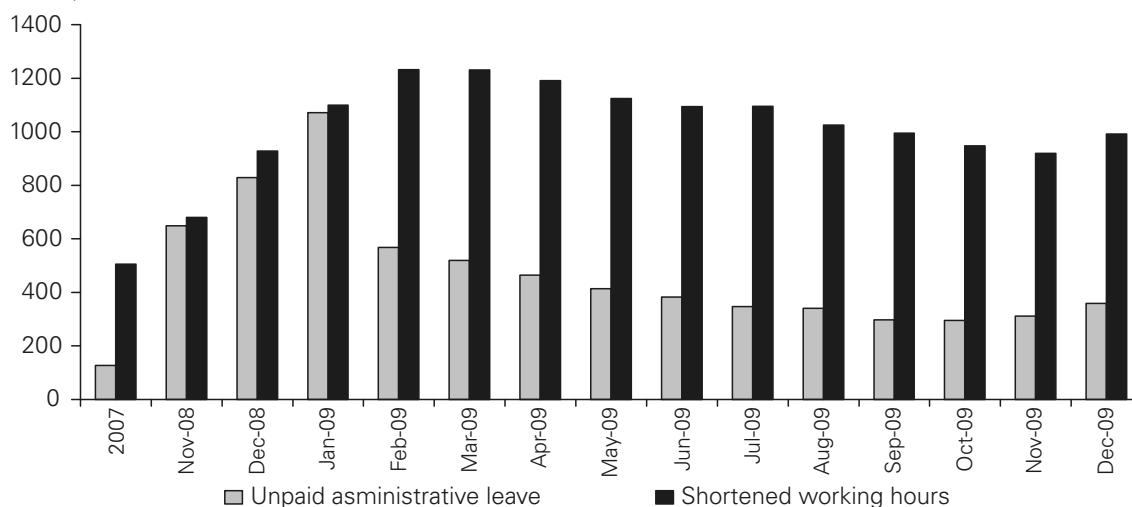
(*) Data for 1994 and 1996 refer to the end of the period and, after 1998, to the average for the period.

(**) Data refers to end of year.

According to the World Bank, the demand for low-skilled labour remains high in Ukraine in contrast to other CEE and OECD transition economies, where the demand for low-skilled manual labour has fallen (World Bank, 2006a). There is evidence that job creation rates in Ukraine for skilled blue-collar and especially white-collar workers were substantially lower than for unskilled labour (World Bank, 2006a). This might indicate that the Ukrainian labour market is still in an early stage of transition, a situation that is expected to change because the demand for skills increased across all job categories during the period of economic growth (World Bank, 2009b).

FIGURE 2.14 ADMINISTRATIVE LEAVE AND SHORT-TIME WORK

thousand persons



Source: State Statistics Committee of Ukraine

Until 2007, the shortage of skilled labour was not seen as an important obstacle to enterprise growth. This situation started to change in 2007 and the first two quarters of 2008 with the rapid growth of the economy²⁰ when employers started reporting difficulties in recruiting skilled and unskilled labour. By the first quarter of 2009, most managers reported that they were experiencing significantly less difficulty in finding both qualified staff and unskilled labour.

Despite the high demand for skilled labour, the premium for skills remains low (World Bank, 2009b). The reasons for this may include high payroll taxes, rigid labour regulations and low labour productivity caused by delays in investments. In general, technologies have remained labour-intensive, restricting the possibility of wage growth. High fiscal pressure is an obstacle to rapid wage increases in the public sector. Moreover, wages in large enterprises are fixed by a framework defined by tripartite sectoral agreements, making it difficult for employers' to benefit certain employees without increasing the wages of others.

Employers frequently reported recruiting difficulties before the crisis. Recruitment of skilled labour has remained difficult despite the economic downturn, evidence of a major mismatch between skills supply and labour market demand. Analysis has shown that the excess demand for some skills coexists with an excess supply of less skilled labour, both blue- and white-collar (World Bank, 2009b). While employers find it difficult to fill vacancies and find workers with the required qualifications, many of the unemployed have difficulty in finding a job because of the lack of demand for their skills.

2.4 CONCLUSIONS

Labour market restructuring produced winners and losers. Like other transition economies, Ukraine has experienced a period of structural change affecting both the economy and labour markets and has undergone important social changes during the early years of transition, which may have contributed to the slow pace of structural reform. After two decades of moderate reforms, the questions that must still be answered are why the social cost of the transformation has been so high and why the lack of rewarding and decent employment opportunities has pushed so many people to emigrate and forced a significant number of those who stayed behind to live in poverty (Bardak, 2010, p. 108).

In a trend also found in other CEE and CIS countries, informal work has mushroomed, becoming a key factor and survival strategy (Musiolek, 2002, p. 1). The transformation to a market economy also led to important changes in employment and income distribution. Unemployment emerged in Ukraine and all the countries in the region during the early years of transition depending on the pace of privatisation and restructuring. In Ukraine, unemployment was kept relatively low through delayed restructuring and underemployment. In the fourth quarter of 2009, the unemployment rate in Ukraine (9.6%) was slightly lower than the EU-27 rate (10%). Above all, it was the workforce that paid the price for underemployment with wage cuts. But there is also a high incidence of vulnerable informal forms of employment that hides the real extent of unemployment and underemployment.

Employment growth is usually determined by GDP growth and changes in productivity. Although GDP growth in Ukraine was low during the last five years compared to that of the other CIS countries (with the exception of Moldova), unemployment did not rise. This can be explained by the moderate growth in productivity and by underemployment. The situation we find in Ukraine is one of structural underemployment rather than one of structural unemployment.

The mismatch between the supply of skills and labour market demand is a growing problem with its roots in the slow reform and adaptation of the education system, the lack of training provision, and the weak links between the economy and the labour market. The transition from education to work is difficult, a situation that leads to high youth employment (ETF, 2008).

The creation of a more employable workforce through investment in training and retraining will require a coordinated approach involving, on the one hand, the VET system and, on the other, employers and their representatives. Training investment needs to be based on short-term training needs assessment as well as on mid-term macroeconomic and sectoral forecasts of skill needs. Data monitoring and prediction systems will have to be developed.

3. FLEXIBILITY WITHOUT SECURITY?

The concept of flexicurity is used in this chapter as an analytical framework. We describe the four components of flexicurity and social dialogue and try to assess the relationship between these policy fields.

3.1 POLICY AND LEGAL FRAMEWORK

Transition economies are faced with the problem of introducing structural reforms that will facilitate the transition to a market economy. In the case of labour market policies, this entails creating a more flexible labour market and favouring the adaptation of the workforce to changing demands while creating and ensuring a social protection system for those temporarily or permanently out of work, and last but not least, ensuring equal opportunities in all fields. This, in essence, is the approach that has been labelled flexicurity, a cornerstone of the European Employment Strategy.

Unlike the other CIS countries (Azerbaijan and Georgia) and the new EU Member States, Ukraine opted to protect job tenure even when the consequences were an underemployed workforce (Bardak, 2010), low labour productivity and the emergence of a segmented labour market with formal and informal employment. Structural reforms have been slow and the privatisation process has not yet been completed.

With the tasks and measures envisaged by existing employment regulation, the Ukrainian government is attempting to address a wide range of challenges (ETF, 2009, p. 122). However, due to the challenges of horizontal coordination (for example, between economy, education and finance), the measures planned do not reinforce each other and the results have not been synergetic.

3.1.1 Labour market regulation: *de jure versus de facto*

Against the backdrop of the communist (and also the western European) tradition of job tenure lasting for a person's entire working life, strict labour market regulations to protect jobs were introduced in Ukraine and other CIS countries after independence. These regulations stipulated generous severance pay for workers made redundant, restrictive dismissal, complex hiring procedures and relatively high extra wage costs. During the transformation, when these regulations became incompatible with a high level of job destruction, informal employment and wage arrears increased. Flexibilisation of the Labour Code has become a critical issue.

Labour legislation in Ukraine is regulated by a number of laws and decrees. The principal legislative document regulating the labour market is the Labour Code inherited from the former Soviet Union²¹, which has been amended many times during the transition years. However, the legislation is still very rigid and provides little flexibility in the labour market²². The Code regulates collective agreements and dismissals and guarantees working conditions. In the new system, work books have continued to be the main document proving an employee's career and seniority. The Labour Code establishes the rights of employees and contains provisions for setting minimum wages and creating a compulsory social security system.

It is not surprising therefore that the enactment of the new Labour Code has given rise to heated debate lasting for many years. In 2008, the parliament approved an amended new version of the Labour Code on first reading. By the end of December 2009, the approved version had been revised twice in preparation for the final vote and enactment. However, due to continuing discussion between major social partners it has not yet been put to the vote. This Draft Labour Code deals with a broad spectrum of employment relations. It is primarily oriented towards ensuring greater labour market flexibility, which would result in lower security. The document contains a chapter on social dialogue even though opponents argue that its provisions will restrict the power of trade unions. It also regulates gender equality issues.

There are also two other major laws governing the labour market: the Law on Employment of Population (1991)²³ and the Law on Remuneration of Labour (1995)²⁴. The Law on Employment of Population establishes major labour market definitions and regulates major labour market issues, including the rights of employees and guarantees in the event of job loss. Although the act has been amended several times, it is still rather outdated and sometimes partially contradicts newer legislation.

²¹ The current Labour Code was approved in 1971.

²² In reality, the labour market is less rigid than would be expected based solely on the provisions of the Labour Code because of the lack of legal compliance.

²³ Law 'On employment of population' #803-XII from 1 March 1991.

²⁴ Law 'On remuneration of labour' #108/95-BP from 24 March 1995.

The Law on Remuneration of Labour establishes the basic framework regulating the financial, legal and organisational aspects of labour remuneration. Under this act, the state regulates remuneration of labour for all enterprises regardless of ownership type by setting a minimum wage, determining taxation rules and providing other state guarantees. Regardless of type of ownership, wages are based on a predefined tariff or scale²⁵.

To summarise, Ukrainian legislation still over-regulates employment relations and discourages hiring. However, compliance with the Labour Code and the two other relevant acts appears to be weak, with the result that the labour market is more flexible in practice than would be expected given the law. For instance, wage arrears are used in the economy although the Criminal Code also establishes penalties for the management of companies that delay wage payments.

Employment protection

Employment protection legislation in Ukraine is defined in the Labour Code, an act that dates back to 1971 and has inherited many socialist provisions (for more details see **TABLE A2.4** in Annex 2). According to the World Bank's Doing Business indicators, employment protection legislation is stricter in Ukraine than in other CEE and OECD countries²⁶ mostly due to more complex redundancy procedures. At the same time, the cost of redundancy expressed as weeks of salary is much lower in Ukraine than in neighbouring countries.

Ukraine has a better score for employment protection legislation, with an index of 2.1 in a range of 0 to 6, comparable to Bulgaria, Czech Republic and Poland (Tonin, 2009).

The rigidity of Ukraine's employment regulation is also confirmed by its position in the Employment Efficiency Index (part of the Global Competitiveness Index) where it ranks 94th on the flexibility sub-index; Ukraine's overall rank for rigidity of employment was 103 in 2008. The labour market legislation is considered fairly rigid, but hiring and firing is not costly for Ukrainian companies. The World Bank considers the relationship between employers and employees to be highly confrontational.

While employment relations are considered to be overregulated (World Bank 2006a), employers do not see labour regulations as a major constraint on operations. This contradiction can be explained by the weak enforcement of labour regulation, which leaves employees without reliable protection and puts businesses at risk of penalties if a violation is identified. The position of workers' representatives is weak at company level. In addition to the law and formal regulations, employer-worker relations are also shaped by weak law enforcement and other soft factors, such as corporate social responsibility and mutual trust.

The standard work week is 40 hours over five working days, with shorter hours for hazardous jobs. Overtime must be paid and is limited to a maximum of 120 hours per year. Night work is restricted for specific groups (for example, women and people with disabilities) and prohibited for children under 18 years of age, pregnant women, and women with children under three years of age. Weekend work is also restricted. The minimum annual vacation is 24 calendar days, and some groups are eligible for more free time (children under 18, victims of the Chernobyl catastrophe). Employers are permitted to give employees more holiday time.

TABLE 3.1 DOING BUSINESS IN UKRAINE IN 2010: EMPLOYING WORKERS

Indicator	Ukraine	Eastern Europe and Central Asia	OECD average
Difficulty of hiring index (0-100)	33	31.9	26.5
Rigidity of hours index (0-100)	20	29.9	30.1
Difficulty of redundancy index (0-100)	40	25.9	22.6
Rigidity of employment index (0-100)	31	29.2	26.4
Redundancy costs (weeks of salary)	13	27.8	26.6

Source: www.doingbusiness.org/exploreconomies/?economyid=194

25 The tariff is a wage grid that uses a matrix of qualifications and coefficients to set wages according to the difficulty of the work and the employees' qualifications.

26 www.doingbusiness.org/ExploreTopics/EmployingWorkers/

Employment contracts are either indefinite or for fixed periods. The maximum duration of fixed-term contracts is not defined by law. A fixed-term contract rolls over automatically and automatically becomes indefinite if it has been renewed once or more and has not been terminated by either party on expiration.

Employees on indefinite contracts may leave their job at any time by giving at least two weeks notice. Employees on fixed-term contracts may only terminate employment if disability or ill health prevents them from doing the job or the employer infringes provisions of the contract or the Labour Code. There is evidence that most contracts are indefinite.

Under the Labour Code, employers may terminate a contract before it expires in a restricted number of circumstances, such as reorganisation, failure of the employee to perform their duties, loss of trust in the case of employees involved in financial matters, theft, insufficient qualification, or deteriorating health. It is important, however, to ensure that all termination formalities are complied with, including a two-month statutory notice period. Employers should also inform the trade union about planned redundancies and the reasons for same and provide SEC with information on the employees who will be made redundant (specifying occupation, qualification, and wage level). Under the law, redundancy must be approved at the company level by the trade union, but in practice approval is virtually automatic and rarely contested by the unions. Since 2009, mass redundancies can only be carried out with the agreement of the national trade unions, but how this provision is to be applied is still unclear²⁷.

Employees can only be made redundant if it is impossible to transfer them to another job within the company. When deciding which workers are to be retained, preference is given to employees with higher qualification, who receive priority treatment. Certain other groups of employees also receive such priority treatment, including those who have two or more dependent family members, employees who are studying, the authors of inventions, and certain other privileged groups.

The law prohibits the dismissal of pregnant women, women with children under the age of three (or, in special circumstances supported by medical evidence, under six years of age), and single mothers with disabled children or children under 14 years of age. This rule does not apply if the company is in liquidation or if the woman is on a fixed-term contract that expires. However, in these two cases, the employer must find alternative employment for employees in the preferential categories.

The Labour Code provides for severance pay of at least one average month's salary. Employers who violate employment legislation are obliged to pay a severance package equal to at least three month's of the employee's average salary. In practice, employment is commonly terminated by mutual agreement with no severance pay. For more details about labour law regulations, see **TABLE A2.4** in Annex 2.

BOX 3.1 REDUNDANCIES: DE JURE VERSUS DE FACTO

By law, employers must give notice to affected employees of intended redundancies and report them to the SEC two months before termination of the contract. During this notice period, wages must be paid in full.

In practice this procedure is rarely followed as cases in late 2008 and 2009 demonstrate. At that time, many employment contracts were supposedly terminated by mutual agreement. Other employees left 'voluntarily'. Employees often agree to such contrived arrangements because they receive severance pay. If they do not agree, the employers could still fire them under one of the articles of the Labour Code, and this might negatively affect their work record. Employers use such practices to avoid having to justify the dismissal to the trade union or the SEC.

Owing to regulations governing contract termination, it is more favourable for employers to hire workers on fixed-term contracts. Employees can also be employed through a simplified formal procedure based on an employment order stating the employee's name, the position, date of starting work and the salary.

All employees in Ukraine are protected under the social security system, which includes unemployment insurance (see Section 3.4.1). Employers must pay the first five days of sick leave and longer periods are covered by compulsory state insurance in the case of temporary disability. Employees are also insured against work accidents and occupational disease. Employees and employers contribute to pay-as-you-go pension insurance. The payroll tax arising from these four types of social security is high. According to the World Bank, high non-wage labour costs in Ukraine represent a burden on employers and are among the highest in the world. The result is that a large proportion of the payroll is paid under the table in cash.

²⁷ The representatives of the Federation of Trade Unions cite these legal provisions as one of the major obstacles to massive redundancies during the economic crisis. However, the role of trade unions in this case may be exaggerated as many employers avoided massive layoffs because they expected fast recovery and did not want to lose their qualified workforce.

Legislative framework governing mass redundancies and restructuring

Ukraine ratified ILO convention 58 and recommendation 166, which state that in the case of redundancy for economic, technological or structural reasons, the employer should consult with workers' representatives as early as possible.

The Ukrainian Labour Code includes regulations in line with international restructuring guidelines: for example, consultation with employers' representatives and preferential rehiring of laid-off workers. However, the code does not include any provisions specifically dealing with mass redundancies or provide a definition of mass redundancy.

Other obstacles and gaps include the complex regulation of VET generally organised by large enterprises, the strict regulation of overtime, and the lack of a wage guarantee fund to ensure that workers are paid if they company becomes insolvent.

3.1.2 Wage setting

Wages, productivity and labour cost are crucial factors in the labour market. Low wages and low productivity are common features of the Ukrainian labour market. Wages are set at political level rather than by market forces or through collective bargaining between social partners.

Wage setting mechanisms are defined in several legislative acts and documents. The key documents are the Labour Code and the Law on Remuneration of Labour. Under the latter, the state regulates remuneration of labour for all enterprises (irrespective of ownership type) by setting a minimum wage²⁸, establishing state guarantees and determining tax policy. The act specifies that the monthly minimum wage for simple unskilled labour is based on a full work week (currently 40 working hours). Since 1998, administrative increases of the minimum wage have outpaced real GDP growth, real wages, and labour productivity²⁹.

Prior to 2002, the minimum wage was set by tripartite negotiations as part of the General Agreement between the Federation of Trade Unions of Ukraine, the Federation of Employers of Ukraine and the Cabinet of Ministers of Ukraine (hereafter, the General Agreement). In 2002, tripartite negotiations broke down and no consensus on the minimum wage was reached. The government therefore proposed a minimum wage that was subsequently approved by the Verkhovna Rada (Ukrainian parliament). The same process was repeated in 2003, and from 2004 onwards the minimum wage was, by law, established in the State Budget Act. The minimum wage is, in practice, usually set by the government after consultation with the social partners.

In accordance with ILO conventions, Ukrainian legislation stipulates that the minimum wage must take into account minimum subsistence levels, average wages, productivity, and the current employment rate. However, in previous years, the minimum wage level appeared to depend mainly on tax revenues and the budget spending priorities of a government that effectively sidelined the social partners and ignored the role of the labour market in wage setting (Handrich and Betliy, 2004). More recently, the rationale for increasing the minimum wage has been political rather than economical. On the eve of the presidential elections in 2010, the opposition pushed through a law that sharply increased the minimum wage. Under this law, the minimum wage is set at the level of the minimum subsistence level for able working individuals as of the beginning of November 2009³⁰. Minimum wage was traditionally defined on a monthly basis. In 2010, an hourly wage was also set, calculated on the basis of the monthly minimum wage.

The General Agreement for 2008 and 2009³¹ and certain sectoral agreements between ministries and representatives of particular sectors also have provisions relating to wage setting in different sectors. The General Agreement for 2010 and 2011 has been the subject of heated debate for months and has yet to be approved.

