PROMOTING LABOR MARKET PARTICIPATION AND SOCIAL INCLUSION IN EUROPE AND CENTRAL ASIA’S POOREST COUNTRIES

May 2015

SOCIAL PROTECTION AND LABOR GLOBAL PRACTICE

World Bank

Document of the World Bank
CURRENCY EQUIVALENTS
(Exchange Rate Effective: June, 2014)

Currency Unit = Albanian Lek
1 ALL = 0.00957 USD
1 USD = 100.851 ALL

Currency Unit = Armenian Dram
1 AMD = 0.00242 USD
1 USD = 412.810 AMD

Currency Unit = Azerbaijan New Manat
1 AZN = 1.27421 USD
1 USD = 0.78380 AZN

Currency Unit = Macedonian Denar
1 MKD = 0.02193 USD
1 USD = 44.9201 MKD

Currency Unit = Georgian Lari
1 GEL = 0.56760 USD
1 USD = 1.76180 GEL

Currency Unit = Euro
1 EUR = 1.36225 USD
1 USD = 0.73402 EUR

Currency Unit = Kyrgyz Som
1 KGS = 0.01904 USD
1 USD = 52.4750 KGS

Currency Unit = Moldovan Leu
1 MDL = 0.07105 USD
1 USD = 13.6345 MDL

Currency Unit = Tajik Somoni
1 TJS = 0.20427 USD
1 USD = 4.89450 TJS

Currency Unit = Ukrainian Hryvnia
1 UAH = 0.08320 USD
1 USD = 11.5793 UAH
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<td>ECA Regional Vice President</td>
<td>Laura Tuck</td>
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<tr>
<td>Social Protection and Labor Senior Director</td>
<td>Arup Banerji</td>
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<tr>
<td>Practice Manager</td>
<td>Andrew Mason</td>
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<td>Task Team Leader</td>
<td>Indhira Santos</td>
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“Almost 2 billion working-age adults [worldwide] are neither working nor looking for work; the majority of these are women, and an unknown number are eager to have a job.”

(World Bank, 2012a: 48)

“(…) people’s capabilities are our greatest resource. Growth should focus on enhancing those capabilities.”

(UNDP, 2011: ii)

“In our community only those women, who are divorced can start running a business. There are only few families that allow their women to work.”

(Citizen of Tajikistan, in qualitative interview conducted by the World Bank in 2013).

“The policy agenda across all countries needs to focus on addressing existing work disincentives rooted in tax and social protection systems, as well as in labor market institutions. However, in most countries these reforms are only a first step. The reform agenda also needs to include specific measures and programs aimed at creating more inclusive labor markets by removing barriers to productive employment for younger and older workers as well as for women and ethnic minorities.”

(Arias et al., 2014: 329)
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<td>Consultative Group to Assist the Poor</td>
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<td>COVEyT</td>
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<td>Coefficient of variation</td>
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<td>Internally Displaced Person</td>
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<td>MKD</td>
<td>FYR Macedonia</td>
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<td>NAVET</td>
<td>National Agency for Vocational Education and Training (Bulgaria)</td>
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<td>NEET</td>
<td>Not in Employment, Education or Training</td>
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<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>OECD</td>
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EXECUTIVE SUMMARY

This report, funded by the Trust Fund for Environmentally and Socially Sustainable Development (TFESSD), focuses on ten countries: Albania, Armenia, Azerbaijan, Georgia, Kosovo, the Kyrgyz Republic, Macedonia FYR, Moldova, Tajikistan and Ukraine. It focuses on identifying key barriers for labor market inclusion, especially in terms of labor force participation.

We argue in this report that labor market inequalities are partly explained by inequalities in opportunities, reflected on background characteristics—such as gender, location and ethnicity, explaining a large part of the gaps observed in labor market outcomes. Beyond these background factors, we show that public policies and programs, including labor taxes, benefits and labor regulations, often exacerbate labor market disadvantages for specific groups. We then discuss possible policies aimed at addressing some of these sources of inequality in the labor market.

A poor employment record, especially due to low labor force participation, has been the weak link in the growth-prosperity chain in these ECA countries. In many of the countries this report focuses on, as much as a quarter of all households do not have any employed household members. Indeed, overall employment rates in these countries are low, often hovering around 50 percent, which especially reflects very low labor force participation rates (57 percent on average). As a result of these poor labor market outcomes, on average, approximately one third of one's productive life is spent out of employment. Among those out of the labor force, many have never worked. Moreover, poverty is often concentrated among those who are outside the labor force.

Across countries, women, youth and older workers are disproportionately likely to be inactive. These characteristics, beyond individuals' effort and talent, still determine in large part the opportunities that people have in the labor market. Understanding the nature of these inequalities is a first step in addressing them.

WOMEN, YOUTH AND OLDER WORKERS ARE DISPROPORTIONATELY LIKELY TO BE ECONOMICALLY INACTIVE
The strongest inequalities are across gender and education levels. When comparing labor force participation rates among men to those among women, the conditional effects of being male are generally larger than 25 percentage points. Exceptions are Armenia, Georgia and Ukraine, where gender-based inequalities seem moderate rather than high. In Moldova, there is only a small gender effect in these models. Instead, the strongest inequalities in Moldova and Georgia seem to be generated by one's age. Prime age workers are much more likely to be active on the labor force than youth or older workers. The relative disadvantage of older workers seems to be more pronounced in Albania, Macedonia, Georgia and Kosovo as compared to the other countries. In almost all countries, with the exception of Tajikistan, education remains the other factor that generates strong inequalities.

Priority groups for raising labor force participation vary across countries

Based on marginal effects from regression analysis (red=high priority; yellow=medium priority; green=lower priority)

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Source: Authors.

In the policy discussion that follows, policy priorities will depend on the particular groups that in each country need most attention in order to raise labor force participation.
Public policy offers important opportunities for fostering inclusion in labor markets. In particular, public policy can help address labor market inequalities by improving work incentives, equipping workers with labor market-relevant skills, and removing barriers to employment that often particularly affect women, youth, older workers and ethnic minorities. Under increasingly tight budget constraints, the challenge for governments is to find ways to design such effective systems under reasonable costs.

**A conceptual framework for public policy**

---

**Creating Incentives**

- Labor Taxation
- Incentives from Social Protection

**Removing Barriers**

- Skills
- Location & Mobility
- Social Norms & Values
- Access to Productive Inputs
- Labor Regulations & Flexible Work Arrangements

---

**Inclusive Policies**

Source: Authors, adapted from Arias, et.al (2014).

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**a) Labor Taxation**

First, a country's mix of tax policies and social protection programs crucially determines how rewarding, in financial terms, a job can be for individuals, and how costly it is for firms to hire workers. The amount of taxes paid by workers may have an impact on those outside of the labor force in their decision not to look for (formal) jobs. When transitioning from inactivity to work, the combined impact from taxes and social protection on an individual's income – often referred to as the 'inactivity trap' – is not particularly high for average wage earners, but is much higher, in relative terms, for low wage earners and for individuals in part-time work. On the side of employers, high taxes may incentivize more extensive use of capital rather than labor, thus exerting downward pressure on the creation of formal jobs.
Labor taxation levels in the ten countries of this study are generally lower than in other ECA countries, but remain higher than in many non-European emerging economies and OECD countries. On average, labor taxes in these countries amount to 32 percent of the average wage.

Work disincentives associated with labor taxation are likely to be disproportionately high for groups that are usually out of the labor force (or working informally). First, this is because labor taxation is often not very progressive: groups of individuals that mostly earn low wages are taxed disproportionately, and are particularly likely to view their expected wage as an unattractive alternative to inactivity or informal work. Second, for groups with low employment rates and high inactivity rates, the market is usually tighter than for workers with higher wages and more elaborate skill sets (Arias et al., 2014). Third, labor market decisions among traditionally excluded groups are more likely to be responsive to tax and benefit changes (ibid.).