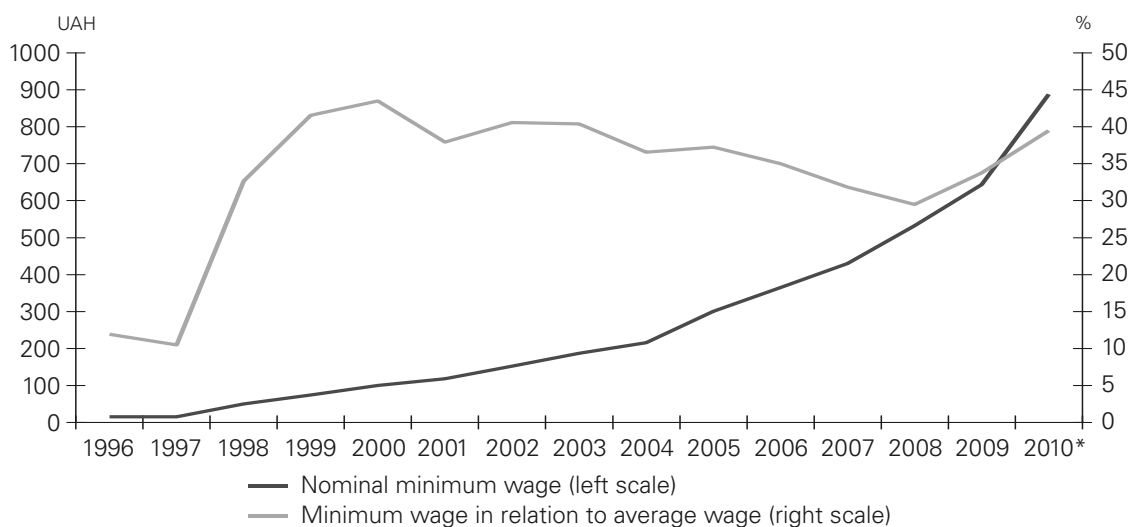
²⁸ The minimum wage is guaranteed by the state and is binding for all enterprises regardless of type of ownership. It is governed by the Law 'On Remuneration of Labour' and also included in a number of collective agreements (general, sector specific, and regional) as well as in other legislative acts that proscribe wages lower than the legal minimum.

²⁹ This may be an indication that the government is misusing the minimum wage as a tool of social policy instead of restricting it to the protection of wage earners at the lower end of the wage scale.

³⁰ The minimum subsistence level is calculated on the basis of the cost of a basic consumer basket containing a predefined selection of food items and a minimum set of non-food products and services. However, the method used to calculate minimum subsistence levels appears to be divorced from the real performance of the economy and the evolution of market prices (Handrich and Betliy, 2004).

³¹ From 15 April 2008.

FIGURE 3.1 MINIMUM WAGE



Source: State Statistics Committee of Ukraine

(*) The point indicating the share of minimum wage in relation to average wage for 2010 is an estimate.

The remuneration of public sector employees (for example, those working in education, health care or culture) is regulated by the government resolution on the unified tariff grid for public sector employees, while basic salaries for civil servants are defined in a separate government resolution. According to the former, the lowest tariff rate cannot be less than the minimum wage, a criterion that was violated during the crisis when the lowest tariff rate remained fixed at the December 2008 level while the minimum wage was gradually raised. This resulted in further wage compression in the public sector since, under the government resolution on the unified tariff grid, employees with salaries below the minimum wage receive co-payments to bring their wages up to the minimum.

Although the minimum wage in Ukraine has increased rapidly in recent years, it remains lower than in other CEE countries. However, in terms of the ratio of minimum wage to per capita GDP and average wage, the situation in Ukraine is similar to that of other countries in the region, a possible indication of low economic development.

While minimum wage enforcement is weak (World Bank, 2006a), it remains one of the important drivers of average wage growth and also plays a significant role in the shadow economy. In order to avoid inspections, employers pay wages at least above the minimum, making employees eligible for receiving social tax privileges and liable for personal income tax³². However, rapid minimum wage increases truncate the lower end of wage distribution and may be a disincentive to labour demand, in particular to hiring low-skilled labour.

3.1.3 Working time arrangements

The Labour Code restricts working time to 40 hours per week with a five-day work week. An employer may introduce a six-day work week, but in that case employees may not work more than seven hours in a day. Overtime work is limited to cases of emergency. Total overtime is capped at 120 hours per year. Overtime hours must be paid at double time. The Code also prohibits working on days off and official holidays except in certain situations, such as natural disasters, industrial accidents, and emergencies. These regulations apply to both the public and private sectors.

By law, part-time work must be mutually agreed at the start of a contract. Both short-day and short-week options are acceptable upon consent between the two parties. The employer is obliged to offer part-time contracts to pregnant women and women with children under the age of 14 or a disabled child. According to the State Statistics Committee data, only around 1.1% of the formally employed population worked part time in 2007.

The legislation also provides for the possibility of unpaid leave and short-time work. In particular, employers must give an employee 15 days unpaid leave upon request when the employee has a specific need for the time off. In practice this provision is used for a quite different purpose. Unpaid administrative leave was used widely to serve the interests of employers (see also Section 2.3.3).

³² The wage that makes employees eligible for social tax privileges is 1.4 times the subsistence minimum for able working persons, currently the minimum wage. The tax allowance is equal to 50% of minimum wage.

BOX 3.2 PRACTICE OF ADMINISTRATIVE LEAVE

The economic crisis proved that even though labour protection legislation in Ukraine is, in theory, rather strict, in practice it is not very strong. During the crisis, many employees were obliged to take unpaid administrative leave. Employees were often asked to request such leave. Consequently, employees in some companies were on unpaid leave for much longer than 15 days. Some of them only returned to work when the economy started to recover, while others were subsequently dismissed. Some companies introduced rotas for unpaid administrative leave and the work of the staff on leave was performed by their colleagues who were working.

3.1.4 Industrial relations, social dialogue

Social partnership has been developing in Ukraine since independence (Razumkov Centre, 2010a, p. 61). The legal basis is established by several laws and presidential decrees, the most recent of which was a Decree dated May 2008 entitled On Additional Measures to Improve Social Dialogue in Ukraine. The core institutions of the social dialogue are the trilateral body and the bodies representing employers and workers. The National Tripartite Social and Economic Council was established in 2005 and comprises 22 members from government and the umbrella organisations representing the trade unions and the employers' organisations. The joint body representing the trade unions was set up in 2009 by the National Forum of Trade Unions, the National Confederation of Trade Unions, and the Confederation of Free Trade Unions. On the employers' side, the Confederation of Employers, the Federation of Employers, and the All-Ukrainian Association of Employers make up the joint body (also established in 2009).

In terms of the density of workforce unionisation, trade unions are quite strong in Ukraine. Some 75% of workers receiving wages are members of a trade union (and 90% of these unionised workers are members of the Federation of Trade Unions, the legal successor to the Soviet organisation). Another large national trade union is the Confederation of Free Trade Unions, which is more concentrated in the mining sector. Up to 83% of employees are covered by collective bargaining agreements (Bardak, 2010). Trade unions play a role in wage setting at national level, but their position at company level is weak. This is evidenced by the very weak enforcement of labour law and frequent breaches of regulations (for example, the abuse of administrative leave).

The social dialogue is conducted at national, territorial, sectoral and company level. At the national level, the government, national trade unions and national employers' organisations sign General Agreements that establish the broad principles of government wage and employment policy as well as training and retraining procedures. The General Agreement regulates major employment and remuneration principles rather precisely for the entire economy, which makes it difficult to implement because of the differences between sectors. From 2002 on, the major stakeholders failed to reach agreement on the minimum wage, a situation that in part indicates the low degree of commitment of both parties. No General Agreement was signed for 2006 and 2007, and the last one signed was for 2008 and 2009. Since September 2010, all parties have been negotiating the General Agreement for 2010-12. Initially, the idea was to make this new instrument more general and a new concept was developed. However, in the end it is likely to follow the path of its predecessors. The General Agreement is not, however, a law, and its provisions are regularly breached by both sides. Besides, its provisions do not have the force of law and are not compulsory for the trade unions and employers' organisations whose representatives were not involved in the negotiations.

Sectoral agreements are based on the General Agreement and take into account the specific conditions affecting the sector. Sectoral agreements are signed by representatives of sectoral ministries, sectoral trade unions and sectoral employers' organisations. They also include tables that strictly regulate wage scales in the sector. This system made the wage system very rigid and companies claim that it is difficult to increase the wages of particular group of workers, who are in demand.

Collective agreements between employers and trade unions based on the sectoral agreements are signed at enterprise level. These documents regulate major contract issues for employees, such as wage payments, benefits paid, length of holidays, etc. Employee training could also form part of such collective agreements. According to the Federation of Trade Unions, around 95 000 collective agreements were concluded covering 9.3 million employees. However, trade unions appear to be rather weak at company level because employers often consult them as a mere formality. This could be explained in part by the fact that the trade union leaders in a company may also be employed by the company.

Ukraine could hardly be called a welfare state according to ILO criteria because its social welfare system remains inefficient and many important decisions on social and employment issues are taken by the government without consulting the major social partners. The economy remains inefficient due to the low level of modernisation and the dependence on energy- and material-intensive technologies, which gives rise to low labour productivity. As a result, wages remain lower than in other CEE countries. Moreover, social dialogue in Ukraine does not lead to social justice, wage arrears remain a problem, and the percentage of working poor remains high.

Overall, the efficiency of social dialogue is low to the disadvantage of both employers and the workforce. Business conditions are negatively affected by unstable policies, a growing informal sector and high levels of corruption. Workers have to cope with low wages, infringement of their rights and an increasing polarisation of wealth. Further improvement of the social dialogue is supported by capacity building measures undertaken by the ILO³³.

3.2 ACTIVE LABOUR MARKET POLICIES

Effective ALMPs, a cornerstone of the EU flexicurity concept, are essential if we are to ensure employability and combat long-term unemployment, especially among disadvantaged groups, such as young people, women and people with a disability. These measures play an important role during periods of economic restructuring, helping people to cope with rapid change and easing the transition between jobs. During the economic crisis, most countries also introduced or increased short-time wage compensation for employees whose work hours were reduced. Training and retraining programmes were also emphasised.

The OECD recommends the following types of ALMPs: public employment services (job search assistance); training and retraining of unemployed people; subsidised employment; public works; loans or grants to support business start-up and self-employment; youth measures; and measures to support workers with disabilities. One of these policies – training and retraining – also relates to lifelong learning, another component of flexicurity.

The policy framework for active labour market measures in Ukraine is defined by the government at national level, and measures are implemented by the SEC across the country. There are positive trends that indicate an upgrading of SEC employment services in recent years. Until the rise of unemployment as a consequence of the crisis there was a shift in the balance between passive and active labour market policies in favour of the latter. Emphasis was placed more on the demand-side measures, namely wage subsidies and stimulation of self-employment. The SEC improved its operations and increased its staff, which resulted in higher job placement ratios and a reduction in the average period spent unemployed.

Resources for ALMPs are quite limited. Ukraine spends about 0.1% of GDP on labour market measures (active and passive), a level comparable to that of Armenia, Azerbaijan and Belarus but far below the 1.6% spent by the EU-27. About 30% of this budget is allocated to active measures, which include a portfolio of placement and job referral services, wage subsidies, public works, and training. In addition to traditional approaches, specific anti-crisis measures have been launched recently, but the response of employers to this support measure has been quite low, a reaction that is not unusual for new measures. A substantive evaluation of ALMPs could only be made on the basis of assessment studies.

3.2.1 Types of ALMPs

The evidence of developed countries shows that ALMPs are an element of security in the labour market. In Ukraine SEC is the main body responsible for implementing ALMPs, which are funded by the unemployment insurance system.

Compulsory state unemployment insurance was introduced in Ukraine in 2001. SEC became an executive body of the State Unemployment Insurance Fund (see the organisational chart of SEC in **FIGURE A2.3**, Annex 2). SEC is responsible for providing services to the unemployed population. The Law on Employment of Population and the Law on Compulsory Unemployment Insurance constitute the policy framework for the implementation of active and passive labour market measures.

The total budget allocated by the unemployment insurance fund was about UAH 5.1 billion in 2008 and UAH 6.2 billion in 2009; there was also a small (and in 2009, further decreasing) additional allocation from the state budget. The total number of registered unemployed people (inflow and stocks) was 2.5 million in 2008 and 2.1 million in 2009, while the monthly average number of registered unemployed individuals was 596,000 and 693,000, respectively. This is far below the LFS data, with 1.4 million unemployed people in 2008 and 2.0 million in 2009.

The range of ALMPs implemented by the SEC is in line with common practice in EU and transition countries. **TABLE 3.2** briefly describes the chief measures.

TABLE 3.2 CHARACTERISTICS OF ALMPs

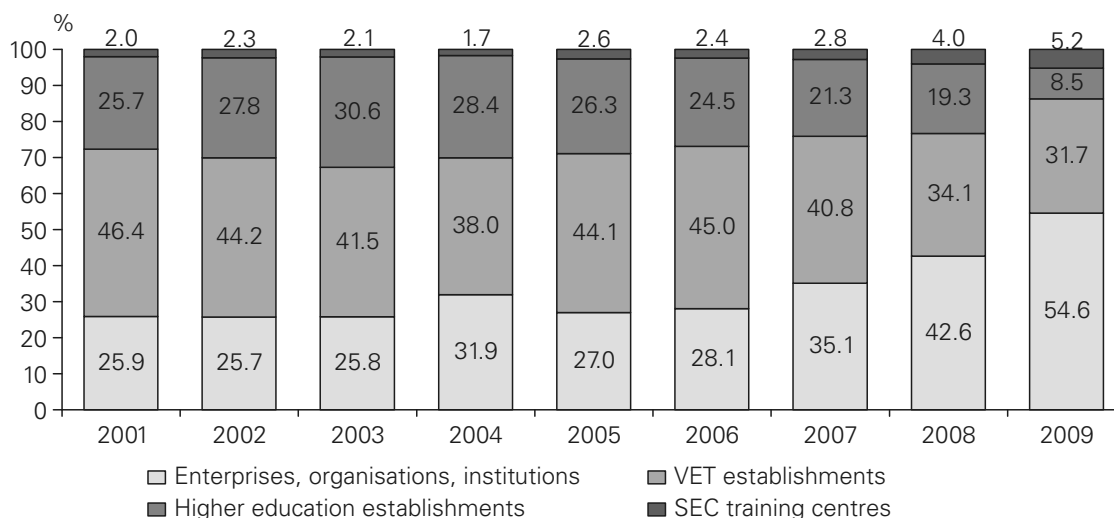
Programme	Short description
Employment services (job placement and referral services)	This includes job placement and professional career guidance. SEC offices provide unemployed people with information concerning job vacancies and advise on job search. A person might be referred to other activation programmes (public works, training or retraining).
Training and/or retraining of unemployed people	The target group is the unemployed. A special programme was started in 2009 to train unemployed people for specific jobs at the request of employers looking for new staff. Training is usually provided by public or private training centres or vocational schools. The SEC also has seven vocational training centres (Crimea, Dnipropetrovsk, Ivano-Frankivsk, Lviv, Odessa, Rivne and Kharkiv).
Public works	Public works are organised by local authorities in cooperation with the SEC. They are often in the field of culture, environmental protection, or similar areas. The maximum duration of a public works project is 180 days within a single year. Public works can be financed by local authorities, the SEC or employers.
Employment subsidies	Employers receive subsidies for hiring a worker who has been on the unemployment register for at least one month. The job must be guaranteed for at least two years. The subsidy covers labour costs for one year with a ceiling equal to the average wage in the region.
Start-up schemes (self-employment support)	Unemployed individuals can receive unemployment benefits as a lump sum if they start their own business. Start-up training is also offered (preparation of business plan and other support measures).
Job creation for redundant miners	The 2010 State Budget Act provides that the SEC should allocate funds to create jobs for redundant miners.
Anti-crisis measures	Specific measures introduced in 2009 to combat the economic crisis include training for employees threatened by redundancy and subsidised part-time work.

Sources: The Law on Employment of Population; the Law on the State Compulsory Unemployment Insurance; Orders of the Ministry of Labour and Social Policy

Until 2008, the SEC also financed an early retirement programme. Individuals with a work history of at least 25 years (20 for females) and no more than 1.5 years before regular retirement were eligible. However, this programme has been eliminated.

FIGURE 3.2 shows that the largest share of the budget is spent on unemployment benefits. By 2009, due to rising unemployment, the cost of unemployment benefit accounted for almost 70% of total labour market expenditure.

Training and retraining programmes are an important form of ALMP, however the share of the budget spent on such programmes and the number of beneficiaries is relatively low. More funds have been spent on wage subsidies, a scheme disrupted in 2009 for budgetary reasons. Likewise, more participants went through the public works programme. The start-up scheme was stopped in 2009 owing to budget constraints. Training for unemployed people is provided by either vocational schools or a training provider selected through a public procurement procedure. SEC made a step forward when it started to open its own training centres and, as a result, became more responsive to employers' demands. SEC training centres not only provide training for unemployed workers but also for employees at risk of losing their jobs. **FIGURE 3.2** shows the trends in training delivery. The percentage of training provided by higher education institutes or vocational schools is decreasing and more people are now being trained in the SEC training centres, although this share is still small.

FIGURE 3.2 WHO PROVIDES TRAINING FOR THE LABOUR MARKET? SHARE OF TRAINING PROVIDERS BY NUMBER OF TRAINEES, 2001–09

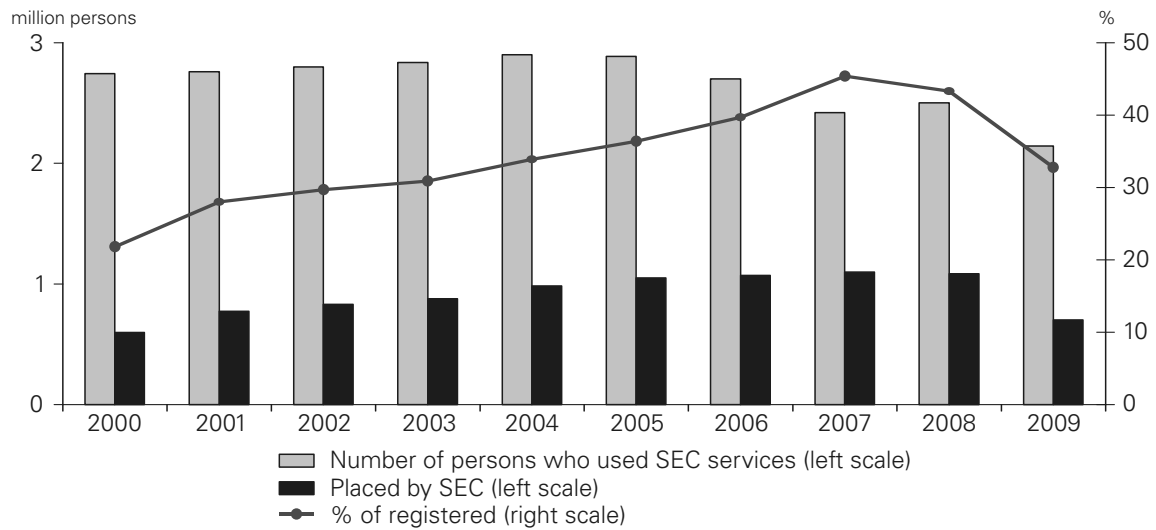
Source: State Employment Centre, *Labour market in Ukraine in 2009*

A programme to help employed people to keep their jobs was piloted in 2009. In line with international good practice, support for short-time work was combined with training schemes at company level. However – once again due to insufficient funds – this programme has not yet been implemented on a larger scale. Thirty-six companies with a total staff of 12 500 benefited from subsidised short-time work, and two companies with 36 trainees participated in the preventive training scheme. This low participation figure may indicate that the programme needs to be redesigned, but it is also obvious that any new scheme needs time for development, promotion and continuous improvement before it can make an impact.

The efficiency of ALMPs is difficult to evaluate because of the lack of detailed monitoring data over a longer period and the lack of independent assessment. However, the proportion of long-term unemployed as a percentage of the total halved between early 2000 and 2008, when it fell to 16.4%. This decline can be explained by a number of factors: more efficient ALMPs, more job vacancies, the exit of unemployed people from the labour market register because their unemployment benefit entitlement had expired. In 2009, long-term unemployment declined further to 16%, most likely due to changes in passive labour market policy.

3.2.2 SEC job placement and referral services

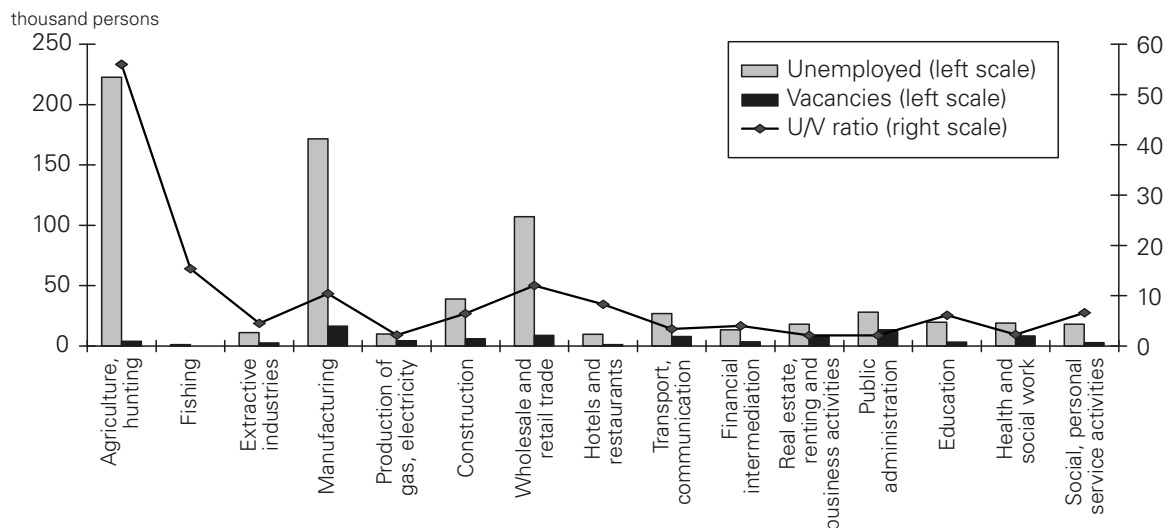
SEC provides services to help registered unemployed people to find a job. Services are provided to unemployed individuals and to employed persons who want or need to find a new job. Job placement and referral services include a toll-free phone number informing people about appropriate job vacancies in their region. Individuals can also receive information concerning vacancies by text message on their mobile phones. Of key importance is the web portal organised by SEC labour (www.trud.gov.ua), which provides information on job vacancies. In 2007, the number of placements increased continuously rising from 28% to 45% of the registered unemployed. However, in 2008 and 2009, the placement rate declined with the economic crisis.

FIGURE 3.3 REGISTERED UNEMPLOYED AND JOB PLACEMENTS

Source: State Statistical Committee of Ukraine

Job vacancies

The number of job vacancies has evolved over the years, reaching a peak in 2008. However, since 2009 the unemployment-to-vacancy ratio increased substantially. This ratio varies considerably from sector to sector, being highest for agriculture (56) and manufacturing (10.4). However, the ratio for state administrations and health care services was only around 2.

FIGURE 3.4 NUMBER OF UNEMPLOYED PEOPLE AND JOB VACANCIES

Source: State Employment Centre, Labour market in Ukraine in 2008
Note: U/V indicates unemployed to vacancy ratio.

Employers should inform SEC about job vacancies, but there is no compulsory vacancy notification system in place. Large companies are more likely to report vacancies to SEC, but many employers rely on other sources for staff recruitment.

Most vacancies are for jobs paying less than the average wage. In 2009, more than 20% of job vacancies offered the minimum wage and only 7% paid more than the average wage. This is often cited as one of the reasons why unemployed people are not motivated to register as unemployed in the SEC.

The following comments summarise the information available about ALMPs.

- The application of active labour market measures is relatively high in terms of the intervention rate and number of registered unemployed who are covered by specific measures and activated. In other words, SEC provided services for a large part of their clients. However, due to the strict criteria for eligibility, the 'market share' of the SEC is low compared to the total unemployed population identified by LFS data.
- Budget constraints disrupt the implementation of specific programmes (for example, employment subsidies and start-up schemes) and in the long run impair the effective and sustainable implementation of such schemes.
- Labour market training, a key component in the effort to increase and maintain the employability of the workforce, should be evaluated and further strengthened.
- Wage subsidies are generally a cost-intensive approach. Consequently, it is essential to ascertain whether they have a positive impact on the labour market and effectively target the appropriate groups.
- Start-up schemes are one of the few active labour market measures with a potential for job creation. These should be further improved and evaluated. Sustainable implementation should be assured.
- Company-related measures and services, such as crisis intervention approaches (training for employees), recruitment and job placement services are of paramount importance to improved matching of supply and demand.

3.3 LIFELONG LEARNING STRATEGIES

Lifelong learning covers all levels of initial education in addition to continuing education and training, spanning the whole period from early childhood to retirement. Issues of specific concern are mobility, the quality and efficiency of the education and training system, enhanced employability, entrepreneurship and innovation as well as equity and social cohesion.

There is an awareness that much work is needed to reach the government's strategic aim to 'provide high quality VET for the needs of its citizens, society and the labour market by establishing new regulatory mechanisms in the education sector, updating its structure and content, developing fundamental and practical orientation of education programmes and creating a system of lifelong learning, which are indispensable factors to ensure Ukraine's competitiveness at the world level' (ETF, 2010).

Ukraine, like other CIS countries (for example, Azerbaijan), is experiencing a boom in higher education. The influx into the labour market of university graduates who cannot find an appropriate job has led to an increase in youth unemployment. Higher education needs to be better adjusted to the demands of the labour market, and post-secondary VET must be further developed. However, this whole question requires more investigation because, on the one hand, there appears to be an excess supply of overqualified labour and, on the other, a significant shortage of skilled workers (Bardak, 2010, p. 110). Other problems include the low quality of the education system and the lack of an effective training system to compensate for the failures of the education system.

3.3.1 The education level of Ukrainians

Ukraine's education system is fairly developed and basically comprises pre-school, primary, general secondary, vocational education, higher education, postgraduate levels (doctoral candidate and doctorate) as well as adult education (see **TABLE A2.10** in Annex 2). The constitution guarantees free primary, secondary, vocational and tertiary education on a competitive basis.

The Ukrainian population is well educated. Adult literacy is close to 100% and, according to the State Statistics Committee, around 85% of people aged between 25 and 64 years have completed at least upper secondary education, a percentage comparable to other post-Soviet states. On the United Nations Development Programme 2007 Human Development Index, Ukraine ranked 28th in terms of education, higher than most other CIS countries.

The gross enrolment rate for secondary education (all programmes) fell by 7.0%, to 93.0% between 2000 and 2006 during a period when the secondary enrolment rate rose in most countries in the region (ETF, 2009). The gross enrolment rate for upper secondary education also declined during the same period, which might indicate the loss of Ukrainian competitiveness.

TABLE 3.3 POPULATION WITH AT LEAST UPPER SECONDARY EDUCATION (% OF TOTAL POPULATION), 2005

	25-64	25-34	35-44	45-54	55-64
Czech Republic	90	94	93	88	83
France	66	81	71	60	51
Germany	83	84	85	84	79
Hungary	76	85	81	76	61
Italy	50	66	54	46	30
Poland	51	62	50	47	43
Spain	49	64	54	41	26
Turkey	27	36	25	21	15
United Kingdom	67	73	67	65	60
United States	88	87	88	89	86
OECD average	68	77	71	64	54
EU19 average*	68	79	72	64	54
Russian Federation	89	92	95	90	72
Ukraine	85	90	92	88	64

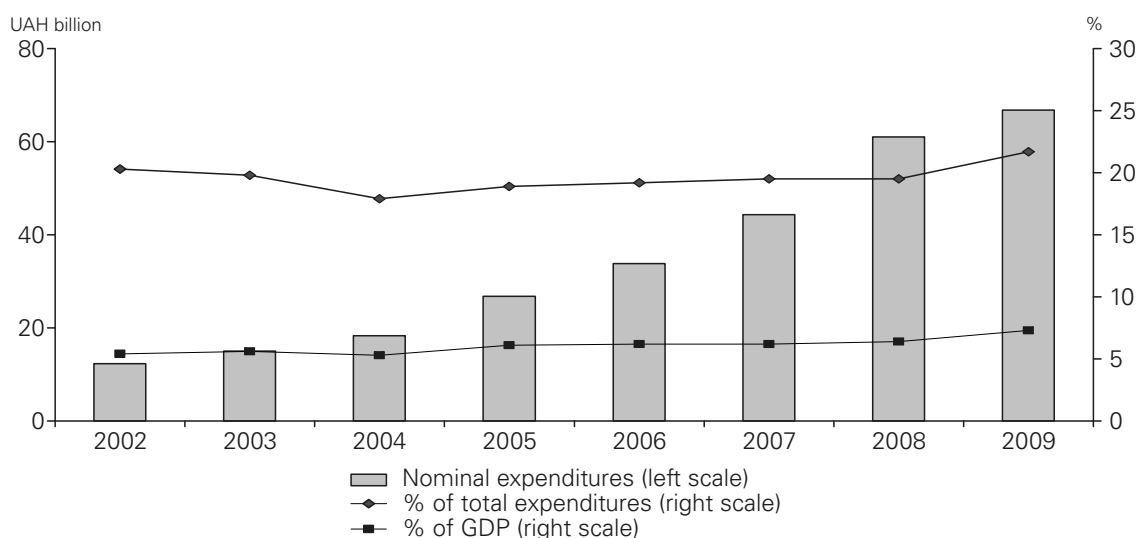
Source: ETF, 2009

(*) EU19 comprises all of the EU countries prior to the accession of the ten candidate countries on 1 May 2004, plus the four eastern European member countries of the OECD, namely Czech Republic, Hungary, Poland, and Slovak Republic.

Education spending

Between 2002 and 2009, nominal fiscal spending on education increased almost 5.5 times, but nonetheless remained much lower than in many other CEE and CIS countries. This increased expenditure was primarily attributed to salary increases for those employed in education. At the same time, capital expenditures were largely underfinanced. According to some estimates between 85% and 90% of all fiscal spending on education is allocated to wages and utility payments. Consequently, equipment is obsolete and requires modernisation. It is not surprising, therefore, that employers think that the qualifications held by graduates do not always correspond to their demand.

Private spending on education is high. The World Bank estimates that almost 0.7% of GDP is out-of-pocket spending of households on education. Money is spent on official education fees, charitable donations and bribes. Recently, Ukraine has been moving towards a system of mixed public and private financing of education: a percentage of admission places will be funded from the budget while the rest will be privately paid. The number of admission places in each category will depend on the specialisation. Popular prestige disciplines, such as law, economics, business administration, will have fewer publicly funded places than less popular national and technical disciplines. Charitable donations are often expected by education establishments and have become effectively compulsory. Such donations are common in most types of education and serve to compensate for insufficient public funding.

FIGURE 3.5 PUBLIC EXPENDITURE ON EDUCATION

Source: State Treasury reports, State Statistics Committee of Ukraine

Returns to education

According to data from the State Statistics Committee, better educated people are paid more. The average wage of those who have completed higher education is on average twice that of those who have not (ETF, 2009). People with higher education are less likely to be poor. However, some studies indicate that returns to education are increasing in Ukraine, while still low compared to other countries.

Relatively lower returns to education could be explained in part by the lack of economic restructuring, which is associated with labour-intensive technologies not requiring skilled labour. Restricted labour mobility and the country's wage setting mechanisms are also likely to contribute to low returns to education.

State budget constraints limit the wages of highly educated individuals working in public sectors, such as education and health. In general, employees in the health service earn about 60% of the (overall, national) average wage. Wages in education are somewhat higher, at around 70% of the average wage. Wages in these two public sectors started growing after 2000 mostly due to minimum wage increases, resulting in wage compression, with highly specialised staff receiving wages close to low-skilled workers. Nominal wage growth accelerated in 2005 with the gradual introduction of the unified tariff grid, which partially restored wage differentiation. However, wage compression in these sectors increased once again in 2008 and 2009 because of minimum wage increases and lack of budget funds to increase wages on the unified tariff grid. This further deteriorated returns to education. **FIGURE 3.6** shows the relationship between wages in health and education and the average wage.

Transition from school to work

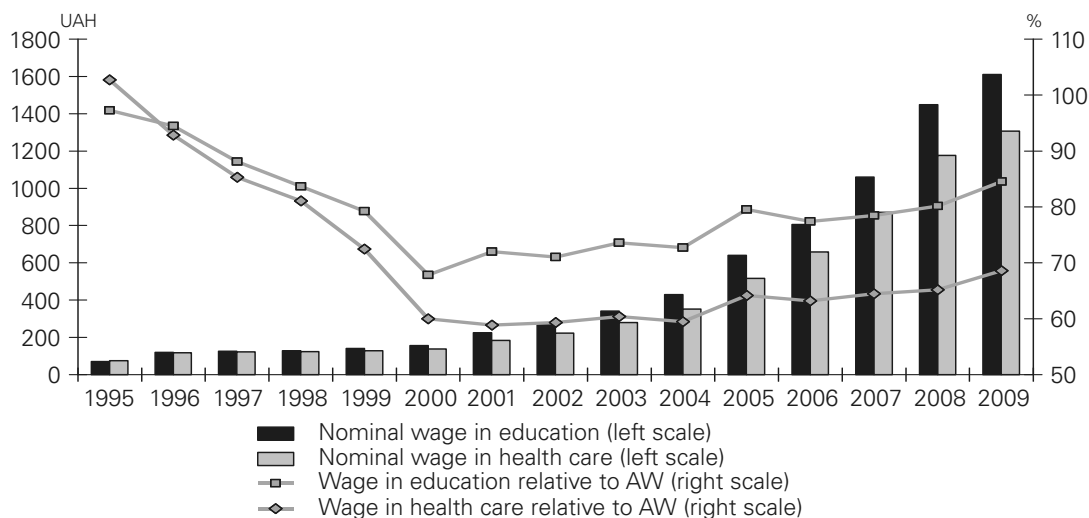
According to an ETF survey conducted in 2008, three fifths of Ukrainians leaving continuous education had a significant job³⁴ within six months of their graduation (ETF, 2008). However, many of these young people found jobs in the informal economy and those who were officially employed often had low-paid jobs in low-skill occupations. Therefore, the quality of first jobs was rather low. At the same time, 26% of those surveyed had not found a significant job within two years of completing their education. The percentage of those leaving education who had non-significant first jobs was low (8%).

Education was a key factor in finding a job (see **TABLE 3.4**). In particular, people who graduated from post-secondary education did fairly well in finding significant jobs, followed by secondary vocational school graduates. Graduates from general secondary school performed very poorly with respect to finding a significant job.

There are also marked differences between rural and urban areas. Overall, only 45% of rural inhabitants find a significant job within six months of leaving education as compared to 66% in urban areas. Possible explanations may be the poor rural development in Ukraine and the seasonal nature of agriculture work.

34 A significant job was defined as one with at a 20-hour working week lasting at least six months.

FIGURE 3.6 WAGES IN EDUCATION AND HEALTH CARE



Source: State Statistics Committee of Ukraine
AW – average wage in economy

While most young people were able to find a first significant job in the formal economy (70.8%), almost one fifth of graduates found employment in the informal economy. Only 3.5% of individuals claimed self-employment as their first significant job. Post-secondary education graduates were more likely to work officially than others. A relatively large share of people with less than general education degree were self-employed.

Overall, the education system in Ukraine has several shortcomings, namely, a lack of strategic development, low decentralisation, insufficient funding, low responsiveness to labour demands, and an obsolete technical infrastructure. Low responsiveness to labour market needs contributes to the skills mismatch. The inadequate skill of the workforce is cited by 50.9% of employers as one of the major obstacles to operating and developing their businesses, and 5.4% saw this as the biggest problem they encounter³⁵. In particular, employers specified the lack of practical training as one drawback of the current education system, especially in the case of vocational training.

3.3.2 VET system

Vocational and technical upper secondary education coverage in Ukraine is low compared to other CEE countries. In 2006, only 24% of upper secondary students were enrolled in vocational or technical schools, which on average is 15 percentage points lower than the countries of the CIS region (ETF, 2009).

TABLE 3.4 TIME TO FIRST SIGNIFICANT JOB BY EDUCATIONAL ATTAINMENT (%)

	Less than secondary	Secondary vocational	Secondary general	Junior specialist	University
No search	0.0	6.4	3.7	9.1	25.6
1-3 months	26.0	38.2	24.6	52.8	39.6
4-6 months	5.9	7.1	9.4	7.6	8.3
7-12 months	1.3	6.4	8.3	7.1	5.9
1-2 years	4.9	12.1	9.3	5.3	6.3
2 years	61.9	29.8	44.7	18.0	14.3
Total	100	100	100	100	100

Source: ETF, 2008

Students can enrol in vocational schools either after the 9th or the 11th grade. The number of years spent in the vocational school depends on the type of school and the number of classes completed by a student before entering. The usual period of study in VET is from one to four years. Vocational students can prepare for nearly 200 occupations.

Since Soviet times, VET enrolment in Ukraine has decreased in a climate of rising unemployment, increased demand for third-level education and lack of educational reforms. Between 1995 and 2008, the number of vocational schools declined by some 14%. Many VET graduates tend to continue their studies in the higher education establishments as it is difficult to find well-paid jobs after completing vocational study. In the same period, the total number of vocational students declined by 21.3% while the number of students enrolled in vocational schools fell by 5.8%. This discrepancy may be explained in part by the drop-out rate of between 5% and 10%. These trends are not likely to change rapidly.

Vocational schools in Ukraine are responsible for analysing labour market development in order to define the state order for numbers of pupils for each occupation. The major sources of information for the analysis are requests from employers and information supplied by the SEC. However, vocational schools rarely conduct such analyses because they lack the methodological instruments and qualification to do so in a very dynamic labour market.

Another problem within the VET system is the lack of adequate practical training. Many vocational schools have obsolete equipment, another shortcoming that contributes to the inadequacy of the graduates' qualifications with respect to the employers' needs.

The lack of funds needed to maintain a quality VET system and the need for decentralisation have been the subject of several modernisation initiatives undertaken in recent years. Financing of vocational schools from local rather than central budgets was piloted. The pilot regions included the Lviv and Kharkiv *oblasts* and the municipality of Kyiv. However, the financing system was not entirely reformed because the facilities of the vocational schools in those regions remained under state ownership.

Reforms of the VET system have attracted more attention in recent years. A Presidential Decree (2004) and a Governmental Decree (2007, 2009) have addressed the issue of modernising VET. A national qualifications framework is being implemented, and a road map for the period up to 2020 is being developed to address the issues of VET in the international context.

The government defined the following major directions for VET reforms:

- decentralisation of the management of the VET system;
- optimisation of the VET network and diversification of financing;
- improvement of the content of education programmes;
- better vocational orientation and career guidance and increased VET prestige;
- creation of a national qualifications framework and a quality control system within the VET system.