Policy Responses

- Where there is sufficient fiscal space, assess the possibility of shifting labor taxation to other taxes with a less direct impact on the decision to work (formally), and on how many hours to work.
- Rethink the structure of labor taxation, by increasing progressivity in a revenue-neutral manner. A detailed fiscal assessment to determine appropriate rates and tax bases is necessary. Concretely, the government could reducing labor taxes for low-wage earners while improving the monitoring and enforcement of wage reporting. To limit underreporting of wages and hours, governments could try a ‘double reporting’ system as in the Netherlands, letting both the employer and the employee report the number of hours worked and earnings independently from one another.
- Consider the introduction of negative labor income taxation or in-work benefits. Mojsoska (forthcoming) examines the particular case of the Earned Income Tax Credit in Macedonia, including different possible structures and their fiscal and labor force participation implications. Similar studies would need to be done elsewhere.
- Implement targeted hiring subsidies, for example in the form of lower social contributions, in the case of market failures. Hiring subsidies are, however, quite complex, since in many cases they lead to waste as resources are used for workers that would get employment without subsidies or on firms that use the subsidies to have free labor and do not provide workers nor with employment nor with valuable training. Therefore, if these are implemented, they need to be well-targeted to groups that are otherwise hard to employ. In this report, we have argued this might be the case for youth from minorities or rural areas working in cities, or for women with young children.

b) Social Protection Systems

Social protection plays a key role in protecting vulnerable groups and ensuring efficient labor market transitions. In particular, social protection systems are aimed at: 1) providing security to the vulnerable to better help them manage risks related to income- and expenditure shocks; 2) ensuring adequate support for the poor to provide minimum levels of consumption; 3) expanding opportunities for moving towards activities of higher productivity. This may include the
promotion of human capital development, as well as expanding opportunities for better jobs (World Bank, 2011b; World Bank, 2012g).

International evidence shows that, if properly designed, social protection systems can protect households against shocks, without decreasing incentives to join the labor force. However, if there are flaws in these programs, they can create disincentives to work. First, households benefit financially from receiving social assistance or social pensions. If programs are too generous, they can make earnings from employment redundant. Second, the design features of social protection programs – including eligibility criteria – can make a combination with, or transition into, employment particularly unattractive and difficult (Arias et al., 2014). For example, benefits are sometimes withdrawn abruptly as soon as individuals start working, even if the new job is part-time or if the individual starts a business. Moreover, in many countries in ECA, the time period during which households can receive social assistance benefits is unlimited as long as eligibility conditions persist (Arias et al., 2014). Although facilitating transitions to work by not cutting benefits abruptly is important, it is equally crucial to structure the duration and size of benefits in ways that incentivize those who are able to work, but suffer from temporary shocks, to re-enter the workforce after some time.

Pensions are by far the largest social protection program in these ten countries, taking up anywhere between 2 and 16 percent of GDP and covering 23-43 percent of households (Arias et al., 2014). This could be contributing, first, to the high inactivity among older workers. Second, in households with pensioners, there can be a spillover effect on labor force participation among those of working age who do not receive pensions. In most countries, this effect is stronger, among the age group 20-64, for women than for men. Similarly, among the adult population, women hold pensions more often than men.

In terms of social assistance programs, there is wide variation across countries in terms of generosity and coverage, but overall, these programs remain small compared to peer countries in the region. In the poorest quintiles of these ten countries’ populations, social assistance transfers make up anywhere between 1 percent and 47 percent of households’ total post-transfer consumption. However, it should be recognized that since generosity is measured as a share of consumption, higher shares are not an automatic indication of too much generosity because it also reflects lower consumption and therefore, higher poverty. Performance indicators of social assistance do suggest that while improving targeting to the poor can help reduce potential work disincentives on the non-poor, the low generosity and coverage of programs are unlikely to give rise to significant work disincentives today. One possible exception is the case of Georgia, where a recent study finds work disincentives among women who live in households that receive Targeted Social Assistance.1

Policy Responses

- Increase the official retirement age, while also improving incentives to retire later, including options for flexible work arrangements and options for combining partial pensions with

1 World Bank, forthcoming b.
employment. In addition, it would help to equalize retirement regulations across gender. In order to lower government expenses related to retirement, a proxy-means test based pension structure could be considered. Savings from this and extended working lives could be then redirected to other priorities.

- Rethink the design of social assistance, to allow for combining work and receipt of benefits, by combining transfers with support for productive employment (training, provision of child care services, etc, depending on the particular constraints to productive employment faced by beneficiaries).
- Expand research efforts examining the impact of social protection on labor force participation in this specific group of countries.

c) Skills

While quality of education and misalignment of skills with labor market needs are a concern across all groups, some groups – including the poor, large groups of women, and many of the Roma, for example – still face barriers to accessing education in the first place. On average across this group of countries, one fifth of the working age population does not complete secondary education, and education levels are particularly low among the groups that were defined in the above as having especially poor labor market outcomes (especially older workers, and ethnic minorities). Education levels are also generally lower in rural areas than in urban ones, possibly restricting employment prospects, but also negatively influencing job expectations. This suggests a policy agenda that improves educational service provision in rural areas, but that also facilitates student mobility to economic centers – especially at higher levels of education. Lastly, preschool enrollment is low in most countries. Given the importance of early childhood education for health, educational and labor market outcomes later in life, this is a critical area for further investment, especially among vulnerable groups.

There is a stark correlation between educational attainment and labor force participation, especially among women. An analysis of participation by gender, age groups and education level reveals that the average gap in participation between those with and those without secondary education is the largest for female older workers (20 percentage points) and male youth (27 percentage points). This points to a pattern in which higher education allows not only for more active participation in the labor market, but also for longer working lives.

The findings of this report suggest that there is a lot to be gained by bringing women with secondary education into the fold in terms of labor force participation. Women with secondary education show low participation rates, but constitute a very large group: they make up three fifth of the average national female working age population in the countries analyzed – and many of them are young. Since do have an education level that would allow them to access, for example, middle-pay jobs, they could be an important priority group. As such, designing policy measures targeted at this specific group could have large and long-lasting impacts on the labor markets and overall economies of these countries.

Similarly, labor market gains from improving overall access to quality and affordable preschool can be large. To level the playing field, investment in early childhood education and other
early childhood services is important, as it has shown to be both highly effective and cost efficient in increasing opportunities later in life, including secondary school completion (de Laat, 2012a). Gains can be particularly important for children from disadvantaged backgrounds, who may be more likely to lack a supporting environment for learning and developing socio-emotional skills needed to succeed on the labor market.

In addition to educational attainment, the quality of schooling is of concern in this group of countries: the transition process has resulted in skills mismatches for many, constraining employment opportunities. As discussed in Arias, et.al and in more recent skills measurement surveys in the region, these skills mismatches reflect both weaknesses in the provision of cognitive and technical skills, and, just as importantly, in the provision of socio-emotional skills. The nature of skill mismatches is likely to be different for older as compared to younger workers. For older workers, the biggest risk is obsolescence. For youth, the biggest risk is not getting an initial opportunity to build up work experience, because employers are keen not to hire inexperienced workers.

Policy Responses

- Strengthen generic skills, including socio-emotional skills. This implies, first, that remaining gaps in educational attainment must be remedied, at least up to and including secondary school. Second, it implies that standard school curricula and teaching practices must better streamline the provision of socio-emotional skills.
- Impose universal quality standards, taking into account the demands of the labor market, and incentivize schools to adhere to these.
- Incentivize student mobility through, for example, the provision of information and scholarships for youth from remote areas.
- Strengthen the links between educational institutions, public employment services and the private sector to better equip workers with the skill sets that are in demand in the labor market. Rather than top-down approaches, the international experience suggests that governments’ should focus on: (i) developing standards and certification systems for the skills and competencies that workers have (including those acquired in non-traditional institutions, such as those in online education); (ii) investing in the capacity of education institutions, ensuring competition, and providing the right financial and institutional incentives for schools and universities to be responsive to information and to engage with the private sector. This could be done, for example, by giving some autonomy to higher and vocational educational institutions to adjust their teaching methods and content to changing labor market needs while increasing accountability and introducing, for example, a financing system that is at least partially based on results; and (iii) acting as convening power for the different actors and facilitating the flow of information through, for example, Employment Observatories.
- Ensure availability of employment services to match workers to jobs (Arias et al., 2014), including opportunities for life-long-learning.

d) Social Norms and Values
Certain attitudes and social norms can be significant barriers to labor force participation and employment. The impact of such engrained value systems remains profound, and does not necessarily reflect the preferences of the individual. Outright discrimination is a manifestation of attitudes that is particularly restrictive to labor market opportunities. Although many ECA countries have a legal framework in place that prohibits discrimination based on factors such as gender, age and ethnicity, legal provisions could still be improved. Aside from discrimination, women’s participation in the labor markets, in particular, is often limited by the traditional role assigned to them as housewives and/or main caregivers.