Continuing vocational training

Continuing vocational training is also regulated by government policies. In particular, the following types of on-the-job training for industrial sectors are defined³⁶:

- training in a new profession;
- upgrading of workers' qualifications;
- upgrading of top-managers' and specialists' qualifications.

The Ministry of Labour and Social Policy coordinates professional training activities in industrial sectors. It also develops qualification profiles and monitors the professional training of workers. The Ministry of Education and Science develops educational standards and specific curricula and programmes. Other ministries are responsible for monitoring and forecasting training and retraining needs in their respective sectors. The regulations specify that such training programmes should not exceed one year.

The government has set up regional vocational education centres which are the responsibility of the different ministries. A vocational education centre is a VET establishment providing retraining to employed workers and junior specialists. It also trains people whose jobs involve new production technologies or services and who therefore require courses that provide the necessary economic, administrative and management capabilities as well as computer literacy. A centre may also provide high level qualifications for graduates from general education schools and retraining for the unemployed. Higher vocational colleges and vocational education centres may also, if they are licensed and accredited, train junior specialists.

36 Mutual order of the Ministry of Labour and Social Policy and the Ministry of Education and Science, No 127/151, 26 March 2001.

As shown in Section 3.2, vocational training is a key active labour market measure. Annually, the SEC sends almost 150 000 unemployed people to vocational training institutions on retraining courses. The qualification received after training in the SEC is basically transferable, as trained individuals receive a nationally recognised qualification.

Large companies often have their own employee training centres. Companies must obtain a licence from the Ministry of Education and Science for each type of qualification they provide. The programmes are also elaborated by the ministry. The aim of this regulation is quality control, but the corollary is that the employers' possibilities of providing training are restricted because a fee must be paid for each licence. Since large companies with training centres may require specialists for as many as several hundreds different specialisations, they cannot afford to pay for all the licences they need. Furthermore, it is difficult for them to forecast the demand in the medium term and licences are usually valid for several years. Consequently, current legislation restricts the employers' room to manoeuvre in the provision of training for their employees. The system also creates obstacles for SMEs, which have fewer possibilities of providing training.

On-the-job training provided by employers may be delivered either at the employers' facilities, vocational schools, or training centres. The system of professional in-service training in industrial sectors has deteriorated. While at the beginning of the 1990s, around 3 million employees upgraded their qualifications every year, this figure is now only 1 million³⁷. The situation has, however, recently improved. The percentage of employees with training increased from 6.2% in 1996 to 9.0% in 2008. The highest participation rates in further training and training for new occupations are in industry, followed by the transport sector and public administration. However, the frequency of the training is still low. (See TABLES A2.6 and A2.7 in Annex 2 for more details.)

Overall, the level of training and retraining of employees in Ukraine remains low. There are few incentives to encourage employers to provide training; tax relief on training costs is capped at 3.0% of gross wages and employers claim that this is inadequate. Moreover, the complex and costly licensing procedures reduce the employer's freedom of action with respect to training.

3.4 SOCIAL SECURITY SYSTEM

The social welfare system in Ukraine consists of a social insurance system in addition to means-tested and categorical or universal benefits. While the social insurance system is based on employer and employee contributions to the state insurance funds, the means-tested and universal benefits are funded by the state budget. The social assistance system is overloaded with in-kind categorical social privileges. As a result, most of the social assistance budget does not target the people who are in need (Handrich and Betliy, 2006).

TABLE 3.5 TAX WEDGE IN UKRAINE (%), 2010

	Contribution paid by the employer	Contribution paid by the employee	Total contribution
Social security contributions	36.76-49.70	3.10-3.60	39.86-53.30
Pension Fund	33.2	2.0	35.2
Social insurance for temporary work disability and expenses associated with births and funerals	1.4	0.5-1.0*	1.9-2.4
Social insurance for work accidents and occupational disease	0.56-13.5**	0	0.56-13.5
Unemployment insurance	1.6	0.6	2.2
Personal income tax (flat rate)	-	15	15

Source: Ukrainian legislation

(*) 0.5% if wage is below the minimum subsistence and 1.0% if it is higher.

(**) Depends on the class of occupational risk.

The Ukrainian social welfare system is complex. Many categories of people are eligible for multiple benefits, a situation that tends to give rise to fraud. The implementation of a unified registry of beneficiaries is an open question, and the one-window approach for providing individuals with different benefits and privileges has not been introduced in all regions.

The social security system comprises four types of compulsory state social insurance:

- unemployment insurance;
- social insurance covering temporary working disability and expenses associated with birth and funeral;
- social insurance covering work accidents and occupational disease;
- pension insurance.

The health care system is still tax financed. However, the equity, quality and efficiency of health care are poor, mostly because of the lack of the necessary reforms.

Social security contributions are paid by both employers and employees. The cumulative social security contribution ranges from 39.9% to 53.3% of the wage, depending on the type of occupational risk, which is high by international standards. High payroll taxes are recognised as one of the chief reasons for informal wage payments. Moreover, the benefits received are not very generous, another factor that decreases the willingness of workers to participate in the system. There is a vicious circle formed by low social security coverage, high tax wedge for low-wage jobs, and informal employment.

Overall, the social welfare system in Ukraine does not provide enough security for Ukrainian workers. High non-wage costs are an incentive for unofficial wage payments and these, in turn, reduce the social security protection of employees who are dismissed. On the other hand, a growing number of 'working poor' do not receive sufficient social assistance from the state. As pension benefits are low, many retired people have to cope with extremely low standards of living.

3.4.1 Unemployment insurance

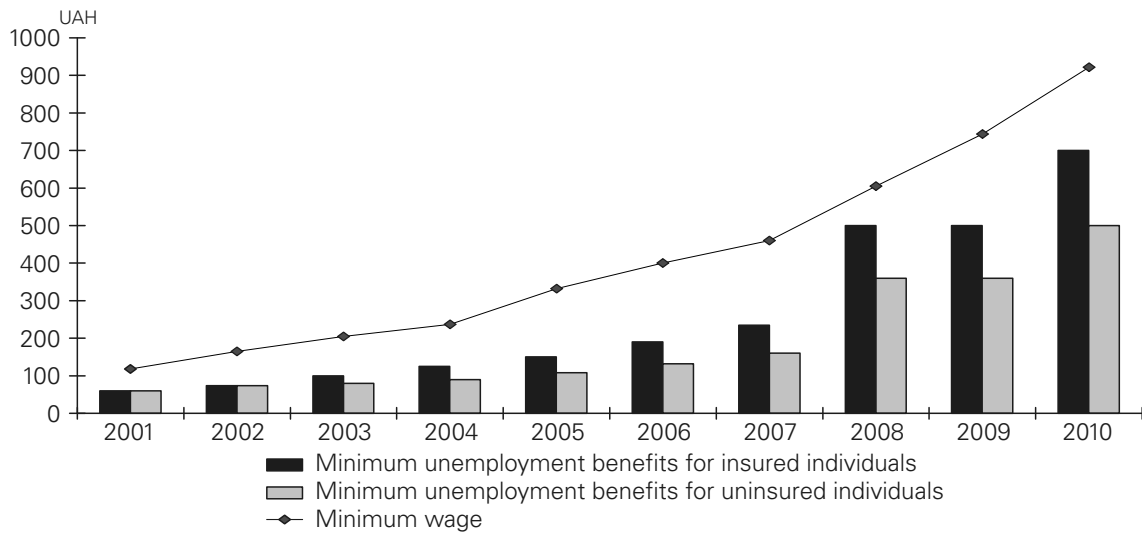
Unemployment insurance is extremely important given the structural changes in Ukraine's economy (Handrich and Betliy, 2004). A functioning unemployment insurance system can facilitate structural changes by providing enough income security for people who lose their jobs. A reliable and well targeted unemployment insurance system providing sufficient coverage and a guaranteed income is also a cornerstone of the flexicurity approach. At the same time, benefits should not be so generous as to create disincentives for the unemployed to search actively for a new job. However, the crisis revealed some deficiencies in the Ukrainian unemployment insurance system. There is a large gap between the rate of unemployment reported by the LFS and the administrative unemployment rate according to the SEC register. The explanation for this discrepancy may be found in the new regulations that further restrict the eligibility and conditions for receiving unemployment benefits.

Unemployment benefit is substantially lower than the minimum wage. In 2009, minimum unemployment benefit was UAH 360 for uninsured individuals (for example, students and military personnel) and UAH 500 for insured individuals³⁸. The maximum benefit is fixed at the level of the average wage in the region in order to stimulate people to look for jobs.

Unemployed people can register with the SEC if they have paid unemployment insurance contributions for at least 26 working weeks within the last year. People may also be entitled to unemployment benefits if they have been without a job for a long period (six months). In 2009, the registration procedure for the rural population was specified by the anti-crisis measures. In particular, subsistence farmers cannot register as unemployed if they have not worked as employees for at least 26 weeks during the past year.

Under the Law on Unemployment Insurance, unemployment benefit for insured individuals depends on the motive for and duration of unemployment as well as the employee's insurance record, and wage. Small farmers can register as unemployed only if they have paid unemployment insurance contributions for at least 24 months. This regulation was introduced as an anti-crisis measure in 2009, when it led to a rapid decline in registered unemployment in rural areas.

38 Minimum unemployment benefit cannot be less than 23% of minimum subsistence.

FIGURE 3.7 MINIMUM UNEMPLOYMENT BENEFITS AND MINIMUM WAGE, END OF PERIOD

Source: State Employment Centre

TABLE 3.6 UNEMPLOYMENT BENEFITS

Contribution period (previous employment record)	Unemployment period	Unemployment benefit as a % of average wage (wage-replacement rate, % of average wage of employee)
< 2 years	first 90 days	50
	next 90 days	40
	remainder	35
2-6 years	first 90 days	55
	next 90 days	44
	remainder	38.5
6-10 years	first 90 days	60
	next 90 days	48
	remainder	42
> 10 years	first 90 days	70
	next 90 days	56
	Remainder	49

Source: Law on Compulsory State Social Unemployment Insurance

Unemployment benefit is paid for up to 12 months. Those who participate in labour market training programmes are eligible for a subsistence allowance or stipend and reimbursement of travel expenses.

The average employment benefit increased by 2.6 times between January 2007 and June 2010. Unemployment benefits may also be paid to certain groups of registered jobseekers, even if they have not contributed to the unemployment insurance system. On average, some 74% of registered unemployed individuals receive unemployment benefits, a relatively good coverage rate³⁹.

³⁹ Between 2007 and 2009, the percentage of people receiving unemployment benefits as a percentage of total unemployment (LFS) declined from 34.1% to 26.2%.

3.4.2 Work-related accident insurance

Ukraine has a system of compulsory state insurance covering work-related accidents and occupational disease leading to occupational disability. This insurance covers workers in the event of long-term or permanent income loss due to accidents at work or hazardous working conditions. The contribution depends on the risk category of the industry where the insured person is employed. There are 67 categories of professional risk covering the whole economy. Contribution rates vary from 0.56% of the real cost of employing the insured person in the lowest risk category (for example, editors and publishers) to 13.5% in the 67th category (underground miners). The law provides for the adjustment of the contribution rate to the actual risk profile of the company, but this provision is not implemented because many companies would be eligible for a reduction, thereby decreasing revenue inflow to the fund.

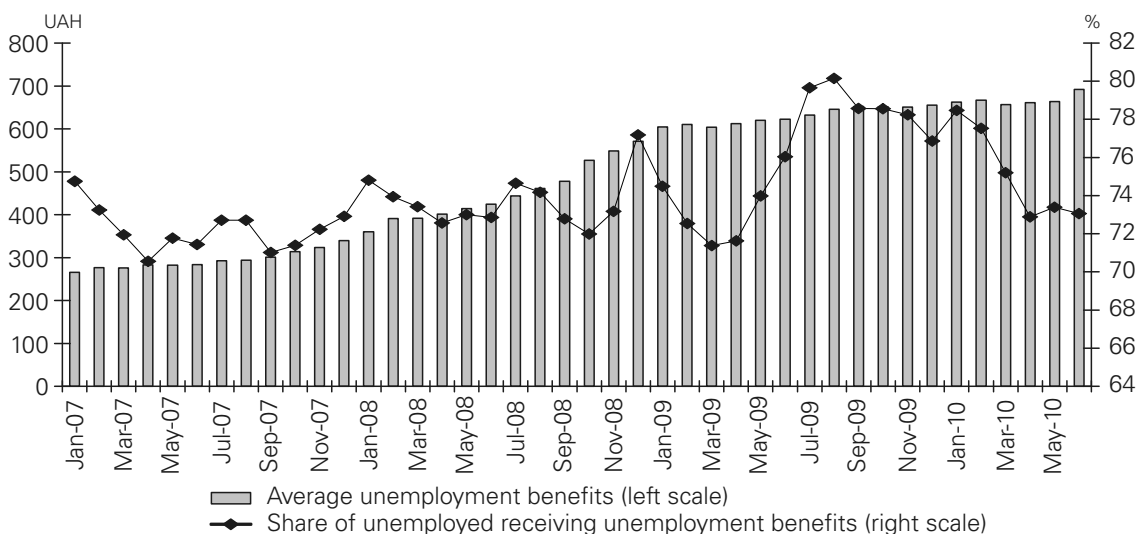
The Work-Related Accident Insurance Fund is responsible for the payment of benefits to those affected by work-related accidents, the provision of medical and social rehabilitation programmes, and the implementation of work safety measures across different industries. Analysis of the distribution of payments by sector reveals considerable cross-sector subsidisation. For example, while coal mining companies pay around 22% of cumulative contributions, the industry receives nearly 78% of all payments made by the fund⁴⁰. Agriculture is another subsidised sector.

3.4.3 Pension insurance

In 2003, Ukraine embarked on a comprehensive reform of its pension system with the aim of introducing a three-pillar pension system. The reform had become necessary because of a very unfavourable demographic trend, characterised by a declining and fast ageing population. The existing mandatory pay-as-you-go pension insurance was to be reformed and stabilized by combining it with an individually funded mandatory second pillar and a voluntary (private) third pillar of non-state pension insurance. The third pillar went into operation in 2004, while the introduction of the second pillar has been postponed several times. The base contribution is still wage-linked. The positive feature of the reform was the introduction of formula-based pension calculations based on individual insurance records. However, most of the shortcomings of the existing system have remained.

- Early retirement. Men retire at 60 years of age and women at 55, the lowest retirement ages in Europe. In certain jobs employees are allowed to retire even earlier.
- Privileged pensions. Certain privileged occupational or social groups (for example, miners, civil servants, military personnel, and war veterans) receive higher payments than those warranted by their contributions.
- Narrow and uneven contribution base.

FIGURE 3.8 AVERAGE UNEMPLOYMENT BENEFITS AND PROPORTION OF THE UNEMPLOYED POPULATION RECEIVING BENEFITS



Source: State Statistics Committee of Ukraine

These shortcomings, together with the sharp increase in the minimum pensions of the pay-as-you-go system, derailed Ukraine's ambitious pension reform. Pension hikes were not backed by economic or revenue growth. The situation deteriorated in 2009, when pensions increased in the context of a declining contribution base. The pension fund deficit was high and central fiscal transfers made to finance special pensions and cover the deficit accounted for more than 20% of central fiscal expenditure. Pension fund expenditure reached 18% of GDP, the highest percentage for this indicator in the region. Pension reform was, therefore, one of the topics discussed by the IMF and Ukraine.

3.4.4 Social welfare system

The social assistance system in Ukraine is characterised by numerous social benefits provided in kind, including reduced rates for communal services, gas, electricity, transport, telephone installation and use, certain medicines, spa treatments, and so on. In 2009, over one third of the population was eligible for such benefits. In 2008, 7.6 million individuals had benefits in respect of housing and utilities, that is, about 16% of the population.

The groups entitled to social benefits include pensioners, labour veterans, war veterans and their families, and people affected by the Chernobyl accident. Another group of beneficiaries comprises civil servants, policemen, soldiers and recipients of the Order of Merit. Consequently, benefits are mainly provided to specific population groups based on merits rather than income level and need.

The social welfare system is regulated by over 50 different legislative acts. This complicates the procedure for obtaining benefits and increases administrative costs. Moreover, international experience has shown that complex social welfare systems tend to be associated with a significant level of fraud on the part of both officials and beneficiaries. The administration of benefits is further complicated by the fact that no unified registry of beneficiaries has been created as yet.

In addition, there are four kinds of means-tested benefits:

- benefits to low-income families;
- benefits to families with children;
- benefits to low-income individuals who live with an invalid of first or second category;
- housing and utilities subsidy.

The most essential are the low-income benefits and utility subsidies. However, the efficiency of these types of assistance is low because their provision is characterised by numerous problems, including payment of benefits to households that are not poor and the exclusion of poor households from the programme. At the same time, coverage remains low.


3.5 INTERACTION BETWEEN THE FOUR FLEXICURITY COMPONENTS – A PRELIMINARY ASSESSMENT

As discussed in Chapter 1, flexicurity requires an appropriate mix between four components: the legal framework, ALMP, lifelong learning, and social security. Other essential framework conditions are coordination and coherence with fiscal, macroeconomic and industrial policy areas, adequate institutional capacities and resources, and mechanisms for assessing, monitoring and forecasting needs.

Specific internal flexibility practices used in Ukraine

The most frequently used form of flexibility in Ukraine has been internal flexibility: short-time work, unpaid administrative leave, and wage flexibility in the form of wage arrears. This had the advantage of retaining workers in their jobs, but led to reduced or delayed remuneration and had the effect of deskilling the workforce over longer periods of underemployment.

FIGURE 3.9 TYPES OF SECURITY AND FLEXIBILITY

Flexibility \ Security	Security	Job security	Income security	Employment security	Combination security
External numerical flexibility			Unemployment benefit scheme with high wage-replacement rate	Effective placement services, training to enhance employability	Comprehensive transition support measures
Internal functional flexibility		Retraining and job change inside the company			
Working time flexibility (numerical)			Subsidised short-time work		
Wage flexibility					

Source: ETF and Thomas Breedgard, presentation in Turin in June 2010

Which way forward?

There is no easy answer regarding policy options. There are still doubts about whether the transitional and structural problems in the labour market of transition economies can be properly addressed by flexibilisation. Although formal employment is rigid compared to EU standards, a reduction of such protection must go hand in hand with strong job creation (a policy component not addressed by the flexicurity approach).

This means that policy options will need to better include the demand side of the labour market, that is, the economic strategies needed to modernise and restructure large industries, enhance job creation and support the development of SMEs. Structural change, the basis of growth, should be enhanced with appropriate policy support. The next chapter will explore the options for restructuring and the connection with flexicurity.

4. FOCUS ON SOCIALLY RESPONSIBLE RESTRUCTURING

4.1 CONNECTION BETWEEN FLEXICURITY AND SOCIALLY RESPONSIBLE RESTRUCTURING

Change and restructuring are often necessary if companies are to remain competitive: in the most positive scenario, the need for change is anticipated by the company; in less favourable situations, abrupt change is imposed from outside; and in the worst case, bankruptcy leads to mass redundancy. Human resources are always a key factor in any of these scenarios because restructuring is not possible without a flexible workforce. For the employee, flexibility implies being able to adapt to changing skill demands and working conditions, and to find a new job if this becomes necessary. Socially responsible management, strong workers' representation and mutual trust are important factors for achieving solutions that do not have a negative impact on the careers and income of the workforce. The aim of all forms of internal flexibility is to avoid the termination of work contracts, but this approach involves a temporary change in working conditions.

The scope and framework conditions for internal flexibility arrangements are the result of negotiations and agreements between the social partners, which are laid down in general, sectoral and company specific collective agreements. Internal numerical flexibility is mainly used to cushion seasonal or temporary changes in workload and is aimed at maintaining a relatively stable staff and avoiding increases in fixed costs. The following are the four most common forms of numerical (a, b) and functional (c, d) internal flexibility:

- a) flexibilisation of working time: flexible working hours (different forms, up to yearly working time accounts), overtime work (maximum working hours per week regulated by the EU Working Time Directive), part-time work (individual work contracts), short-time work (usually for a limited period, based on collective agreements, often with public subsidies);
- b) contractual flexibility and recruitment strategies: fixed-term contracts, temporary agency workers, use of freelance personnel;
- c) organisational practices: autonomous team work, job rotation, job sharing (rather complex and exceptional models applied in large Scandinavian enterprises);
- d) in-service training: upskilling and retraining usually organised by the employer. Qualification needs assessment (or training needs analysis), job rotation, workplace-related practical training, in-house and external training.

Short-time work (temporarily applied in contrast to part-time work) is more widely used in Europe than in the United States of America. The booming use of short-time schemes in Europe is connected with publicly financed support schemes in response to the economic crisis, but can also be explained by comparatively tight employment protection legislation. Short-time work is an instrument for internal flexibility and an alternative to layoffs (external flexibility), but it is not a tool for long-term labour market adjustment.

Internal flexibility practices often used by EU companies

A wider range of forms of internal flexibility are frequently used by European enterprises, with working time flexibility on the rise. Finding skilled staff is the chief challenge of human resources management even in times of crisis and higher unemployment. Investment in human resources pays dividends but the appropriate combination and implementation of practices is very important. Information and data on internal flexibility is difficult to obtain, but we can cite some results of the most recent company survey conducted by Eurofound⁴¹.

- Different forms of flexible working time are used in over 50% of the enterprises, with the highest rate in Finland (more than 80%) and the lowest in southern European and candidate countries. But long-term saving accounts for working time are still the exception. These need to be based on reliable monetary security systems, such as a wage guarantee fund, control and transparency.
- Overtime work is widespread (two thirds of all establishments use overtime). The rates are lowest in southern European countries and new Member States. Overtime is compensated by either pay or time off, with the latter method being used primarily in enterprises that use working time accounts.
- Almost two thirds of all establishments make use of part-time work. The Netherlands tops the list with approximately 90% of companies and Croatia is at the low end with just over 10%.

⁴¹ 2009 European Company Survey of 27 EU Member States and 3 candidate countries. This survey of 27 000 establishments with more than 10 employees, excluding agriculture, is conducted periodically.

- The geographic distribution associated with the use of temporary contracts is different: around 66% of establishments in all 30 countries use temporary work, with the Netherlands (the heartland of flexicurity) at the top of the scale, followed by Poland. Croatia also scores high with approximately 70%. The critical question in this case is how often fixed-term contracts lead to permanent employment. On average, slightly more than 50% of fixed-term contracts become permanent. Having staff with fixed-term employment contracts has become a common practice in many companies. Slightly more than one in five establishments reported using temporary agency workers in the 12 months preceding the survey.

Training practices are an important precondition for functional flexicurity. According to the survey, the need for further training is reviewed regularly in about 70% of the enterprises. This does not mean, however, that further training actually takes place.

Restructuring in times of economic crisis

In the EU-27 Member States, short-time working was a successful approach during the 2009 economic crisis, maintaining skills and experience in the workplace and avoiding a further rise in unemployment. But since it is obviously not possible to permanently subsidise short-time work, these arrangements must be phased out. Investment in initial and ongoing vocational training is of paramount importance and the question of how to finance training and predict future skills needs is critical. Technically, short-time work is financed through unemployment insurance systems, with subsidies paid to the employer. The employees working reduced hours receive a partial wage-replacement benefit for the hours not worked.

Since 2009, the number of companies and employees involved in short-time work schemes has soared. In Germany, the figure had risen to 1.4 million workers and 47 751 companies by end 2009. In terms of the number of employees on short time expressed as a percentage of total employment, Belgium scored highest with almost 5%, followed by Germany at close to 3% (Arpaia, 2010, p. 34).

Training has become a cornerstone in many short-time working schemes. Training provision for workers on short time has become compulsory in the Czech Republic, Hungary, Slovenia and the Netherlands, and training incentives are a key element in the measures adopted in Ireland, Latvia, Poland and Portugal.

4.2 POLICY APPROACHES TO SUPPORT SOCIALLY RESPONSIBLE RESTRUCTURING IN THE EU

Restructuring is seen as a normal phenomenon in a dynamic economy, but it has become more important with the acceleration in technical innovation and the globalisation of the economy. Moreover, downsizing and mass layoffs have taken centre stage during the economic crisis. As a result, the EU has been developing a range of instruments to research, monitor and finance restructuring.

As far back as 1998, the European Commission established a high level group on the economic and social implications of industrial change chaired by Pehr Gyllenhammar. The group's report in 2008 took stock of 10 years of experience and discussed ways to anticipate and manage change (European Commission, 2008b). The group's main recommendations were as follows.

- Legislation should be used to prevent improper behaviour.
- A motivated workforce is the key to success. Companies have the responsibility to maintain the employability of their workers, whilst workers have the responsibility to utilise all available training opportunities.
- Social dialogue should be developed to tap its full potential at all levels.

The report also stressed that the main responsibility for action lies with the company and that companies should shoulder the responsibility for anticipating change. However, given the subsequent economic crisis and upswing in bankruptcies, the state is now subsidising restructuring costs – that is, short-time work and training – more frequently.

The European Restructuring Monitor launched by Eurofound, an EU agency located in Dublin, systematically monitors, researches and analyses cases of restructuring.

The European Globalisation Adjustment Fund, a financial instrument in the framework of the European Social Fund, was set up to provide support for workers affected by globalisation and restructuring.

In 2005, the European Commission launched restructuring fora dealing mainly with the challenge of predicting and anticipating changing skills needs. Fourteen sector-based studies and research reports were presented at the last forum, which was held in November 2009 on the subject of sectoral skills councils.

An interactive website called *Anticipedia* has been launched. This platform is a collection, exchange, dissemination and networking tool for the actors involved in change.

The European social partners got involved and developed reference guidelines (European Commission, 2008b) underlining the need to:

- explain the reasons for change to the employees or their representatives in good time;
- make provision for effectively informing and consulting the employees throughout the process of change;
- maintain and develop the skills and qualifications of the employees in order to enhance their employability;
- take account of the regional dimension;
- consider the specific situation of SMEs.

An overview of relevant literature is provided in Annex 1.

A typology of approaches

In the past, the methods most frequently used in the event of redundancies and downsizing were early retirement and golden handshakes (voluntary additional cash benefits or voluntary severance pay). Today, more proactive measures to increase the employability of the affected workforce are given clear priority. These measures include occupational reorientation, upskilling, retraining and job placement services.

In the EU, the core responsibility for restructuring lies with the company and it is widely believed that politicians should generally abstain from interfering in this process. However, a legal framework and coordination on the part of local authorities and the public employment services has proved to be essential. It is also clear that in the case of an insolvent company, the main responsibility lies with actors other than the company.

A broad range of approaches have been developed and implemented with good results over the last 10 to 20 years in all EU Member States. Results are measured by monitoring the proportion of laid-off workers that have found a new job within a reasonable period. However, the review of various practices and experiences also proves that outplacement and transition to a new job is the objective and has priority over job security.

A relatively recent development in response to the economic crisis has been the widespread use of short-time work. Publicly subsidised short-time working schemes have been used intensively across the EU during the recession to minimise layoffs and losses in human capital. 'These schemes provide firms with a buffer to avoid mass layoffs during temporary downturns, while sharing the burden of the adjustment among workers and between workers, government and employers' (Arpaia, 2010). Clearly, government-sponsored short-time work allows companies to reduce labour costs. While short-time work has also been used in Ukraine, the difference is that in the majority of cases neither the companies nor the employees received any financial support from the state and consequently the largest share of the burden was borne by the workers.

Because of the widespread use of subsidised short-time work and the need to prevent distortion of competition and excessive reliance on such schemes, rules and framework conditions were defined at national level. This resulted in considerable variations across Europe. The differences concern coverage, level of wage compensation and the conditions imposed with respect to combining short-time work with training. Normally, employees working reduced hours receive a wage-replacement benefit for the hours not worked that partly compensates their loss of wages. This is usually financed through the unemployment benefit system. A brief overview of the framework conditions and the main differences between these schemes is given below. Short-time work was used widely in Germany, where more than 47 000 companies were involved in short-time working arrangements in 2009 (a tenfold increase over 2008); in the Netherlands, a much smaller country, 4 700 companies used this approach (Arpaia, 2010, p. 35).

Similarities, common characteristic and conclusions from the European experience

- Industrial change and restructuring is closely related to globalisation and technological innovation. Hence, the majority of the policy responses have been developed in recent years. Restructuring is no longer a singular event in the life of a company, but has become a regular occurrence. We can conclude that restructuring in transition economies will not cease even after privatisation and liberal market economy reforms have been completed.
- Public employment services will need to adopt a more proactive approach, further upgrading their services to prevent unemployment and provide assistance to workers affected by restructuring. This implies a challenging trade-off between preventive approaches on the one hand and bringing people who are furthest from the labour market back into work on the other.
- Voluntary participation of employers and of the workforce affected by restructuring is a common characteristic. The fact that many of the schemes presented have broad coverage and positive impact is largely due to the strong role played by the social partners.

- Challenges exist when there is SME involvement or a lack of job alternatives. It is difficult to design and implement efficient schemes that also get SMEs involved and deal with cases in which mass redundancies have a major impact on a local labour market and economy, with low job creation and vacancies at local level.

Differences between countries include the role of the public employment services, the role of social partners, the financial basis, and whether the scheme involves an ad hoc or a permanent organisation (there are pros and cons).

An important starting point for designing viable measures to support adaptation to change is to analyse the reason for restructuring.

Successful restructuring practices share a number of common principles:

- general framework conditions and rules agreed and defined beforehand (government, social partners);
- rapid response and action once a company announces restructuring;
- cooperation, coordination and negotiation between the company, social partners, public employment service and local authorities;
- voluntary employee participation in support measures;
- cost sharing between the enterprise, government (public employment service) and employees.

Implementation takes time and usually comprises three phases: preparation, implementation and follow up.

TABLE 4.1 REASONS FOR RESTRUCTURING AND IMPORTANCE OF TRAINING

Reason for restructuring, driver of change	Perspectives, importance of training
Temporary reduction of demand, with good perspective of recovery	Short-time work combined with training is recommended.
Seasonal change in demand (for example, tourism or construction)	Flexible working time schemes with training are recommended during the low season.
Technical/technological change, modernisation	Training is a must, staff downsizing might also be necessary because of increased labour productivity.
Closure of production site, department or whole company	Job change cannot be avoided. Support for transition to new job, job creation measures, and intensified active labour market measures are required.
Bankruptcy	Job change cannot be avoided. Support for transition to new job, job creation measures, and intensified active labour market measures are required.

TABLE 4.2 RESTRUCTURING PHASES

Phases	Duration May take a few months	This phase depends on the duration of downsizing; up to several years	
Anticipation of trends, early warning system	Preparation Negotiation among stakeholders, putting services and infrastructure in place, developing an appropriate communication strategy	Implementation Providing support services to redundant workers, including training, counselling, and placement services	Phase out Evaluation, follow up on labour market outcomes

A number of constraints make it difficult to apply EU approaches to the Ukrainian situation, including the scarcity of funds and job alternatives, and the low capacity for delivering support measures. The situation regarding industrial dialogue and social partnership is also critical.

5. CONCLUSIONS AND POLICY OPTIONS

For the wider context of transition economies, we can conclude that labour regulations are in general weak and apply primarily to the formal employment sector. Likewise, active labour market measures and continuing vocational training are constrained by budgetary restrictions and low delivery capacities. Flexible contractual arrangements require control mechanisms, stronger social dialogue and, above all, higher job creation levels. The concept of an integrated policy approach is valuable, but it has to be based on improved governance and regular involvement of social partners and civil society organisations.

The following are our conclusions with respect to the core components of flexicurity in the Ukrainian context.

1. **A reliable and functional legal framework.** There are differences between *de jure* and *de facto* situations, that is, between the intent and purpose of the law and how it is enacted and applied in practice. Examples of this include the practice of informal employment (including under-declaration of wages), the imposition of unpaid administrative leave, and the manner in which work contracts are terminated. These practices may be due to ineffective labour inspections and the weak role of employees' representatives at enterprise level. In consequence, there is much more flexibility and a lower level of employment protection than the official scores and ranks on international benchmarks would suggest. In a hypothetical comparison of flexibility (taking into account the more flexible *de facto* practices), we rank Ukraine lower than the Caucasian countries (which have recently entered a phase of greater liberalisation and deregulation) and some new EU Member States, but comparable to the southern countries of the EU (Spain, Italy). Labour market segregation is mainly caused by formal versus informal employment, that is, by formal wage employment versus vulnerable forms of employment, and to a lesser extent by indefinite versus fixed-term labour contracts (similar to the situation found in new EU Member States and southern EU countries). 'The policy mix which is offered by the flexicurity framework [...] refers only to the formal sector and indicators as such have limited applicability to the informal sector. Does an employment protection legislation indicator of zero bring flexibility which is beneficial for restructuring? Indeed not. Low qualifications lead to employment insecurity and benefits from restructuring will not be harvested by informal sector workers' (Crnković-Pozaić, 2008, p. 46). With respect to the legal framework for restructuring, it should also be mentioned that there is no wage guarantee fund in Ukraine to compensate workers' wage losses if an employer declares bankruptcy.
2. **Lifelong learning.** Ukraine has the comparative advantage of a highly educated population, but youth unemployment is increasing and there is evidence of a growing skills mismatch. Much more could be done in the field of continuing VET, in particular workplace-related training. Large companies would benefit from the deregulation of complicated administrative procedures and small companies may need support and incentives to engage in staff training. There is a substantial need for upskilling to keep pace with modernisation and also a window of opportunity for promoting and implementing training during a period of underemployment. Enterprises, their representatives at sectoral level, and trade unions must adopt a proactive role in training.
3. **Active labour market policy.** A good range of activation measures, in line with international practice, is implemented by the SEC, but the coverage of services (both active and passive) is limited by available resources and capacities. State of the art evaluation would be needed to continuously improve the efficiency and effectiveness of active labour market measures. Good initiatives for employer-related measures have been started in times of crisis but discontinued, for example, training schemes for staff threatened by redundancy. The Croatian Employment Service could play a larger role as organiser and supplier of training measures for the workforce (both employees and unemployed), in close cooperation with employers and training providers.
4. **Social security system.** There is a complex and costly social security system in place that is not very effective and efficient in preventing poverty. The inherited practice of universal early retirement together with a declining and ageing population represents an obstacle to further economic growth and challenges the sustainability of the social security system. Of particular concern is the reduction in the coverage offered by the unemployment insurance system as a result of stricter eligibility rules. Compared to the benchmark countries, security is perhaps somewhat higher than in the Caucasian countries, but lower than in the EU as a whole.

When we take actual *de facto* practices, working conditions and informal employment into account we can conclude that there is more flexibility than security for the workforce. Nevertheless, employers have to cope with a range of rigidities that trap both employers and employees in a vicious circle in which both sides lose. There are also positive factors, such as relatively low open unemployment (a positive effect of retaining workers in jobs in large industries) and the good education level of the workforce. The other side of the coin is the deskilling of the underemployed workforce in large and traditional industries. The low level of job creation is a major challenge and weakness. The availability of new job opportunities is of paramount importance to successful job transitions.

Flexicurity and restructuring

Flexicurity and restructuring are two sides of the same coin. Without structural change at macroeconomic, sectoral or company level, there would be no flexicurity debate.

While the practice of retaining workers in their jobs — at least during recent years because in the 1990s there were mass layoffs — has kept external flexibility and unemployment low, there is considerable room for internal flexibility, mainly for the large employers.

As shown in previous chapters, internal flexibility is achieved through short-time work, administrative leave and wage flexibility in the form of wage arrears and wage reductions. The cost of these approaches has been borne by the workforce in the form of a reduced and more insecure income and by both employers and the workforce because of deskilling in times of redundancy.

There are many options for organising internal flexibility to the mutual benefit of both sides — employers and the workforce. While there is a need, there is also a window of opportunity for better adapting the workforce to changing skills requirements and negotiating modern working-time arrangements. The examples shown in Section 4.2 provide a range of possible options, which would have to be adapted to the specific needs and framework conditions of Ukraine. A better trained workforce also supports the competitiveness of enterprises and goes hand in hand with the technological and organisational modernisation of enterprises and with properly functioning industrial relations based on mutual trust and negotiation capacities. This applies to both SMEs and large enterprises.

Policy options for socially responsible restructuring

To better adapt the workforce to the changing skills demands, training and retraining measures should without doubt be given high priority. Pilot projects have been implemented and further actions could build on this experience.

Giving priority to internal flexibility and retaining people in jobs as far as possible has many advantages. When redundancies cannot be avoided — a situation likely to occur if productivity is increased and market demand does not grow — comprehensive and effective job transitions services for those made redundant will be needed together with job creation measures (for example, start-up schemes and support schemes for SMEs).

The policy options concern not only WHAT should be done, but also HOW it should be done. There is indeed a range of possibilities with respect to the question of sharing responsibilities and sharing costs for socially responsible restructuring measures. Examples from other countries demonstrate that there are two main requirements:

- the commitment of social partners at all levels to negotiating and concluding framework conditions at tripartite level and to steering and monitoring implementation at bipartite and company level;
- shared costs, with core contributions from enterprises and public subsidies.

The question of HOW also implies either designing programmes on the basis of defined framework conditions, where the basic rules and regulations apply equally to all cases of restructuring, or applying case-by-case ad hoc solutions.

For all options, the impact on SMEs and women needs to be duly taken into account.

ANNEXES

ANNEX 1. ADDITIONAL INFORMATION ON SOCIALLY RESPONSIBLE RESTRUCTURING

Short overview of the literature on restructuring

The following section highlights and briefly summarises some of the many sources and abundant literature currently available on this topic.

Socially responsible restructuring (Cedefop, 2010)

This report summarises the findings of a study that focuses on the relatively narrow topic of the role of career guidance in restructuring. With a wide range of practical examples from EU Member States, it offers a comparative review of the state of the art.

Checklist on restructuring processes (European Commission, 2009a)

This paper provides a checklist and recommendations for managing change and restructuring. It is based on the results of a workshop organised by Directorate-General (DG) of Employment, Social Affairs and Equal Opportunities which brought together more than 40 experts on restructuring in February 2009. Restructuring involves different actors: the companies (managers), workers' representatives at company level, individual workers, social partners, and local and national authorities. The range of actions of all of these actors and their critical success factors are listed.

The recommended list of actions includes making a shared diagnosis of the situation, exploring all possible options before redundancies and implementing training measures (company-based and/or individual training plans) and measures to ensure equal treatment.

Organising transitions in response to restructuring (Voss et al., 2010)

This study, carried out by a multinational research team for the European Commission, takes stock of various schemes, instruments and mechanisms designed to support workers affected by restructuring across the EU. The study identified a wide range of different approaches and instruments, some that have existed for decades and others much more recent. Many instruments have been adopted in response to the economic crisis, and they are continuously being reformed and improved to meet new challenges.

The survey studied 27 different instruments used in the 27 EU Member States and revealed that there is no common path for organising and funding employment and professional transition in response to restructuring. The differences identified relate to specific national framework conditions with respect to labour policy and industrial relations. But a common feature is the important role played by social partners: 'It is quite obvious that most of the schemes and programmes presented in our study would simply not exist and would not be able to be run efficiently without active social partner involvement at all levels.'