Although it is difficult to determine what share of individuals conform to social norms voluntarily, and what share does so because they feel they have no other option, it should be recognized that in many cases, the latter group exists, and that many individuals may find themselves trapped in inactivity as a consequence. Results presented in this report suggest that when better informed, women may choose to enter the labor market rather than staying at home.

Norms and values do not just have a direct impact on labor market opportunities, but they also have indirect effects, for example by assigning women household responsibilities that take away time they could otherwise use to (look for) work. Indeed, family and household responsibilities are an obstacle to labor force participation among women, starting at a young age. Women in these countries marry young, and marriage often comes with substantial expectations in relation to running the household and family care. Early marriage can also impact decisions on schooling. Perhaps not surprisingly, labor force participation among married women is particularly low, even after controlling for background characteristics. Beyond marriage, child care responsibilities also make it difficult for women, but not for men, to seek or hold a job outside the home, especially when the youngest child has not yet reached an age of seven. The indirect effects of social norms also partly explain the lack of affordable child and elderly care services, making it harder for women to combine work and family.

Policy Responses

- Increase the availability and affordability of child and elderly care, and preschool.
- Provide training and hiring subsidies for specific sub-groups which are faced with adverse social norms, and potentially discrimination, in order to help them build a job history than can counteract prejudices. Hiring subsidies are, however, quite complex, since in many cases they lead to waste as resources are used for workers that would get employment without subsidies or on firms that use the subsidies to have free labor and do not provide workers nor with employment nor with valuable training. Therefore, if these are implemented, they need to be well-targeted to groups that are otherwise hard to employ. In this report, we have argued this might be the case for youth from minorities or rural areas working in cities, or for women with young children.
- Introduce and enforce zero-tolerance policies with respect to discrimination, and improve incentives for firms to go beyond minimum requirements.
- Use the education system and information campaigns to improve social attitudes.
- Improve the gender neutrality of regulations governing work.
e) Labor Regulations and Flexible Work Arrangements

In order for firms to grow and for individuals to see value in the jobs they offer, regulatory frameworks need to encourage employment, good working conditions and an environment that allows entrepreneurs to thrive. Although labor regulations have been shown to have only small (albeit often negative) effects on aggregate employment or unemployment, they have been shown to impact employment outcomes of groups that are traditionally outside of the labor market, such as youth and women. Moreover, as countries further develop and improve their labor markets and business climates, labor regulations tend to become a more binding constraint, due to the disappearance of other barriers and constraining factors (Arias et al., 2014).

There is significant variation in labor market efficiency in terms of regulations and flexible work arrangements across the ten countries analyzed in this report. Specific elements of the employment protection legislation remain tight in many of these countries, although some progress has been made. In most countries, minimum wages have increased, in relative terms, although they remain low as compared to (average) productivity. The lack of flexible work arrangements can also have negative impacts on participation. Given the levels of participation and overall labor market structure in these countries, part-time work is arguably the main priority in this area. The largest share of current part-time jobs is, in most countries, filled by women. This is consistent with existing evidence on preferences for specific job types among women and men (Arias et al., 2014). However, total part-time employment in the region often remains low, with only a few exceptions.

Policy Responses

- Avoid ‘binding’ regulations while still protecting workers, especially those that are most likely to affect youth and women (two critical groups for increasing participation in the future).
- Reduce the cost of hiring, especially among low productivity workers, through probation periods, apprenticeships and internships.
- Increase regularity and fairness of enforcement.
- Provide flexible work arrangements in public sector jobs, and incentivize private sector firms to do the same.

f) Access to Productive Inputs

Similar to disparities in accessing labor markets, there are significant disparities in accessing education, credit, land, labor market information and networks: inputs needed to be productive and successful on the labor market. Poor access to these productive inputs limits labor force participation directly, but also indirectly by reducing the potential returns to participation. Mainly in Central Asia, credit markets are still growing. Particular groups, including women, youth, older workers and sometimes ethnic minorities, often face additional constraints when attempting to access credit. These gaps in access to credit are often the result of gaps in other realms: for example, groups such as youth, women and older workers may be less likely to possess land and other assets that could serve as collateral. Existing evidence indeed suggests that there are discrepancies between groups in their ability to access land. In countries which heavily depend on agriculture and where women often work in an (agricultural) family business, land means access to
work, in addition to serving as collateral. Also in this realm, women are often at a disadvantage. In addition to traditional productive inputs, access to labor market information and networks is also key in linking people to jobs, and tends to benefit excluded groups much less.

Policy Responses

- Increase access to productive inputs, including credit and land, among women and other groups which currently face challenges in this realm, for example through regulation and leveraging opportunities for financial inclusion or land registration created by digital technologies.
- Encourage and facilitate network formation and information flows, making use of, among others, job information centers and public employment services.
- Facilitate business start-ups and formalization, especially in regions where agriculture and informality dominate, and provide transition-paths to formalization for family businesses.

g) Location and Mobility

Most countries do not display major differences in overall participation rates between urban and rural environments. However, when controlling for background characteristics, one’s chances of participating in the labor force are often lower in urban environments. This partly reflects the fact that agriculture is still the main employer in many rural areas, and that participation in this sector – especially among women – is high. Not surprisingly, in most of the countries analyzed here, the participation gap between urban and rural locations is much larger for women than for men.

Beyond the urban-rural divide, regional labor force participation rates within countries differ substantially. In almost all countries, these differences in participation between regions are largely driven by women and youth. Coupled with the generally lower participation rates among women, this means that there are specific geographic locations where women hardly participate in the labor force at all. These regional differences in labor force participation mask deeper underlying causes: these may include cultural differences, differences in economic structure, and the expected payoff from participating in the labor force. At the same time, not all working age individuals are willing and able to move to places where job markets have more to offer. This is despite the fact that external migration is very high in some of these countries.

Policy Responses

- Invest in programs aimed at improving agricultural productivity.
- Bring women in urban environments into the labor force through early investments in skills.
- Identify location-specific challenges, especially for women and ethnic minorities.
- Encourage mobility and improve labor conditions and opportunities for migrants.

An Integrated Activation Agenda
Activation can (i) help improve the functioning of the labor market by forging better matching between workers and jobs, and (ii) improve the employability of particularly disadvantaged groups by providing targeted services. Although expansion without improvement in quality is not desirable, it should be noted that these ten countries currently spend relatively little on Active Labor Market Policies (ALMP’s). For example, in Macedonia, ALMP’s account for only 4 percent of the total budget reserved for labor market programs. In Kosovo, this is 0.47 percent (World Bank, 2013f).

In order for ALMPs to function effectively and efficiently, services need to be well-targeted and designed on the basis of the specific needs of their target population. Some groups may only need very little assistance (for example, those who have work experience), whereas other groups face multiple barriers and may require a more holistic approach. As such, it is important for activation measures to triage the inactive population and to prioritize based on this exercise. Digital technologies can be very helpful in this area. Although not a panacea for labor market malfunctioning, activation policies can be of particular importance for boosting labor force participation by removing or mitigating barriers among traditionally excluded groups. Governments can draw important conclusions from existing studies on the effectiveness and cost-efficiency of specific programs used elsewhere in the world.

Policy Responses

- Allocate more funding to comprehensive ALMP policy packages and rationalize policies. Experiences in OECD countries suggest that most effective approach includes a coherent activation policy package. Yet, many countries have too many, small, programs, for which impacts are unclear. Rationalizing these programs, shifting resources from the least effective to the most effective is a first step in this agenda.
- Improve the targeting of programs to the needs of specific sub-populations. Different approaches to profiling can be helpful in this respect.
- Focus activation on young women with secondary education.
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2 Arias, Omar S.; Sánchez-Páramo, Carolina; Dávalos, María E.; Santos, Indhira; Tiongson, Erwin R.; Gruen, Carola; de Andrade Falcão, Natasha; Saiovici, Gady; Cancho, Cesar A.