One of the survey's major findings is that there is a common objective shared by key national actors.

'In times of globalisation and accelerated change in every part of our economy and society, an efficient system in place of organising professional and job transfer seems to be crucial. [...] A further important result of the study is the fact that both sides of the industry are sharing responsibilities both in terms of co-financing [...] as well as in terms of active involvement in the organisation and management of mechanisms and instruments. In the majority of examples analysed this also implies certain obligations of the restructuring company, in terms of following certain procedures, financial contributions and/or other duties.'

Three types of approaches are presented: transition and outplacement, training, and efficiency of systems (interplay of actors, coordination, and procedures). The approaches vary in quality, scope and potential transferability because at least one example from each of the 27 EU Member States is covered (for more details on examples of good practice, see below).

Short-time working arrangements as response to cyclical fluctuations (Arpaia, 2010)

This joint paper prepared in collaboration by the DG for Economic and Financial Affairs and the DG for Employment, Social Affairs and Equal Opportunities provides an up-to date (June 2010) account of publicly sponsored short-time schemes, an approach that has been intensively used during the recession in EU Member States. These schemes provide firms with a buffer, enabling them to avoid mass layoffs during temporary downturns. Eligibility criteria and framework conditions have been regulated at national levels with a view to avoiding excessive reliance on reductions in working hours. Concerns are also raised if labour demand remains low. Hence, it is recommended that short-time working schemes should be supplemented with training measures and the transition of workers to new jobs.

The paper shows how government sponsored short-time working schemes have been used before and after the crisis and describes the differences and similarities between national schemes. Most of the new Member States (transition economies) did not have short-time working arrangements before the crisis. Subsidies for short-time work are frequently financed with unemployment benefits. The maximum duration of subsidised short-time work, which varies from country to country, was extended to cushion persistent high unemployment to as long as 18 months (Germany) or 24 months (Austria) and was linked to training measures. The most generous scheme is applied in Italy (up to three years short-time work with wages of 80% of previous wage).

A guide to worker displacement: some tools for reducing the impact on workers, communities and enterprises (Hansen, 2009)

This guide is a marginally updated version of the 2001 guide by ILO's Skills and Employability department. It discusses the range of possible responses to economic downturns and redundancies based on experiences in the United States of America and the EU. Strategies aimed at avoiding or minimising layoffs are discussed as well as tools to preserve and create jobs. The guide is designed as a step-by-step practical toolbox. Despite the update, the guide is rather outdated; it tends to emphasise technical aspects (checklists, action modules) and rather neglects policy issues.

Guidelines on socially-sensitive labour force restructuring in south eastern Europe (Broughton, 2009)

These guidelines are the result of a tripartite workshop held in Serbia in 2008 and a comparative study with general principles. It deals with European legal frameworks and the lessons learned from restructuring cases in south eastern European countries. The specific objective of the project, undertaken by the ILO sub-regional office for central and eastern Europe, was to provide technical support for restructuring the Serbian public railways company.

The report provides guidance concerning the important role of social dialogue at national, sectoral and company level, including practice-oriented and hands-on advice and guidance on workforce consultation at company level. A proactive approach is recommended in which the workforce is informed and consulted as early as possible.

The core lessons learned and the recommendations highlight the importance of coordinated response and action, training and skills development, and of accompanying restructuring with active employment measures.

European Restructuring Monitor case studies: good practice in company restructuring (Morley and Ward, 2008)

The report provides examples of restructuring based on company case studies carried out across the EU. The examples presented highlight many essential aspects including advance warning and consultation, support to workers, financing mechanisms, job creation efforts, and results.

Examples of international good practice

It might be surprising that each country has different approaches to mass redundancy, but this confirms that the approach needs to be tailored to the national framework conditions. Each approach is the result of consultations with social partners and a process that will depend on the applicable welfare regime and industrial relations model. It is not easy to transfer approaches, and copy and paste is impossible. Some of the schemes have been reformed and improved several times; others have been newly implemented in response to the economic crisis. The practices and systems are in a state of constant flux and very few remained unchanged for any length of time (Voss et al., 2010, p. 6).

What the approaches shown in **TABLE A1.1** have in common is that they were all built on a basis for cooperation agreed by all the key actors and were co-financed in money or in kind by the company or companies concerned. In the examples from Austria, Sweden and the Netherlands, the solutions were also based on collective agreements, whereas in the United Kingdom and Croatia, the main initiative and responsibility lay with the public employment service.

BOX A1.1 LABOUR FOUNDATIONS, AUSTRIA

The first labour foundation (the Austrian Steel Foundation) was established in the late 1980s when a large steel producing industry had to substantially reduce its workforce. This pilot foundation served as a model and soon became the prevalent instrument for dealing with large-scale layoffs. Workers who opt to join the foundation participate in a six-week orientation programme that helps them to develop a new perspective for their future career with the support of professional guidance. In the next phase they choose from a number of options, including job search support, basic or advanced training in their former occupation or a new one, and programmes designed to help them start up their own business. Guidance, counselling and training services are provided during a transition period of up to three, and in exceptional cases even four, years. The original model was set up to deal with restructuring a single large enterprise but other forms were later developed to cope with outplacement at sectoral level and bankruptcy situations.

Source: Austrian Federal Ministry of Labour and Economics, 2004

BOX A1.2 RAPID RESPONSE SERVICE, UK

In the late 1990s, the British government introduced a Rapid Response Fund and created regional Rapid Response Teams in order to fast-track its services in response to significant impending job losses. This experience led to the establishment of a more flexible Job Transition Service that was piloted in 2001, becoming the Rapid Response Service in April 2002.

The Rapid Response Service is not invoked for every significant redundancy, but may be brought in where there are particular concerns or needs. It is a flexible and responsive service that does not offer a fixed support programme but rather a menu of possible actions from which appropriate activities can be derived. The options might include information, advice and guidance for workers facing redundancy, retraining programmes or consultancy services for the company concerned. Many of these services are also available from Jobcentre Plus and the Rapid Response Service builds on rather than replaces existing services, though with an emphasis on increasing the speed of application of the available services. In addition, the resources of other agencies, such as the Regional Development Agencies, Learning & Skills Councils and Business Link, help to maximise the existing support services.

The Rapid Response Service has been allocated a budget and a basic infrastructure of senior regional managers (one in each Jobcentre Plus region) supported by a national head office team.

Source: Mutual Learning Programme of the European Employment Strategy, peer review report, 2003

Information available at:

www.mutual-learning-employment.net/index.php?mact=PeerReviews,cntnt01,detail,0&cntnt01options=23&cntnt01orderby=start_date%20DESC&cntnt01returnid=59&cntnt01item_id=59&cntnt01returnid=59

BOX A1.3 MOBILITY CENTRES SUPPORTING INDUSTRIAL RESTRUCTURING, CROATIA

Mobility Centres have been set up in Croatia to assist with the redeployment of workers affected by industrial restructuring and mass redundancies. The measures include subsidies for self-employment and ad hoc on-the-spot support provided by the Croatian Employment Service. The mobility centre approach was applied in the case of the Port of Rijeka and the Croatian Railways.

The Croatian Employment Service establishes a mobile team of experts based in the regional office to provide counselling and mediation services for workers threatened with redundancy while they are still employed, thus proactively reducing unemployment as far as possible. Mobile teams are deployed to meet needs as they occur. A mobile team consists of experts in career development and employment, psychologists, lawyers, and other specialists where necessary. The teams operate in the premises of the affected company and function as long as there is a need.

Mobile teams provide and facilitate a wide range of services including the provision of labour market and legal information, counselling, assessment of skills and work potential, workshops on job search skills, training, placement services, and support for self-employment.

Source: Feiler and Vos, 2009

The following examples are good practices with a clear focus on further training. They are not necessarily connected with mass redundancies. A common feature of the approaches described is that they are employer-related rather than tailored adult training schemes (for example, individual learning accounts) that address the person rather than the company. They are all co-financed by the employer and the trainees are employees of the companies and include employees at risk of redundancy.

Sectoral training funds exist in many countries (for example, the Netherlands, Italy, and Hungary). They are financed by a levy or financial contribution paid by the employer (typically a small percentage of the payroll) and managed and coordinated by the sectoral social partners.

The sectoral approach involves developing strategic training policies and programmes based on short- and mid-term assessment of skills demand. Short-term assessment often takes the form of company-based training needs assessment. Anticipating the future demand for skills is a more risky and complex undertaking that calls for a combination of methods, including employer surveys and macroeconomic forecasts.

BOX A1.4 SKILLNETS, IRELAND

Skillnets is an innovative, enterprise-led body funded by the Irish Department of Enterprise, Trade and Innovation. The skillnets approach is built around networks of enterprises that come together to decide what training they want, how it will be delivered and who will deliver it. The sustainable success of these self-selecting networks depends to a large extent on a professional coordination and management body.

Source: Voss, 2010, p. 52 (see www.skillnets.ie)

BOX A1.5 ENTERPRISE TRAINING FUND, ROMANIA

The Romanian Enterprise Training Fund is a public fund financed by the state unemployment insurance fund. It was set up to prevent unemployment and help people retain their jobs by increasing the professional competencies of the workforce, primarily through internal training and upskilling schemes. The Fund is rarely involved in training measures during restructuring. However, there are two examples of outplacement and training schemes implemented in such situations: the car industry and the petrochemical industry. These programmes were developed jointly by the company management and the trade unions, with input from the local employment offices and local authorities. Centres of professional transition were set up to provide placement services, professional orientation and training measures.

Source: Voss, 2010, p. 58ff

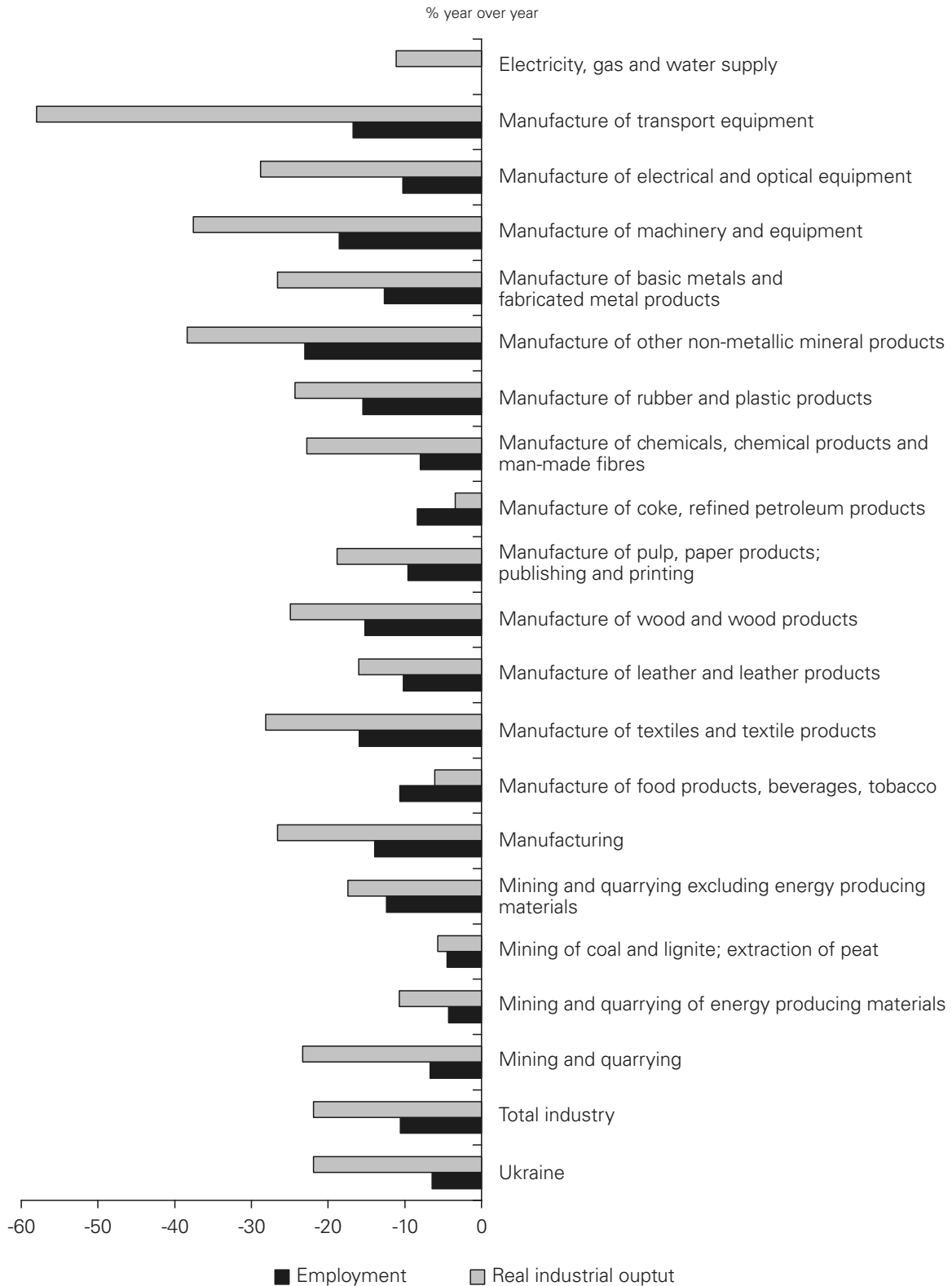
TABLE A1.1 INTERNATIONAL GOOD PRACTICE: EXAMPLES OF RESTRUCTURING

Type of measure	Country 1st scheme introduction	Target groups/ beneficiaries	Status of beneficiaries	Legal framework	Type of support provided	Funding
Programmes and schemes that focus on job transition in the event of redundancies						
Labour Foundations Established ad hoc, when needed, and closed when the problem is solved	Austria 1987	Workers affected by collective dismissal	In the early years of the scheme: unemployed with special status Now: employed at the Labour Foundation	Initially based on an amendment of unemployment benefit insurance regulation and tripartite agreement In each case based on social plan at company level Must be approved by the public employment service	Comprehensive package of professional reorientation, further training or retraining, start-up support, intensive placement and referral services	To a large extent by the public employment service, co-financed by the company, in some cases also local government
Job Security Councils	Sweden 1974	Workers affected by restructuring processes in companies	Employed (in period of notice) or unemployed	Collective agreements at sector level	Financial aid, training, guidance, outplacement	Funded by employer contributions (fixed rate of the wage)
Mobility Centres	The Netherlands 2008	Workers made redundant or threatened by redundancy	Employed at the company undergoing restructuring	Collective agreement, policy agreement	Financial support, training, guidance, outplacement	Co-financed by the company
Rapid Response Service	UK 2002	Workers made redundant or threatened by redundancy	Employed (in period of notice) or unemployed	Public employment service (Jobcentre Plus)	Guidance, training	Co-financed by the company
Mobility Centres Established ad hoc, in case of need, and closed when the problem is solved	Croatia	Workers affected by collective dismissal	Employed (in period of notice) or unemployed	Public employment service (Croatian Employment Service)	The public employment service opens a temporary labour office and on-site support	Contribution in kind
Programmes and schemes that focus on training (company-related vocational training)						
Sectoral Training Funds	The Netherlands 1980s	Workforce of a sector in general	Employees	Collective agreements at sector level	Further training	Based on levy scheme (employer contribution with fixed rate of the wage bill)
Skillsnet	Ireland 1999	Workers and managers	Employed	Government and employers' organisation	Training, innovative approaches (qualification networks, etc.)	State, ESF, co-financed by the company
Enterprise Training Fund	Romania 2002	Workers	Employed and employees threatened by redundancy	Labour Law	Further training	Co-financed by the company
Short-time work combined with further training of the workforce	Various countries	Workers	Employed on short-time work	Governments	Wage subsidies to employers, further training	Unemployment insurance system

Sources: ETF, based on Voss et al., 2010

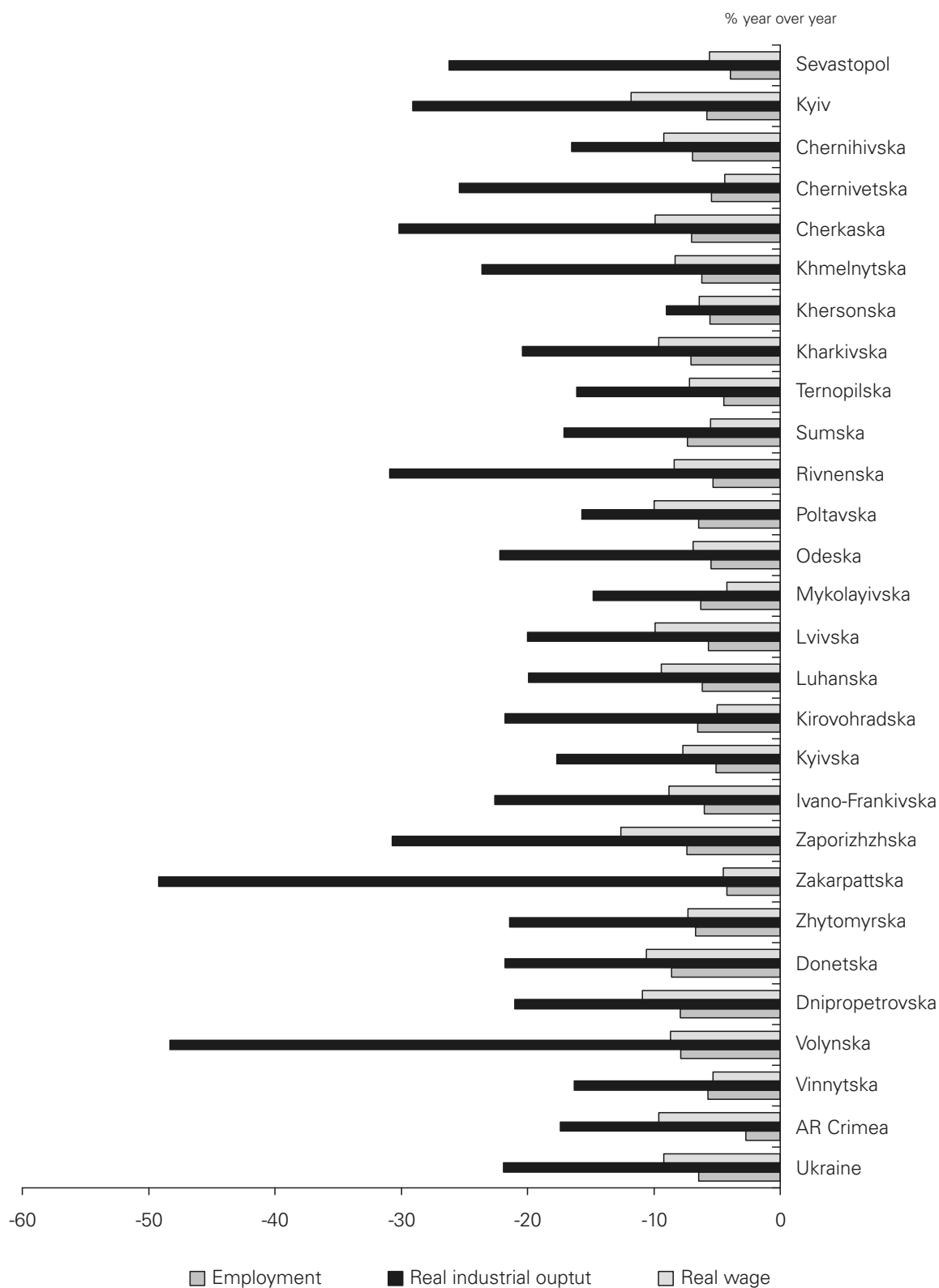
ANNEX 2. ADDITIONAL TABLES AND FIGURES

FIGURE A2.1 EMPLOYMENT CONTRACTION AND REAL INDUSTRIAL OUTPUT: DECLINE BY INDUSTRIAL SECTOR, 2009



Source: State Statistics Committee of Ukraine, own calculations

FIGURE A2.2 EMPLOYMENT CONTRACTION AND REAL INDUSTRIAL OUTPUT: DECLINE BY OBLAST, 2009



Source: State Statistics Committee of Ukraine, own calculations

TABLE A2.1 ECONOMIC ACTIVITY RATES BY EDUCATION LEVEL⁴², AGE AND GENDER (%)

	Indicator	2005	2006	2007	2008	2009	
Total	Economically active population (15-70 years old)	62.2	62.2	62.6	63.3	63.3	
	Working-age population (15-54/59)*	70.9	71.2	71.7	72.3	71.6	
	Primary education or lower (ISCED 0 and 1)	21.0	20.4	21.3	21.1	17.5	
	Basic secondary education (ISCED 2)	38.5	36.6	37.3	37.7	39.8	
	Complete secondary education (ISCED 3)	64.1	63.4	62.9	63.1	61.5	
	Incomplete higher education (ISCED 4 and 5)	71.5	70.9	71.1	72.1	72.0	
	Basic higher education (ISCED 5)	56.2	56.4	55.4	57.6	52.2	
	Tertiary education (ISCED 5 and 6)	79.9	80.7	80.2	79.4	79.3	
	15-24 (youth)	40.2	40.8	41.8	43	41.9	
	25-29	81.4	81.4	82.2	82.2	80.6	
	30-39	84.2	85.1	85.8	86.1	84.8	
	40-49	84.3	84.7	54.5	85	83.7	
	50-59	64.8	63.4	63.3	63.5	63.2	
	60-70	22.9	21.4	21.6	21.8	23.8	
	Male	Economically active population (15-70 years old)	67.9	68.2	68.9	69.8	69.2
		Working-age population*	74.1	74.5	75.0	75.8	74.1
Primary education or lower		21.8	20	21.2	20.4	17.9	
Basic secondary education		44.1	42.2	43.1	43.4	45.6	
Complete secondary education		71.5	71.4	71.3	71.8	69.7	
Incomplete higher education		76.9	77.2	77.7	78.9	77.7	
Basic higher education		60.7	55.7	55.4	58.8	54.5	
Tertiary education		84.1	84.6	84.4	84.2	83.1	
15-24 (youth)		44.7	45.4	46.8	48.1	47.1	
25-29		89.2	89.3	90.5	91.4	88.6	
30-39		88.8	90.3	90.8	91.1	89.9	
40-49		85.9	86.6	85.6	86.2	84.4	
50-59		74.2	72.9	73.7	73.7	71.5	
60-70		26.7	24.6	24.7	25.3	27.0	
Female		Economically active population (15-70 years old)	57.0	56.8	57.1	57.5	58.1
		Working-age population*	67.6	67.8	68.2	68.7	68.4
	Primary education or lower	20.4	20.7	21.3	21.6	17.3	
	Basic secondary education	33.1	31.4	31.8	32.4	34.4	
	Complete secondary education	56.1	54.8	54	53.7	52.6	
	Incomplete higher education	68.1	66.8	67.1	68.1	68.6	
	Basic higher education	52.9	57	55.4	56.7	50.7	
	Tertiary education	76.4	76.9	76.7	75.6	76.3	
	15-24 (youth)	35.5	36.1	36.6	37.7	36.5	
	25-29	73.5	73.4	73.8	72.7	72.3	
	30-39	79.8	80.1	80.9	81.2	80.0	
	40-49	82.9	83.0	83.6	83.9	83.2	
	50-59	57.2	55.7	54.9	55.4	56.5	
	60-70	20.3	19.3	19.7	19.5	21.8	

Source: State Statistics Committee of Ukraine, LFS

(*) The legal retirement age is 55 years for women and 60 for men.

TABLE A2.2 EMPLOYMENT RATE BY EDUCATION LEVEL, AGE AND GENDER (%)

	Indicator	2005	2006	2007	2008	2009
Total	Economically active population (15-70 years old)	57.7	57.9	58.7	59.3	57.7
	Working-age population*	65.4	65.9	66.7	67.3	64.7
	Primary education or lower (ISCED 0 and 1)	20.5	20.2	21.1	21.0	17.3
	Basic secondary education (ISCED 2)	35.7	34.3	35.1	35.6	36.7
	Complete secondary education (ISCED 3)	58.4	58.1	58.2	58.4	55.2
	Incomplete higher education (ISCED 4 and 5)	66.6	66.1	66.8	67.2	65.7
	Basic higher education (ISCED 5)	52.0	51.9	51.6	51.8	44.2
	Tertiary education (ISCED 5 and 6)	76.5	76.8	76.4	76.1	74.0
	15-24 (youth)	34.2	35.1	36.6	37.3	34.5
	25-29	75.2	75.4	76.5	76.4	72.2
	30-39	78.6	79.9	80.8	81.5	77.9
	40-49	78.8	84.7	79.7	79.8	77.0
	50-59	61.8	63.4	60.3	61.0	59.5
	60-70	22.8	21.4	21.6	21.8	23.8
Male	Economically active population (15-70 years old)	62.8	63.5	64.3	65.2	62.1
	Working-age population*	68.2	69.0	69.8	70.6	66.6
	Primary education or lower	21.3	19.7	21.2	20.4	17.8
	Basic secondary education	40.4	39.2	43.1	40.6	41.6
	Complete secondary education	65.2	65.7	71.3	66.5	61.5
	Incomplete higher education	71.6	72.3	77.7	73.5	69.4
	Basic higher education	54.6	50.6	55.4	54.0	45.3
	Tertiary education	80.4	80.2	84.4	80.3	77.0
	15-24 (youth)	37.9	39.4	41.0	41.8	37.8
	25-29	82.5	82.6	84.5	85.1	78.9
	30-39	82.9	84.7	85.1	85.9	81.6
	40-49	80.3	81.5	81	81.1	76.5
	50-59	70.0	68.7	59.4	70.4	66.3
	60-70	26.6	24.5	24.7	25.3	26.9
Female	Economically active population (15-70 years old)	53.1	53.0	53.7	54.0	53.2
	Working-age population*	62.4	62.8	63.6	63.9	62.7
	Primary education or lower	20.0	20.6	21.3	21.5	17.0
	Basic secondary education	31.2	29.7	31.8	30.9	32.2
	Complete secondary education	51.1	50.0	54.0	49.7	48.3
	Incomplete higher education	63.3	62.1	67.1	63.5	63.6
	Basic higher education	50.2	52.9	55.4	50.2	43.5
	Tertiary education	73.3	74.1	76.7	72.7	71.6
	15-24 (youth)	30.4	30.6	32.0	32.5	31.0
	25-29	67.8	68.1	68.4	67.5	65.2
	30-39	74.4	75.2	76.7	77.2	74.3
	40-49	77.5	77.9	78.6	78.7	77.5
	50-59	54.9	53.7	53.0	53.4	54.1
	60-70	20.3	19.3	19.7	19.5	21.8

Source: State Statistics Committee of Ukraine, LFS

(*) The working-age population includes females between 15 and 54 years old and males between 15 and 59 years old.

TABLE A2.3 UNEMPLOYMENT RATE BY EDUCATION LEVEL, AGE AND GENDER (%)

	Indicator	2005	2006	2007	2008	2009
Total	Economically active population (15-70 years old)	7.2	6.8	6.4	6.4	8.8
	Working-age population (15-55/60)	7.8	7.4	6.9	6.9	9.6
	Primary education or lower	2.2	0.9	0.6	0.3	1.4
	Basic secondary education	7.1	6.2	5.9	5.6	7.7
	Complete secondary education	8.9	8.3	7.6	7.4	10.3
	Incomplete higher education	6.9	6.7	6.0	6.8	8.7
	Basic higher education	7.4	8.0	6.8	10.0	15.3
	Tertiary education	4.2	4.4	4.6	4.2	6.7
	15-24 (youth)	14.9	14.1	12.5	13.3	17.8
	25-29	7.6	7.3	6.9	7.0	10.4
	30-39	6.7	6.2	5.8	5.3	8.2
	40-49	6.5	6.0	5.7	6.1	8.0
	50-59	4.9	4.7	4.7	4.0	5.8
	60-70	0.3	0.1	0.0	0.0	0.1
	Male	Economically active population (15-70 years old)	7.5	7.0	6.7	6.6
Working-age population*		7.9	7.3	7.0	6.9	10.8
Primary education or lower		2.6	1.1	0.6	0.2	0.6
Basic secondary education		8.4	7.0	7.4	6.4	8.7
Complete secondary education		8.8	8.0	7.5	7.4	11.7
Incomplete higher education		6.8	6.4	6.3	6.8	10.7
Basic higher education		10.0	9.2	9.0	8.2	16.9
Tertiary education		4.4	5.2	4.8	4.6	7.3
15-24 (youth)		15.2	7.4	12.4	13.1	19.8
25-29		7.5	7.2	6.6	7.0	10.9
30-39		6.6	6.2	6.2	5.7	9.3
40-49		6.5	5.9	5.4	5.9	9.3
50-59		5.7	5.7	5.8	4.6	7.3
60-70		0.3	0.2	0.1	0.0	0.1
Female		Economically active population (15-70 years old)	6.8	6.6	6.0	6.1
	Working-age population*	7.7	7.4	6.7	6.9	8.3
	Primary education or lower	1.9	0.7	0.7	0.5	2.1
	Basic secondary education	5.6	5.2	4.1	4.6	6.5
	Complete secondary education	9.0	8.7	7.7	7.4	8.2
	Incomplete higher education	7.1	7.0	5.9	6.8	7.3
	Basic higher education	5.2	7.1	5.2	11.4	14.1
	Tertiary education	4.0	3.7	4.5	3.7	6.2
	15-24 (youth)	14.4	15.3	12.5	13.6	15.1
	25-29	7.7	7.2	7.3	7.1	9.8
	30-39	6.7	6.2	5.3	4.9	7.0
	40-49	6.5	6.1	6.0	6.2	6.8
	50-59	4.0	3.7	3.5	3.5	4.3
	60-70	0.2			0.0	0.1
	Rural	Economically active population (15-70 years old)	5.7	5.8	5.4	5.7
Working-age population*		6.6	6.6	6.2	6.5	8.2
Urban	Economically active population (15-70 years old)	7.8	7.3	6.8	6.7	9.6
	Working-age population*	8.3	7.7	7.1	7.0	10.2

Source: State Statistics Committee of Ukraine, LFS

(*) The working-age population includes females between 15 and 54 years old and males between 15 and 59 years old.

TABLE A2.4 MAIN REGULATIONS CONCERNING EMPLOYMENT FLEXIBILITY AND SOCIAL SECURITY

Question about employment flexibility	Answer	Source (regulated by...)
Rigidity of Employment Index ⁴⁵	31	www.doingbusiness.org/data
Difficulty of Hiring Index	40	www.doingbusiness.org/data
Are fixed-term contracts prohibited for permanent tasks?	A fixed-term labour contract can be used, depending on the character and conditions of the work, interests of employees, and other conditions provided for in the pertinent legislation.	Article 23, part 2 Labour Code of Ukraine
What is the maximum duration of a fixed-term contract in months (including renewals)?	If the fixed-term contract is rolled over and none of the contestants request its termination, the term becomes indefinite.	Article 39-1 Labour Code of Ukraine
How often can a fixed-term contract be renewed?	Labour contracts that are renewed at least once (excluding the exceptions specified in the second part of Article 23) are considered as indefinite contracts. The maximum duration of a fixed-term contract is not defined by law.	
Rigidity of Hours Index	20	www.doingbusiness.org/data
Can the work week extend to 50 hours (including overtime) for two months per year to respond to a seasonal increase in production?	Working time cannot exceed 40 hours per week. Overtime work, as a rule, is prohibited. An employer can apply for overtime hours only in exceptional cases determined by law. Overtime is always limited to a maximum of 4 hours during two consecutive days and a maximum of 120 hours a year.	Article 50, part 1 Labour Code of Ukraine Article 62, part 1-2 Labour Code of Ukraine Article 65, part 1 Labour Code of Ukraine
What is the paid annual leave (in working days) for an employee with 20 years of service?	The duration of paid annual leave is irrespective of years of employment. The duration of annual leave is no less than 24 calendar days (3 weeks and 3 days) per year. Persons under 18 years of age are entitled to 31 calendar days.	Article 75 Labour Code of Ukraine
Difficulty of Firing Index	Firing cost (in weeks of wages) - 13	www.weforum.org/communities
Can workers be made redundant?	A labour contract can be terminated by the employer in case of redundancy.	Article 40 part 1 Labour Code of Ukraine
Must the employer notify a third party before terminating a labour contract? (Who?)	The employer must notify the Public Employment Service about the intended layoff of the employee, indicating the worker's occupation, qualifications and wage. The employer must also inform the trade union.	Article 49-2 part 3 Labour Code of Ukraine Article 43 part 2 Labour Code of Ukraine
Must the employer notify a third party before terminating a group of 25 redundant workers?	The dismissal procedure does not depend on the number of layoffs.	
Does the employer need the approval of a third party to lay off a redundant worker?	The prior approval is required from the trade union before any labour contract can be terminated in the event of redundancy (if the employee is a member of the trade union).	Article 43 part 1 Labour Code of Ukraine
Does the employer need the approval of a third party to dismiss a group of 25 redundant workers?	The procedure of dismissal in the event of redundancy does not depend on the number of redundant workers.	
Is there a retraining or reassignment obligation before an employer can make a worker redundant?	No, but the employer has to transfer the employee to another job if this is possible and the employee agrees.	Article 40 part 2 Labour Code of Ukraine
Are there priority rules applying to redundancies?	In case of redundancy, employees with higher qualification and labour productivity have priority over others to keep their jobs. In the case of equal qualification and labour productivity, priority is given to: <ul style="list-style-type: none"> • employees with two or more dependent family members; • employees who are the sole wage earner in their family; • employees with lifelong job tenure at the company; • employees who are studying in an education establishment (without interruption of work); • employees who have been injured or suffer from an occupational disease acquired during employment in the current job; • other specified groups. 	Article 42 Labour Code of Ukraine

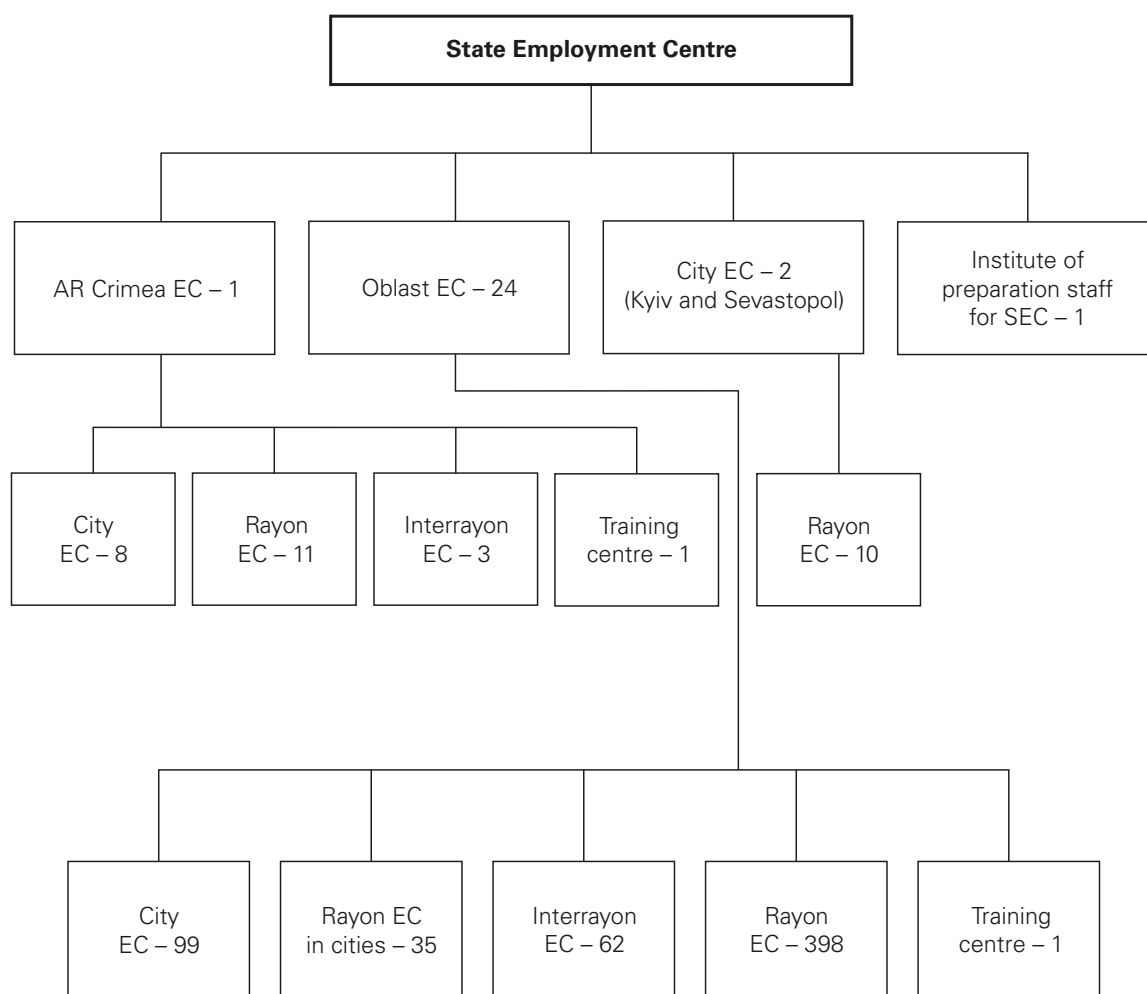
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⁴⁵ The Rigidity of Employment Index is the average of three sub-indices: Difficulty of Hiring Index, Rigidity of Hours Index and Difficulty of Firing Index. Each of these indices assigns values between 0 and 100, with higher values representing more rigid regulation (International Finance Corporation and World Bank, 2008).