3 The following countries are included in this qualitative work: Bosnia and Herzegovina, Kosovo, Macedonia FYR, Serbia, Georgia, Turkey, Kazakhstan, the Kyrgyz Republic and Tajikistan. Five of these countries overlap with the countries analyzed here.
BACKGROUND

Funded by the Trust Fund for Environmentally & Socially Sustainable Development (TFESSD), this report seeks to analyze labor market dynamics in ten of Europe and Central Asia’s (ECA) poorest countries. This is done with two main aims: (i) To help governments identify inequalities in labor market participation outcomes, and associated social exclusions across different age-, gender-, and ethnic groups, and (ii) To explore the role that public policy – including policies related to skills development, active labor market policies, and other areas with direct relevance to the labor market, but also social protection, child- and housing benefits, health insurance and the overall tax system – can play in enabling an environment that encourages participation in the labor market while still providing security to the poor.

The overall project is composed of four major activities: (i) This report, a cross-country comparison study that evaluates the extent to which important within-country inequalities in labor market participation exist across different groups in ECA (e.g. men/women, old/young, urban/rural); (ii) Three country case studies, covering FYR Macedonia, Georgia and Tajikistan, focusing on particular socio-economic groups or specific programs, which evaluate quantitatively and qualitatively the extent to which public policy contributes to, or alleviates inequalities in labor market participation and associated social exclusions; (iii) Five qualitative country reports, covering FYR Macedonia, Georgia, Kosovo, the Kyrgyz Republic and Tajikistan; and (iv) a labor market participation inequality database with selected labor market statistics broken down by different groups.

List of included countries (see Figure 1): Albania, Armenia, Azerbaijan, FYR Macedonia, Georgia, Kosovo, Kyrgyz Republic, Moldova, Tajikistan and Ukraine.
Notes: The countries investigated in this report are colored yellow. In alphabetical order: Albania, Armenia, Azerbaijan, FYR Macedonia, Georgia, Kosovo, Kyrgyz Republic, Moldova, Tajikistan and Ukraine.
1 INTRODUCTION

The countries analyzed in this report are among the poorest in the region of Europe and Central Asia (ECA). This report covers Albania, Armenia, Azerbaijan, FYR Macedonia, Georgia, Kosovo, Kyrgyz Republic, Moldova, Tajikistan and Ukraine. In total, these ten countries have a population of approximately 90 million people, with about half of these living in Ukraine. In six of the ten countries, the poor and vulnerable combined make up approximately 80 percent of the total population, compared to 33 percent in the ECA region on average (Figure 2).

**Figure 2: Poverty rates are high, as compared to the rest of ECA**

Poverty rates and vulnerability rates in ECA countries: regional comparison

Notes: Both the poverty line and the vulnerability line are based on PPP adjusted 2005 price levels. For each country, data from the latest available year was used.

These high rates of vulnerability stand in contrast to the region’s strong growth performance before the economic crisis. Between 2000 and 2007, GDP per capita in these ten countries grew, on average, by 7.9 percent annually – among the highest growth rates worldwide. Yet, this prosperity was not widely shared.

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4 The poor are defined as those living on a per capita income of $US 2.5 per day in Purchasing Power Parity (PPP) terms. The vulnerable are defined as those living on US$5 per day in PPP terms.
A poor employment record, especially due to low labor force participation, has been the weak link in the growth-prosperity chain. In the ECA region as a whole, only 52 percent of individuals aged 15-64 are employed. Although this partly reflects high unemployment rates (14 percent on average), it especially reflects very low rates of labor force participation (58 percent on average). In the ten countries analyzed here, labor force participation is even slightly lower, at 57 percent. Indeed, in many of the countries this report focuses on, as much as a quarter of all households do not have any employed household members. Among those out of the labor force, many have never worked. For example, women who have never worked account for 64 percent of the Albanian female inactive population (ages 20-54), and for 88 percent of the Macedonian female inactive population of the same age-group. Among men, these rates are 65 percent and 73 percent, respectively.5

Raising the overall employment level will require increasing participation among those who are the most likely to be inactive, such as women, younger and older workers, and ethnic minorities. This is arguably the main challenge that countries in the region face as they continue their reform process in a rapidly changing environment in terms of demographics, globalization and technological progress. Although there are also many challenges on the demand side of the labor market (job creation)6, this report focuses on how to increase labor market participation when jobs are available.

This report, funded by the Trust Fund for Environmentally and Socially Sustainable Development (TFESSD), seeks to identify labor market inequalities in the ten countries outlined above, to relate these inequalities to other forms of social exclusion, and to propose areas for policy action aimed at boosting labor market participation.

1.1 Main Findings

Low labor market participation is concentrated among women, youth and those with low formal educational attainment. There are also specific groups within these three broad categories, such as female older workers, for whom the low level of labor force participation is particularly striking. The overall participation rate in the countries analyzed here is, on average, 57 percent. However, participation is 47 percent among women, 33 percent among youth and 38 percent among those without secondary education. Women of childbearing age and women who are about to enter retirement have particularly low rates of labor force participation. Among those without secondary education, participation rates are, once again, particularly low among women. In some countries, individuals belonging to ethnic minorities have low rates of labor force participation, but in other countries, their participation rates are higher than those of the majority.

We argue in this report that these labor market inequalities are partly explained by background factors, reflecting unequal access to opportunities from the outset of life. To the extent that factors such as one’s gender and ethnicity play a large role in explaining access to economic opportunities – as opposed to talent, effort and skills – growth and labor markets are not going to be inclusive. Based on an equality of opportunity index, Abras et al. (2012) find that

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6 See Arias et al. (2014) for a more elaborate discussion on job creation in the region.
Albania, Armenia and Azerbaijan have the highest levels of overall inequality of opportunity among the countries analyzed\(^7\), when taking into account one’s age, one’s education level, and a number of background characteristics.\(^8\)

**Beyond these background factors, we show that public policies and programs, including labor taxes, benefits and labor regulations can often exacerbate labor market disadvantages for specific groups.** For example, rigid labor legislation or high minimum wages can make it disproportionately expensive for firms to hire new workers (usually youth or women who are not working) or make it expensive for individuals to work part-time. Similarly, the official retirement age is often lower for women than for men, encouraging the former to leave the labor market sooner than their male peers. In this report, we discuss the role that taxation, benefits and labor regulations play in determining participation in the labor market.

**Furthermore, we discuss the importance of public policies that broaden access to, and improve the quality of education and training systems, increase access to productive inputs and promote internal labor mobility and social norms that are compatible with inclusive employment.**

**This report – and its accompanying notes and materials – contributes to our understanding of labor market inequalities in several ways.** First, by systematically documenting existing inequalities, using, in some cases, newly developed primary data sources. This effort is particularly important in this specific set of countries, for many of which labor market analysis is currently still limited. Second, by looking comprehensively at these inequalities, differentiating between the market, policy and institutional factors underlying them. Third, by combining quantitative methods with in-depth qualitative work. Fourth, by rigorously studying the causal impact of specific public programs on participation, as in the case of Georgia (Box 4).

**The remainder of the report is structured as follows.** Chapter 2 describes the role that jobs play in fostering good living standards, productivity and social cohesion, and contextualizes the discussion on jobs and participation in the ten countries. Chapter 3 zooms in, highlighting inequalities in labor force participation across demographic groups. Chapter 4 shifts the focus to the factors explaining unequal labor force participation across groups, and discusses a policy agenda for these ten countries, drawing on experiences from the rest of the world. Chapter 5 concludes.

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\(^7\) Of the ten countries analyzed in this report, these include Albania, Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Macedonia, Moldova, Tajikistan, and Ukraine.

\(^8\) Abras et al. (2012) define ‘opportunity’ as having a job for over 19 hours per week. Lack of opportunity is defined as working less than 20 hours a week, being unemployed, or wanting to work more. Abras et al. group the causes of unequal opportunity into three categories: one’s age, one’s educational attainment, and a third category labeled ‘circumstances’, which includes: the gender of the individual, the educational attainment of the father, parents’ past affiliation with the Communist Party, and self-reported minority status.
2 A CASE FOR LABOR MARKET INCLUSION IN ECA’S POOREST COUNTRIES

Employment is a key driver of economic and social outcomes, and it is critical for translating economic growth into shared prosperity. At the country-level, a healthy level of employment is essential for fiscal sustainability and sustained economic growth. In addition, employment, and especially equality in employment opportunities, is fundamental for the sustainability of the social contract and for social cohesion (World Bank, 2012a). As highlighted in Bussolo and Lopez-Calva (2014), shared prosperity depends crucially not only on the assets held by the bottom 40 percent of the population, but also on the returns to these assets – with jobs and opportunities for entrepreneurship being critical mediators.