Are there priority rules applying to re-employment?	For one year after dismissal, a redundant worker has the right to re-employment if a job vacancy requiring comparable qualifications arises. Priority is given to employees defined in Article 42 of this Code, and in other cases foreseen by a collective agreement.	Article 42-1 part 1-2 Labour Code of Ukraine
Firing costs (weeks of salary)	13 weeks The minimum severance pay in case of dismissal is the average monthly wage.	World Economic Forum Article 44 Labour Code of Ukraine
What is the severance pay for redundancy dismissal after 20 years of employment (in weeks of salary)?	The severance pay for redundancy dismissal is not dependent on years of employment.	
What is the notice period for redundancy dismissal after 20 years of continuous employment?	At least two month's notice must be given prior to dismissal. The notice period is not dependent on years of employment.	Article 49-2 part 1 Labour Code of Ukraine
What is the legally mandated penalty for redundancy dismissal? (weeks of salary)	There is no legally mandated penalty for redundancy dismissal.	
Question about security		
Answer		
Source (regulated by...)		
Who is eligible to receive unemployment benefits?	Unemployment insurance of employees is mandatory. Creative professionals, private entrepreneurs and other groups of self-employed people are insured against unemployment on a voluntary basis.	Law of Ukraine 'On Mandatory State Social Unemployment Insurance' 2 March 2000 No 1533-III
Minimum requirements for receiving unemployment benefits	Insured people who have worked and paid contributions for at least 26 calendar days during the 12-month period before being made redundant are entitled to unemployment benefits, which will depend on how long they have contributed. Insured people who worked for less than 26 calendar days, people wishing to resume work after more than 6 months of inactivity, people dismissed from their last place of employment for certain reasons, and certain groups of uninsured people are entitled to minimal unemployment benefits without regard to the period of contribution.	Law of Ukraine 'On Mandatory State Social Unemployment Insurance' 2 March 2000 No 1533-III
Maximum and minimum unemployment benefit (net monthly)	The minimum payment is equal to 75% of the minimal subsistence level for currently insured people and 54% of the minimal subsistence level for insured people who worked less than 26 calendar days, and for all uninsured people. It is envisaged that in future the minimum unemployment benefit will not be lower than the minimal subsistence level. Article 46 of the Constitution of Ukraine and other legislation stipulate that social benefits, which are the primary source of subsistence, should not be lower than the minimal subsistence level. Despite a significant increase in minimum unemployment benefit, the actual amount paid remains quite low compared to salary. The ratio of the average unemployment benefit payment to nominal salary was close to 25% from 2000 to 2008, and 33% in mid-2009. At present, the average unemployment benefit is almost equal to the minimum wage. (The minimum wage is lower than subsistence level.)	Law of Ukraine 'On Mandatory State Social Unemployment Insurance' 2 March 2000 No 1533-III
Does the unemployment benefit payment cover health and pension insurance contributions?	No	
Minimum and maximum duration of unemployment benefit payment	Unemployment benefit is paid from the eighth day after registration with the SEC. Payment of unemployment benefits to people who resigned voluntarily without a valid reason, starts on the 91st calendar day. Unemployment benefits may not exceed the average wage in the respective region for the preceding month. The overall duration of the benefit payment may not exceed 360 calendar days within two years.	Law of Ukraine 'On Employment of Population' 1 March 1991 No 803-XII
Partial unemployment	A partial unemployment benefit is awarded to insured people whose wages are reduced as a result of an involuntary reduction of working hours and/or a temporary suspension of wage payments or reduction in wages resulting from the suspension of production for economic, technological or structural reasons. The conditions for awarding partial unemployment benefits are as follows: a temporary period of inactivity lasting at least one month, not exceeding six months, and not dependent on the employee or the employer, or a period of inactivity affecting at least 30% of the staff that is equal to or exceeding 20% of their work hours. The employer must notify the state employment service. Insured people who have worked for at least 26 calendar days in the 12 months preceding the month when the period of inactivity or reduced activity begins, who paid insurance contributions, and whose reduction in working time is equal to at least 20% of their work hours are entitled to partial unemployment benefits. The benefits are awarded for every hour of the idle time and calculated at two-thirds of the tariff rate for the worker's pay grade. The benefit may not exceed the minimum subsistence wage. Partial unemployment benefits are awarded from the first day of the period of inactivity and the duration of payment may not exceed 180 calendar days in a year.	Law of Ukraine 'On Employment of Population' 1 March 1991 No 803-XII

Source: ETF, based on contributions from E. Lisogor

FIGURE A2.3 STRUCTURE OF THE STATE EMPLOYMENT CENTRE



Source: State Employment Centre, www.dcz.gov.ua/control/uk/publish/article?art_id=391456&cat_id=8973095

TABLE A2.5 STATE EMPLOYMENT CENTRE EXPENDITURE ON ACTIVE AND PASSIVE MEASURES AND ADMINISTRATION

Type of measure	Details and programmes	Expenditure (UAH million)		Beneficiaries (persons)	
		2008	2009	2008	2009
Unemployment benefits	Including subsistence allowance for people on training courses	2 535.1	4 031.5	438 700	523 100
	Early retirement scheme (reimbursement to the pension fund)	11.1	6.7		
Subtotal passive measures		2 546.2	4 038.2		
Active measures	Vocational training	230.8	277.5	245 200	157 100
	Public works	106.7	71.2	428 500	240 900
	Employment subsidies	383.5	368.9	44 700	–
	Employment subsidies for 1 st job of young jobseekers	2.6	–	1 303	–
	Partial unemployment benefit (subsidised short-time work)	–	11.0	–	12 500
	Preventive training scheme	–	0.3	–	36
	Activation and counselling services	254.4	59.9	N/A	N/A
Subtotal active measures		978.0	788.8	719 703	410 536
	Job database (unified information and analytical system of the SEC)	97.6	67.0		
	Total operational costs of the SEC (UAH million)	846.6	846.3		
	Expenditure on arrangement of proper conditions in local employment offices for registration and client servicing (UAH million)	238.5	99.2		
Subtotal administrative cost	Includes job database and upgrading of local offices	1 182.7	1 012.5		
Overall total		4 706.9	5 839.5		

Source: State Employment Centre, Yearbook 2008, 2009; subtotals are own calculation

TABLE A2.6 EMPLOYEES WHO UPGRADED THEIR QUALIFICATION BY SECTOR, 2008

	Number of persons (1 000s)	% of staff employees	Workplace training		In education establishments	
			Number of persons (1 000s)	% of those receiving training	Number of persons (1 000s)	% of those receiving training
Total	1 022.7	9.0	533.3	52.1	489.4	47.9
Agriculture, hunting and related service activities	13.9	2.3	5	36.3	8.9	63.7
Forestry, logging and related service activities	2.4	3.1	0.7	30.9	1.7	69.1
Fishing	0.4	4.4	0.3	68.2	0.1	31.8
Industry	431.2	14.0	347.4	80.6	83.8	19.4
• Extractive industries	68	14.4	52.3	76.9	15.7	23.1
• Manufacturing	284	13.7	241.6	85.1	42.4	14.9
• Electricity, gas and water supply	79.2	14.7	53.5	67.6	25.7	32.4
Construction	21.6	4.9	11.6	53.5	10.0	46.5
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	13.9	1.5	4.9	35.0	9.0	65.0
Hotels and restaurants	1.3	1.4	0.7	53.7	0.6	46.3
Transport, storage and communication	126.5	12.9	91	71.9	35.5	28.1
Financial intermediation	29.7	8.6	21.1	71.1	8.6	28.9
Real estate, renting and business activities	22.9	3.7	11.7	51.0	11.2	49.0
Public administration and defence; compulsory social security	72	10.9	10.6	14.7	61.4	85.3
Education	153.7	8.9	11.9	7.8	141.8	92.2
Health and social work	123.6	9.3	13.3	10.8	110.3	89.2
Other community, social and personal service activities	9.6	2.4	3.1	32.1	6.5	67.9

Source: State Statistics Committee of Ukraine

Training of new employees is not widespread in Ukraine. In 2008, only 2.6% of employees were trained in new occupations. Employees are more likely to be trained in the extractive industries. On the basis of recent figures, the Ministry of Education and Science defined the introduction of incentives for employers to train and re-train their employees as well as upgrade their qualification as a priority for further work.

TABLE A2.7 TRAINING OF EMPLOYEES IN NEW OCCUPATIONS BY SECTOR, 2008

	Training in new occupation		% of those receiving training			
	Number of persons (1 000s)	% of staff employees	Place of training		Type of training	
			Workplace	In education establishments	Initial training	Retraining
Total	290.1	2.6	75.8	24.2	36.3	63.7
Agriculture, hunting and related service activities	8.3	1.4	60.3	39.7	26.3	73.7
Forestry, logging and related service activities	2.4	3.1	65.1	34.9	59.1	40.9
Fishing	0.1	1.1	95.3	4.7	58.9	41.1
Industry	202.7	6.6	82.4	17.6	32.6	67.4
• Extractive industries	39.1	8.3	81.3	18.7	30.9	69.1
• Manufacturing	138.7	6.7	84.7	15.3	32.4	67.6
• Electricity, gas and water supply	24.9	4.6	71.0	29.0	36.3	63.7
Construction	14	3.2	47.3	52.7	40.7	59.3
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	9.3	1	73.8	26.2	60.7	39.3
Hotels and restaurants	0.5	0.5	66.8	33.2	76.8	23.2
Transport, storage and communication	36.8	3.7	65.6	34.4	44.3	55.7
Financial intermediation	1.6	0.5	83.3	16.7	50.1	49.9
Real estate, renting and business activities	6.8	1.1	59.7	40.3	51.0	49.0
Public administration and defence; compulsory social security	2.2	0.3	18.7	81.3	49.6	50.4
Education	2	0.1	41.2	58.8	23.4	76.6
Health and social work	1.6	0.1	27.6	72.4	27.0	73.0
Other community, social and personal service activities	1.8	0.4	67.4	32.6	63.8	36.2

Source: State Statistics Committee of Ukraine

TABLE A2.8 EMPLOYEES WHO UPGRADED THEIR QUALIFICATION BY OBLAST, 2008

	Number of persons (1 000s)	% of employees	At the workplace		In education establishments	
			Number of persons (1 000s)	% of those receiving training	Number of persons (1 000s)	% of those receiving training
Ukraine	1 022.7	9	533.3	52.1	489.4	47.9
AR Crimea	36.4	9	15.1	41.6	21.3	58.4
Vinnytska	25.4	7.4	11.3	44.5	14.1	55.5
Volynska	17.5	7.7	7.9	45.1	9.6	54.9
Dnipropetrovska	116.1	11.6	72.5	62.4	43.6	37.6
Donetska	149.7	11.8	104.2	69.6	45.5	30.4
Zhytomyrska	19	6.9	7.2	37.6	11.8	62.4
Zakarpattska	12.9	6	3.7	28.6	9.2	71.4
Zaporizhzhska	62.8	12.7	39.1	62.2	23.7	37.8
I.-Frankivska	21.4	8.5	5.9	27.7	15.5	72.3
Kyivska	27.7	7.2	12.1	43.9	15.6	56.1
Kirovohradska	19.1	8.7	9.4	49.1	9.7	50.9
Luhanska	61.8	10.6	40.9	66.2	20.9	33.8
Lvivska	38.8	6.5	12.6	32.5	26.2	67.5
Mykolayivska	20.3	7.8	9.2	45.3	11.1	54.7
Odeska	38.9	7.2	17.2	44.2	21.7	55.8
Poltavska	42.4	10.7	23.8	56	18.6	44
Rivnenska	24.1	10.1	10.9	45.5	13.2	54.5
Sumska	28.1	9.9	15.7	55.9	12.4	44.1
Ternopil'ska	14.9	7.6	4.3	28.5	10.6	71.5
Kharkivska	62.5	8.9	29.4	47.1	33.1	52.9
Khersonska	19.7	9	7.7	39.1	12	60.9
Khmeln'ytska	24.3	9.2	12.8	52.8	11.5	47.2
Cherkaska	21.6	7.4	10.8	50	10.8	50
Chernivetska	11.7	7.6	3.5	30.1	8.2	69.9
Chernihivska	18.4	7.3	6.7	36.3	11.7	63.7
Kyiv	81.4	6.9	37.7	46.3	43.7	53.7
Sevastopol	5.8	7.4	1.7	28.4	4.1	71.6

Source: State Statistics Committee of Ukraine

TABLE A2.9 TRAINING OF EMPLOYEES BY OBLAST, 2008

	Training in new occupation		% of those receiving training			
			Place of training		Type of training	
	Number of persons (1 000s)	% of employees	Workplace	In education establishments	Initial training	Retraining
Ukraine	290.1	2.6	75.8	24.2	36.3	63.7
AR Crimea	9.9	2.5	67.2	32.8	33.5	66.5
Vinnyska	6.5	1.9	83.9	16.1	57.5	42.5
Volynska	3.5	1.5	67.6	32.4	46.9	53.1
Dnipropetrovska	37.5	3.8	78.1	21.9	15.8	84.2
Donetska	49.8	3.9	83.3	16.7	31	69
Zhytomyrska	5.7	2.1	69.8	30.2	36.2	63.8
Zakarpattska	6.4	2.9	78.8	21.2	65.3	34.7
Zaporizhzhska	19.7	4	85	15	28.4	71.6
I.-Frankivska	3.1	1.2	55.7	44.3	31.8	68.2
Kyivska	12.7	3.3	73.7	26.3	49.1	50.9
Kirovohradska	6	2.8	78.7	21.3	44.1	55.9
Luhanska	25.4	4.4	79.8	20.2	34	66
Lvivska	7.7	1.3	74.2	25.8	39.2	60.8
Mykolayivska	4.8	1.9	70.7	29.3	35.8	64.2
Odeska	10.7	2	78.7	21.3	49.6	50.4
Poltavska	11.7	3	73.3	26.7	37.3	62.7
Rivnenska	4.2	1.8	72.8	27.2	40.3	59.7
Sumska	7.6	2.7	77	23	32.7	67.3
Ternopilska	3.5	1.8	83.9	16.1	71	29
Kharkivska	14.3	2	59.4	40.6	33.5	66.5
Khersonska	5.6	2.6	75.4	24.6	42.8	57.2
Khmelnyska	6	2.3	70.1	29.9	48.6	51.4
Cherkaska	6.7	2.3	69.8	30.2	57.4	42.6
Chernivetska	2.2	1.4	75.8	24.2	60.2	39.8
Chernihivska	3.5	1.4	74.7	25.3	17	83
Kyiv	14.4	1.2	56.7	43.3	50.4	49.6
Sevastopol	1	1.3	78.3	21.7	62.5	37.5

Source: State Statistics Committee of Ukraine

TABLE A2.10 UKRAINIAN EDUCATION SYSTEM

Structure of education		Levels (degree) credential	Period of study (years, ECTS credits)	EHEA cycle
Doktorantura (postdoctoral research)		Doctor of science Scientific degree		
Aspirantura (doctoral studies)		Candidate of science Scientific degree	≥ 3 years	Third cycle
Higher education	Complete higher education	Master Master degree	1-2 years (60-120 ECTS) (1-3 years in medicine, veterinary medicine)	Second cycle
		Specialist Specialist degree	1-1.5 years (60-90 ECTS) (5-6 years in medicine, veterinary medicine (300-360 ECTS))	
	Basic higher education	Bachelor Bachelor degree	3-4 years (180-240 ECTS) (2-3 years on the basis of the junior specialist degree)	First cycle
	Incomplete higher education	Junior specialist Junior specialist degree	2-3 years (120-180 ECTS) (3-4 years on the basis of ISCED 2)	Short cycle (within or linked to the first cycle)
Vocational education		Qualified worker Diploma	3 years (on the basis of ISCED 2) 1-1.5 year (on the basis of ISCED 3)	Entry to higher education
General secondary education	Complete general secondary education (ISCED 3)	Atestat (Secondary school leaving certificate)	2-3 years	
	Basic general secondary education (ISCED 2)	Certificate (School leaving certificate)	5 years	
Primary education (ISCED 1)			4 years	
Pre-primary education (ISCED 0)				

Source: Ministry of Education and Science, Information on the National Higher Education System

ACRONYMS

ALMP	Active labour market policy
CEE	Central and eastern Europe
CIS	Commonwealth of Independent States
DG	Directorate-General
ETF	European Training Foundation
EU	European Union
GDP	Gross domestic product
ILO	International Labour Organisation
IMF	International Monetary Fund
ISCED	International Standard Classification of Education
LFS	Labour Force Survey
OECD	Organisation for Economic Cooperation and Development
PPP	Purchasing power parity
SEC	State Employment Centre
SME	Small and medium-sized enterprise
UAH	Ukrainian hryvnia (currency of Ukraine; UAH 100 is approx. EUR 9.84)
VET	Vocational education and training

GLOSSARY

Career guidance	Services offered to individuals or groups of any age to assist them in making educational, training and occupational choices and in managing their careers. Such services may be offered by education institutes, public employment services or specialised agencies.
Corporate social responsibility	Corporate social responsibility is a form of self-regulation whereby enterprises commit themselves to ensuring compliance with the law and ethical standards as well as protecting the environment and acting in a socially responsible manner with respect to the workforce, their families, the local community and society as a whole.
Downsizing	Reduction in the number of employees in a company through either relatively soft measures (no recruitment and early retirement) or layoffs (termination of work contracts).
Early warning tools	Mechanisms that anticipate the need for restructuring, alerting the appropriate actors in time for them to prepare the company and the workforce before the restructuring takes place.
Employment Protection Legislation Index	The OECD Employment Protection Legislation Index is a summary indicator calculated on the basis of 22 aspects of employment regulation clustered into three groups (regular employment, temporary employment, and collective dismissals). The score ranges from 0 to 6, with the highest score signifying the strictest level of protection (Tonin, 2009).
Employment protection, employment protection legislation	Employment protection refers to all types of employment protection measures, whether based on legislation or collective agreements. It mainly regulates the conditions for establishing, amending and terminating work contracts (for example, conditions governing the use of temporary or fixed-term contracts, individual dismissal, collective redundancies, notice periods, severance pay and short-time work schemes).
Flexible working time	Variable work schedule usually regulated by collective agreements. The degree of flexibility depends on core working hours, forms of compensation and the accounting period for working time balances.
Job brokerage	A service, usually provided by public employment services, to help individual job seekers to find new jobs thereby filling vacancies on the labour market.
Mass layoff, mass redundancy	Layoffs affecting a considerable number of workers at the enterprise, regional, or local level. The precise definition for each country depends on national legislation and rules.
Mobility centre, job centre, redeployment unit	A specialised unit within a company that coordinates and manages internal job change and the placement of staff in new jobs outside of the company.
Notice period	Mandatory period between the time an employee is given notice of dismissal and the actual termination of the work contract, as regulated by labour law or collective agreements.
Referral and placement services	Services, usually provided by public labour offices that help individual job seekers to find employment.
Redundancy	Relatively large-scale layoffs, caused by restructuring, downsizing, relocation and the partial or full closure of enterprises or production sites.
Restructuring	The term 'restructuring' has been defined as a 'modification of a company's workforce that affects both the latter's qualitative (skills and qualifications required) and its quantitative features (number of jobs) following adaptations to the company's structure, organisation or production' (European Commission, 2008b).
Severance pay	Severance payments are mandatory (regulated by labour law) or voluntary financial compensations paid by the employer when an employee is laid off or retiring. Mandatory severance pay is usually linked to the number of years worked for a specific employer. Severance payments are part of dismissal costs and, as such, a criterion on the Employment Protection Legislation Index.

Skills councils, sector skills councils	These bodies analyse skills gaps at sectoral level and involve different stakeholders, including social partners, education and training providers, public employment services, public authorities, and so on.
Short-time work	Short-time work is a temporary reduction in working hours intended to maintain an existing employer/employee relationship. It can involve either a partial reduction of the normal working week for a limited period of time or a temporary layoff (zero hours per week). The employment contract is not terminated in either case. (Arpaia et al., 2010, p. 8).
Social plan	A package of measures including compensation, alternatives to dismissal, and assistance in arranging new employment negotiated between management and the employees' representatives (works council).
Training needs analysis, qualification needs analysis, skills assessment	Regular and systematic assessment of the qualification needs of the staff of a whole company or of large groups of staff (organisational units) in light of the company's strategic plans, needs and existing resources. This should result in a phased operational qualifications plan (who, when, how and costs). Training needs can also be analysed on an individual basis, for example, in the context of recruitment or outplacement.
Temporary work, fixed-term work; temporary work agencies	Temporary or fixed-term work is a (usually written) contract of employment for a defined period. Temporary work contracts are widely used in countries with high employment protection to make the labour market more flexible. However, they can also give rise to a segregated labour market of insiders and outsiders. The conditions for temporary work are defined by national labour law. Temporary work agencies employ workers for the purpose of leasing or deploying them for work in other companies for a limited period.
Wage guarantee fund	A wage guarantee fund is a national fund (usually financed by employers' contributions and based on tripartite agreements) guaranteeing the payment of wages and compensation owing to workers in case of enterprise insolvency.

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