For households and individuals, jobs have undeniable benefits. Jobs provide sustainable livelihoods by allowing for a stable income stream. They enhance economic security, and allow households to accumulate savings. Hence, they also enable households to cope with economic shocks. Not surprisingly, therefore, poverty rates are often disproportionately high among households where the head is unemployed and out of the labor force. Exits from poverty are often associated with events related to employment, such as getting a job, or an increase in wage (World Bank, 2012a). Jobs also lead to increased happiness and overall satisfaction with life (Layard, 2005; World Bank, 2012a), and provide relational benefits (UNDP, 2011), such as a sense of social inclusion, that allow people to overcome systematic barriers in access to power, rights, and natural and economic resources.

Indeed, employment and earnings are key determinants of household income growth and shared prosperity. In Tajikistan, for example, almost half of the income growth of the bottom 40 percent of households between 2003 and 2009 came from labor income (Figure 3). Critically, the share of employed individuals is also a significant driver of income growth in the bottom 40 percent, whereas this is not the case for the total population. This can probably be explained by the fact that many workers in the bottom 40 percent are low-wage earners.

Figure 3: Employment is an important determinant of income growth among the poor in Tajikistan

Tajikistan: determinants of household income growth among the overall population and the bottom 40 percent, 2003-2009

![Figure 3: Employment is an important determinant of income growth among the poor in Tajikistan](image)
Yet, in the last decade, economic growth in the ten countries this report focuses on has failed to translate into employment gains. The ten countries analyzed here have experienced a decade of good growth performance (Figure 4), with annual GDP per capita growth of 7.9 percent on average, between 2000 and 2007. This growth has been higher than that observed in the ECA region as a whole, where GDP per capita grew by an average of 6.5 percent in the 2000-2007 period (Arias et al., 2014). Yet, labor market outcomes do not reflect these increases in output: historic trends reveal a stagnant pattern rather than improvements on the labor market (Figure 5). In most of the ten countries, employment rates have remained at the same levels as a decade ago. Georgia and Moldova saw a drop in employment rates. Underlying these trends is not an increase in unemployment rates, but rather, a decrease in participation rates (especially in Moldova). Since most policy analyses focus on understanding the drivers of high unemployment in the region, in this report, we focus instead on understanding the drivers of persistently low labor force participation in the selected set of ten countries.

**Figure 4: GDP per capita growth has been strong**

**GDP per capita and GDP per capita growth, 2000-2011**

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Source: World Bank: World Development Indicators.

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9 Since Azerbaijan had an average growth rate of 17.2 percent during these years, the average for the remaining nine countries is much closer to the regional average, at 6.7 percent.

10 The significant fall in participation rates in Moldova is explained by a combination of international migration, combined with a related reduction in informal employment. For a more detailed discussion of these dynamics in Moldova, see Kupets (2014).
Figure 5: Employment and unemployment rates have remained stable and participation rates have decreased in most countries since the early 2000s.

Employment, unemployment and participation rates among adult population (15+), 2001-2011

Panel A: Employment rate (percent)

Panel B: Unemployment rate (percent)

Panel C: Participation rate (percent)
On average, the countries analyzed in this report perform poorly in terms of employment rates when compared to the EU15, the EU10, and the Non-EU OECD countries. Employment rates are also low in absolute terms: they often remain close to, or below 50 percent of the working age population, meaning that only one out of two people of working age is in fact working. In part, this gap is explained by high unemployment rates: in some countries, unemployment rates are much higher than in comparator groups. However, another part of this gap is explained by low rates of labor force participation: although activity rates in these ten countries are, on average, not lower than among comparator groups (Panel C), inequality in labor force participation is striking, leaving large groups – including women, youth, older workers, and sometimes ethnic minorities – behind with particularly low participation rates. The three countries with the lowest employment rates also have the lowest participation rates (Kosovo, Macedonia and Moldova).

Many households do not have any labor income at all. On average across countries, one in four households in the ten countries of this study (26 percent) does not have any employed individuals (Figure 6). This means that, on average, over one quarter of households depend on means of income other than employment, such as state welfare transfers or remittances. In Moldova and Kosovo, this figure rises to almost 40 percent.

**Figure 6: A substantial share of households does not have a single working household member**

*Average number of employed individuals per household, and percentage of households with no employed household members*

*Panel A: Average no. of employed household members    Panel B: Percent of households without employment*
The low labor force participation in this study’s countries is not simply explained by their level of economic development. When taking GDP levels into account, most of the ten countries of this study have lower labor force participation rates than what would be expected given their GDP per capita levels (Figure 7). This is particularly the case for Armenia, Macedonia, Moldova, and Ukraine.

**Figure 7: Activity rates are low, even for their level of development**

**Activity rates working age population (15-64) and GDP per capita, latest year available**

Source: Authors' calculations, based on household surveys (2008-2011).
Notes: See Annex 1 for a detailed description of the surveys used.
As a result of these poor labor market outcomes, many years of potential productive employment are lost. Only Azerbaijan has a lower average number of productive years lost than the overall average for OECD countries. On average, approximately one third of one’s productive life is spent out of employment, which is mainly driven by losses among women and losses after 45 years of age (Figure 9).

**Figure 8: Productive lives are shortened by high unemployment rates and low participation rates**

**Average number of years of potential working life lost, by age group**

| Age Group | Kazakhstan | Azerbaijan | OECD | ASIA | Czech Republic | Slovenia | EU | Russia | Estonia | LAC | Bulgaria | Lithuania | Ukraine | Latvia | Georgia | Slovakia | Poland | Romania | ECA | Croatia | Armenia | Hungary | Serbia | Tajikistan | Moldova | Macedonia | Turkey |
|-----------|------------|------------|------|------|----------------|---------|----|--------|---------|-----|----------|------------|--------|--------|---------|-----------|--------|----------|------|---------|---------|---------|---------|--------|--------|---------|
| 25-34     | 12         | 10         | 7    | 8    | 6              | 5       | 7  | 5      | 5       | 4   | 4        | 4          | 6      | 4      | 5       | 6         | 5      | 4        | 4    | 6       | 6       | 4       | 4       |
| 35-44     | 10         | 10         | 7    | 8    | 6              | 5       | 7  | 5      | 5       | 4   | 4        | 4          | 6      | 4      | 5       | 6         | 5      | 4        | 4    | 6       | 6       | 4       | 4       |
| 45-54     | 12         | 10         | 7    | 8    | 6              | 5       | 7  | 5      | 5       | 4   | 4        | 4          | 6      | 4      | 5       | 6         | 5      | 4        | 4    | 6       | 6       | 4       | 4       |
| 55-64     | 12         | 10         | 7    | 8    | 6              | 5       | 7  | 5      | 5       | 4   | 4        | 4          | 6      | 4      | 5       | 6         | 5      | 4        | 4    | 6       | 6       | 4       | 4       |

Source: Arias et al. (2014).

Notes: Calculated as the sum of employment rates by age group, starting at 15 years old and up to 64 years old, minus the total potential working life.

While in this report we focus on labor force participation, it is important to recognize that in developing countries, participation, discouragement, unemployment, informal work and formal work form a continuum, rather than easily separable categories. Many people in these ten countries only consider formal work to be proper employment (Figure 9). In addition, many individuals are discouraged, and have left the labor force as a result. For example, in Armenia, over 20 percent of those out of the labor force who have completed at least secondary education have become discouraged: they report being interested in working, but that they are not looking for a job anymore because they do not believe they can find one. Transitions across different labor market statuses are common (Table 1). This means that a discussion on labor force participation, as presented here, is in fact also important for an evaluation of issues related to unemployment and types of employment, and vice versa.

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**Figure 9: Many informal jobs are not considered to be employment**

**Kosovo: Share of focus group participants considering each type of job to be ‘employment’, 2013**

![Bar chart showing percentages of focus group participants considering different types of jobs as employment.](chart)


Notes: Figures are based on answers from 24 focus groups, conducted in 4 communities. In each community, six separate focus groups were interviewed: male employed participants, female employed participants, male jobless participants, female jobless participants, male youth (aged 15-24) and female youth.

**Table 1: Moving from informality and formality, or from employment to inactivity or unemployment is not uncommon**

**Macedonia: percent of working age individuals (15-64) moving from one status to another between 2008 and 2009**

<table>
<thead>
<tr>
<th>2008</th>
<th>Employed, formal</th>
<th>Employed, informal</th>
<th>Unemployed</th>
<th>Out of LF</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed, formal</td>
<td>85.56</td>
<td>5.96</td>
<td>5</td>
<td>3.49</td>
<td>100</td>
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<td>Employed, informal</td>
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<td>74.89</td>
<td>8.06</td>
<td>9.55</td>
<td>100</td>
</tr>
<tr>
<td>Unemployed</td>
<td>16.13</td>
<td>5.57</td>
<td>68.4</td>
<td>9.9</td>
<td>100</td>
</tr>
<tr>
<td>Out of LF</td>
<td>2.41</td>
<td>1.83</td>
<td>5.66</td>
<td>90.1</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: World Bank (2013e), based on Rotating Panel LFS.

As discussed in Arias et al., 2014, two contextual factors are critical in understanding low labor force participation in the region and framing the policy discussion: progress in the economic and institutional reform process and demographic trends. While all of the ten countries we study here share a common socialist legacy, they have made uneven progress in reforms – labor market regulation, business climate, public sector modernization, financial development and trade integration – and face differentiated demographic challenges. Regarding reforms, a number of these countries can be characterized as ‘late modernizers’: Azerbaijan, the Kyrgyz Republic, Tajikistan and Ukraine have initiated some reforms in the areas mentioned above, but this has happened only slowly and often unevenly, resulting in limited global integration, large public sectors, and still unreformed business climates and financial sectors (Arias et al., 2014). Albania, Armenia, Georgia, Kosovo, Macedonia and Moldova, on the other hand, are ‘intermediate modernizers’. In terms of demographics, populations in some of these countries are aging – often very rapidly so, and have working age populations that are expected to decline, in relative and sometimes also in absolute terms. This applies to Armenia, FYR Macedonia, Georgia, Moldova and Ukraine (Figure 10). By contrast, the remaining countries experience rapid population growth and are ageing less quickly.
**Figure 10: The ten countries of this study have varying demographic trends**

**Expected growth rate of adult (15+) population in ECA countries (percent), 2010-2030**

![Graph showing growth rate of adult (15+) population in ECA countries (2010-2030)](image)

Source: Arias et al. (2014).

**Rapid aging, in particular, makes it more urgent, if also more challenging, to increase labor force participation.** The ratio of non-contributors to those contributing to social security is above two in all ten countries. This means that for every individual contributing to social security, there are at least two individuals who do not contribute. In 9 out of the ten countries, the proportion of non-contributors to contributors is higher than the regional average of 2.8. In Armenia and Kosovo, this number rises to five non-contributors per contributor. With aging populations, this challenge will soon increase in magnitude: in the years to come, an increasing share of pensioners will need to be supported by a decreasing share of workers. Getting more people into work today is, therefore, critical to the sustainability of the socio-economic model of these countries.
3 Labor Market Inequalities in ECA’s Poorest Countries: Gender, Age and Ethnicity

Women, youth and older workers are, across countries, disproportionately likely to be inactive (Figure 11). For example, on average, women account for 42 percent of the labor force in these countries, but make up 63 percent of the inactive population. This chapter examines inequalities in labor force participation across demographic groups in terms of gender and age, as well as ethnicity. These characteristics, beyond individuals’ effort and talent, still determine in large part the opportunities that people have and not have in the labor market and in life. Understanding the nature of these inequalities is a first step in addressing them.

Figure 11: Women, youth and older workers are disproportionately likely to be inactive

Within the labor force and among the inactive: share of women, youth and older workers (percent), cross-country average

![Graph showing gender, age and ethnicity disparities in labor force participation.]

Source: Authors’ calculations, based on household surveys (2008-2011).
Notes: See Annex 1 for a detailed description of the surveys used. Among youth, many of those who are inactive may still be in school. However, an average of 16 percent of the inactive and 12 percent of those in the labor force are aged 20-24, showing that even beyond secondary school completion, youth still lag behind in terms of labor market outcomes.

3.1 Gender

Labor force participation in the countries analyzed is particularly low among women, although – compared to countries around the world – it is men’s low labor force participation that stands out. Although much lower than among men, participation rates among women in ECA’s poorest countries are, overall, on par with global averages (Figure 14). By contrast, the average participation rate for men in these ten countries (68 percent) shows an 11 percentage point gap with the global average of 79 percent. Even when taking into account levels of GDP per capita, these ten countries display relatively low rates of male labor force participation (Figure 12). Especially in Armenia, Azerbaijan, Moldova and Ukraine, male labor force participation is low.

12 World Bank: World Development Indicators (2012).
compared to global comparators.¹³ Yet, as there is a large gap between women’s and men’s participation rates, the former remain far lower in absolute terms. Therefore, we focus here on female labor force participation.¹⁴

**Figure 12: Male labor force participation is low according to international standards**

Male labor force participation, working age population (15-64)

![Graph showing male labor force participation](image)

Source: Authors’ calculations, based on World Bank: World Development Indicators, circa 2009.
Notes: Data exclude countries with GDP per capita higher than US$18000.

**Before the transition, female employment rates were high in the region, but never recovered after falling during the deep recession of the early 90s and the continuing economic restructuring process.** The ECA region has a long history of striving for gender equality, with countries in the region being early adopters of legislation that treated women and men equally in the labor market and with high rates of child care provision pre-transition (Sattar, 2012). In the transition period, however, women were often the first to be laid off, and supporting services were often discontinued (UNDP, 2011). The overall poor labor market performance since the start of the transition has meant that female employment and labor force participation rates have remained low.

**On average, only 4 in 10 women in these ten countries are employed.** This employment rate is 17 percentage points lower than that of men. While unemployment is relatively low among women, inactivity rates are very high (53 percent, on average, compared to 32 percent among men). Although country-by-country variation in employment and participation rates is high, the general trend displayed in Figure 13 suggests that among women, the main factor determining low employment rates is participation rather than unemployment: the gap between men and women in

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¹³ These low participation rates among men have been linked to a recent decline in job opportunities in the agricultural and manufacturing sectors. Shrinkage of these sectors has a disproportionate impact on men, who constitute most of the workers in these sectors (Sattar, 2012). International migration has also been linked to these trends (Kupets, 2014).

¹⁴ For a more general discussion on labor force participation, see Arias et al. (2014).
unemployment is only four percentage points, whereas for participation, the gap is over 20 percentage points. Armenia, Macedonia and Moldova have particularly low female labor force participation when compared to countries around the world with similar levels of GDP per capita (Figure 14).

**Figure 13:** Inactivity is much higher among women, whereas unemployment is more common among men

**Employment, unemployment and inactivity, by gender: cross-country average**

![Graph showing employment, unemployment, and inactivity by gender for various countries.](image)

Source: Authors’ calculations, based on household surveys (2008-2011).
Notes: See Annex 1 for a detailed description of the surveys used. Error bars reflect the range of individual country estimates.

**Figure 14:** Female labor force participation is largely on par with other countries with similar GDP levels

**Female labor force participation: world, working age population (15-64)**

![Graph showing female labor force participation rate by GDP per capita for various countries.](image)

Source: Authors’ calculations, based on World Bank: World Development Indicators, most recent year.
Notes: Data exclude countries with GDP per capita higher than US$18000.

The gender gaps in participation are particularly striking in Kosovo (34 percentage points) and Tajikistan (37 percentage points). Women lag behind men in terms of participation in all ten countries, without a single exception (Figure 15). The gender gaps in labor force participation are the largest in Azerbaijan, the Kyrgyz Republic and Macedonia (25, 24 and 26 percentage points respectively), and in Kosovo (34 percentage points) and Tajikistan (37 percentage points).
Moreover, these gender gaps are structural: over the past 20 years, these gaps have only narrowed in Azerbaijan in Moldova (Figure 16). In the latter, this has happened in the context of dramatic falls in participation across the board in this period.

**Figure 15:** There is a large gender gap in participation, especially in Kosovo and Tajikistan

**Labor force participation by gender, working age population (15-64)**

Source: Authors’ calculations, based on household surveys (2008-2011).

Notes: See Annex 1 for a detailed description of the surveys used. All gender gaps in labor force participation are significant at the 1 percent level.

**Figure 16:** In most countries, the gender inactivity gap has persisted over time

**Trends in gender gaps of labor force participation: working age population (15-64), 1990-2011**
Even after taking into account differences in education level, age, family size and composition, the location of the household and the regional unemployment rate, men still remain up to 46 percentage points more likely to be in the labor force than women (Figure 17). When controlling for the characteristics mentioned above, men are still much more likely to be in the labor force than women are, with marginal effects of more than ten percentage points in all countries except for Moldova. In Armenia, Georgia and Ukraine, these rates are relatively low compared to the remaining six countries, where women are, without exception, over 20 percentage points less likely to be in the labor force as compared to men. Kosovo is by far the most gender unequal according to these estimates.

**Figure 17:** Men are much more likely to participate in the labor force, even when controlling for background characteristics

**Conditional gender gap in labor force participation, country probit models, age group 20-64**

These gender gaps in participation are aligned with what is observed in countries with similar levels of GDP per capita, but, critically, without policy action, it is likely that these gaps will increase as GDP per capita rises. As the agricultural sector – where women often work – shrinks, and as households grow richer and can afford for women to stay at home, the gap between male and female participation rates is likely to increase. Global evidence suggests that only once GDP levels increase further, women will once again start to participate in the labor market, at rates more equal to those of men (Goldin, 1994).
Worldwide, women generally face more severe and more elaborate restrictions to labor market participation than men. In some cases, education levels, skills and work experience are lower among women (Section 4.2); in others, there are cultural norms and values – or in extreme cases, discrimination – that make it difficult for women to take on jobs (Section 4.3.1). This is aggravated by a lack of supporting services, such as child care, and a lack of flexible work arrangements and appropriate regulations (Section 4.3.2). Highly limited access to credit, land, and information and networks is another potential constraint (Section 4.3.3). Indeed, low levels of labor force participation cannot be interpreted as a sign that women prefer to stay at home (Figure 18).

**Figure 18: Motivation to work among inactive men and women in Albania, Macedonia and Ukraine**

Share of inactive men / women answering ‘yes’ to the question: “Do you want to work, even though you have not looked for employment?”

![Graph showing motivation to work among inactive men and women in Albania, Macedonia, and Ukraine](image)

Source: Authors’ calculations, based on Albania, LFS (2008); Macedonia, LFS (2011); Ukraine, LFS (2009). Notes: All gaps in motivation to work between men and women are significant at the 1 percent level.

**The nature of gender inequalities in labor force participation is complex.** As will be discussed below, inequalities in participation along other dimensions – such as ethnicity and age – are also intrinsically linked to gender disparities: women of certain age-groups, of ethnic minorities, and among other groups, are particularly vulnerable. Moreover, labor force participation is not a one-off decision, especially for women who bear the brunt of child and family care responsibilities. Interruptions as short as one year can severely limit women’s opportunities to re-enter the labor market, and can lower wages over a woman’s lifespan (Sattar, 2012: 58). We return to these issues in the policy discussion.

### 3.2 Age

**The likelihood of being active in the labor market also varies significantly with age.** More specifically, youth (aged 15-24) and older workers (aged 55-64) are much less likely to participate in the labor force than prime age workers. This trend holds for both men and women (Figure 19), with the gender gap in participation often becoming larger with age (Figure 20). Even when controlling for background characteristics such as gender, education level, household composition and location, youth and older workers remain far less likely to participate in the labor force, driven mainly by high conditional effects of age among women (Annex 2).
Figure 19: Labor force participation is particularly low among youth and older workers

Gaps between male and female labor force participation across age groups

Panel A: Cross-country average: participation rates (percent)

Panel B: Participation among youth (15-24), prime age workers (25-54) and older workers (55-64) (percent)


Notes: See Annex 1 for a detailed description of the surveys used.

Figure 20: The gender gap in labor force participation often increases with age

Country-specific gender gaps in labor force participation, by age (percentage points)

Source: Authors’ calculations, based on household surveys (2008-2011).

Notes: See Annex 1 for a detailed description of the surveys used. All gender gaps reported are significant at the 1 percent level.
Labor force participation among youth and older workers are of particular importance given the current and future demographic structure of these countries’ populations. Currently, youth form a particularly large group among the working age in these ten countries (Annex 3): on average, those aged 15-24 make up over one fourth of the total working age population. Hence, there are important gains to be made if they can be brought into the labor force early on, after completing their studies. At the same time, the ageing populations of these countries make longer working lives essential.

A substantial share of youth is not enrolled in any form of school or training, and is also not engaged in employment. In Tajikistan, this is over 40 percent of youth. In Albania, Macedonia and Moldova, the rates are slightly lower, but still exceed one quarter of the total age group. In Georgia, the Kyrgyz Republic and Ukraine, rates are only slightly below 20 percent. Among those who are nor working or studying, some look for work, but many remain out of the labor force altogether (Figure 21).

**Figure 21: Many youth are not employed or enrolled in education or training (NEET)**

**NEET among youth (15-24), broken down by activity status**

![Bar chart showing NEET among youth (15-24) by activity status](chart.png)

Source: Authors’ calculations, based on household surveys.
Notes: See Annex 1 for a detailed description of the surveys used.

The share of young women that is NEET is generally higher than that among young men. While among women, the NEET are usually inactive, among men, they are more often unemployed (Figure 22). For example, in the Kyrgyz Republic, Macedonia and Ukraine, the share of male NEET youth in unemployment is 68 percent, 86 percent and 49 percent, respectively. For women, on the other hand, these rates are much lower, meaning that this group predominantly ends up out of the labor force rather than searching for work. This could reflect trends among women to remain out of the labor force for other reasons – such as marriage, family responsibilities and cultural values which impede women to enter or remain in the workforce. In fact, these low activity rates among young women who are not enrolled in school create important path-dependencies: once women are out of the labor force, it becomes very unlikely that they ever return. Indeed, the share of inactive women that does not have any work experience is often very high: in the age group 20-54, this is 64 percent in Albania and 88 percent in Macedonia. Not surprisingly, then, this gender pattern in participation is largely maintained throughout the life-cycle.
Among older workers, inactivity starts early, especially for women. For example, in Albania, Kosovo, Macedonia and Tajikistan, less than 20 percent of all women aged 60-64 still participate in the labor force. This may be partly explained by low official retirement ages, especially for women (Section 4.1.2), and partly by a lack of relevant skills and work experience (Section 4.2). Indeed, among inactive women of working age, many have never worked before. To a lesser extent, the same is true for men. In addition, older workers may face discrimination on the labor market (Section 4.3.1). Adverse self-selection among older workers adds to this: in many cases, older workers choose to remain inactive – either because of attractive pension benefits, or because they perceive negative social judgments vis-à-vis older individuals who do keep their job. Indeed, regional evidence suggests that individuals older than the official retirement age are often viewed negatively if they are still working, as their younger peers perceive them to be taking jobs away, and to be benefiting from double income streams, that is, wages and pensions (Arias et al., 2014).

Lastly, the gender gap in labor force participation is particularly large in the age group 25-34, driven by very low participation rates among women of child bearing age. Indeed, as shown in Section 4.3.1 below, living in a household with young children is negatively correlated with a woman's chance to be in the labor force, whereas the opposite holds for men.
3.3 Ethnicity

In the Kyrgyz Republic, Macedonia, Moldova, Tajikistan and Ukraine, one fifth or more of the overall population is made up of ethnic minorities (Figure 23). As such, a substantial share of the workforce in these countries has an ethnic minority background. Although each ethnic group in each country has its own unique history and outlook and although inter-ethnic relations are highly country-specific, ethnic minorities often – though not always – share some level of exclusion when it comes to labor market outcomes. This may be due to a variety of factors, including, but not limited to, social norms or ethnic discrimination, on the labor market or in accessing productive inputs – including credit.

Figure 23: Some of the studied countries have sizable ethnic minorities

Share of ethnic minorities in national populations (percent)

![Chart showing the share of ethnic minorities in national populations of various countries.]

Source: Authors’ calculations, based on CIA World Factbook: Latest available estimates.
Notes: Annex 4 provides more information on the origin of ethnic minorities in this group of countries.

Although data on labor market outcomes of ethnic minorities are scarce, existing evidence suggests that certain ethnic minorities are particularly vulnerable to exclusion, especially among women. In spite of evidence on the positive impact of economic cooperation or interaction through jobs on inter-ethnic relations (World Bank, 2012a), individuals of ethnic minority backgrounds often remain jobless, or may face difficulties in getting employment outside of their ethnic communities. Labor force participation among minorities seems to be lagging mostly for women. Within countries, there is no participation gap among men of different ethnicities – although sometimes, ethnic minority men do face higher unemployment rates.

Despite general patterns, the interaction between ethnicity and participation has important country specificities (Figure 24). In Albania, participation is slightly lower among ethnic minority men from certain groups. Among ethnic minority women, the Roma stand out with particularly low participation rates, and discouragement is particularly high among this group. In Macedonia, ethnic

15 Ethnic minorities are often thought to increase insecurity and unemployment, for example (Life in Transition Survey, 2010).
16 In the accompanying case study for Macedonia, a more comprehensive analysis is presented of barriers to accessing labor markets faced by the Roma in Macedonia.
minority women stand out with low participation rates. In Ukraine, inactivity is about twice as high among women of ethnic minority backgrounds as among ethnic Ukrainian women. Although the same trend does not occur among men, it should be recognized that ethnic minority men in Ukraine are employed in the informal sector much more often than their majority counterparts.

There are very few studies that have focused on the barriers to employment faced by minority groups in the ten countries analyzed here. One exception is the case of Macedonia, where previous work shows that the most prominent reasons for inactivity are traditional norms and values that differ across ethnic groups. This study also found that women of ethnic Albanian background report to lack contacts to the outside world to a much larger extent than is the case among ethnic Macedonian women: hence, limited social networks put female ethnic Albanians at a serious disadvantage, especially since they live in a society where connections are critical for obtaining a job (World Bank, 2012b).

**Figure 24:** Often, ethnic minorities face challenges in accessing labor markets, especially among women

**Labor market status among ethnic groups – Albania, Macedonia, Tajikistan and Ukraine**
Notes: For Ukraine, no information is available on the composition of ethnic minorities. In Albania, participation rates among women differ significantly between the ethnic majority, Roma and other ethnic groups. Among men, the only significant difference with the ethnic majority found was for Roma. In Macedonia, participation rates among the ethnic majority differ significantly from those among ethnic minorities, for both men and women. In Tajikistan, there is a significant difference in participation between male ethnic Tajiks and male ethnic Uzbeks. Ethnic Tajiks and individuals from other ethnic minorities have significantly different participation rates among both men and women. In Ukraine, ethnic minorities and ethnic Ukrainians do not differ significantly in terms of participation rates among men. There is, however, a significant difference among women. All differences reported here are significant at at least the 10 percent level.

**There are important exceptions to this pattern:** in Tajikistan, ethnic minorities do not have lower levels of employment or participation than the ethnic majority. Although women still participate less than men among all ethnic groups, ethnic minorities, including mainly ethnic Uzbeks and very few ethnic Russians and ethnic Kyrgyz, are not worse off than the majority in terms of labor market outcomes.

### 3.4 A Summary of Priority Groups Across Countries

The strongest inequalities are across gender and education levels. When comparing labor force participation rates among men to those among women, the conditional effects of being male are generally larger than 25 percentage points. Exceptions are Armenia, Georgia and Ukraine,
where gender-based inequalities seem moderate rather than high. In Moldova, there is only a small gender effect in these models. Instead, the strongest inequalities in Moldova and Georgia seem to be generated by one’s age. Prime age workers are much more likely to be active on the labor force than youth or older workers. The relative disadvantage of older workers seems to be more pronounced in Albania, Macedonia, Georgia and Kosovo as compared to the other countries. In almost all countries, with the exception of Tajikistan, education remains the other factor that generates strong inequalities.

**Priority groups for raising labor force participation vary across countries**

**Based on marginal effects from regression analysis (red=high priority; yellow=medium priority; green=lower priority)**

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<thead>
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<th>ALB</th>
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<th>AZE</th>
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<th>MKD, 2011</th>
<th>GEO</th>
<th>KSV</th>
<th>KGZ</th>
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Source: Authors.

In the policy discussion that follows, policy priorities will depend on the particular groups that in each country need most attention in order to raise labor force participation.
4 A ROLE FOR PUBLIC POLICY: ADDRESSING INEQUALITIES IN LABOR FORCE PARTICIPATION

Public policy can help address labor market inequalities by improving work incentives, equipping workers with labor market-relevant skills, and removing barriers to employment that often particularly affect women, youth, older workers and ethnic minorities (Figure 25).17

Figure 25: A role for public policy in addressing inequalities in labor force participation

A conceptual framework for public policy

Source: Authors, adapted from Arias et al. (2014).

4.1 WORK INCENTIVES

In order for individuals to (formally) participate in the labor market, work needs to pay. A country’s mix of tax policies and social protection programs crucially determines, first, how rewarding a job can be for individuals in financial terms, and second, how costly it is for firms to hire workers. When transitioning from inactivity to work, the combined impact from taxes and social protection on an individual’s income – often referred to as the ‘inactivity trap’ – is not

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17 The conceptual framework presented in this figure follows Arias et al., 2014. See Arias et al., 2014, chapter 4, for a regional assessment of these issues.
particularly high\textsuperscript{18} for average wage earners. However, it is much higher, in relative terms, for low wage earners and for individuals in part-time work. For example, for a Macedonian couple with two children aged 4 and 6, and with only one employed individual in the family, personal income tax, social security contributions and the loss of social assistance, family, and housing benefits together account for a foregone share of gross income of 54 percent for average wage earners, but for as much as 73 percent for low-wage or part-time earners in 2009\textsuperscript{19} (Arias et al., 2014). These implicit taxation rates are determined jointly by labor taxes and social protection policies.

### 4.1.1 Labor Taxation

Labor taxation levels in the ten countries of this study are generally lower than in other ECA countries, but remain higher than in many non-European emerging economies and OECD countries (Figure 26). On average, labor taxes in ECA’s poorest countries amount to 32 percent of the average wage. This is lower than the average for ECA, as well as the average for European OECD countries. Outside the EU, however, both OECD and ASEAN countries have lower average tax wedges than in the ECA countries analyzed.

**Figure 26: Labor taxes are high in many of the studied countries, especially outside Europe**

![Graph showing labor taxes as a percentage of wages in various countries](image)

Source: Authors’ calculations, based on World Bank (2013e) (ASEAN+); OECD and IZA (2011) in Arias et al. (2014): 293 (other countries).

Notes: Tax wedge calculated for a single person without children at the average wage. For ECA countries outside the EU or the Western Balkans, the tax wedge is calculated at 67 percent of the average wage for 2007. For Bosnia and Herzegovina, FYR Macedonia, and Serbia data are for 2009; for Bulgaria, Latvia, Lithuania, and Romania, data are for 2010. The Association of Southeast Asian Nations (ASEAN) includes the following countries: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam. ASEAN+ also includes China, Japan and Korea.

\textsuperscript{18} For non-European OECD countries, the inactivity trap for average wage earners is 59 percent, on average (Arias et al., 2014).

\textsuperscript{19} Low-wage earners are defined as workers earning 50 percent of the average wage. Part-time earners are defined as workers who commit to 50 percent of a fulltime work-week, working at the average wage.
The amount of taxes paid by workers may have an impact on those outside of the labor force in their decision not to look for (formal) jobs. Although the decision not to look for work is usually complex and determined by a multitude of factors, envisaged tax burdens may form an important restriction, keeping individuals out of the labor force whereas they might otherwise have been incentivized to seek work. Likewise, high tax rates may push those looking for work into the informal sector. These effects are strengthened if individuals do not perceive a direct or immediate benefit from the taxes they pay on a newly earned wage: in fact, in countries where government policies are more effective, citizens are generally more willing to accept higher tax rates (Arias et al., 2014; Gill and Raiser, 2012). On the side of employers, high taxes may incentivize more extensive use of capital rather than labor, thus exerting downward pressure on the creation of formal jobs.

Work disincentives associated with labor taxation are likely to be disproportionally high for groups that are usually out of the labor force (or working informally). There are different reasons for this. First, because labor taxation is often not very progressive. This is the case, for example, in Macedonia. Individuals earning 33 percent of the average wage have a tax wedge that is only 5 percentage points lower than individuals earning 100 percent of the average wage. In Moldova, this difference is only 3.5 percentage points. Hence, disincentives arising from tax payments may occur in particular for those earning low wages, which are often women, youth and older workers, and ethnic minorities. Hence, these groups of individuals are particularly likely to view their expected wages as an unattractive alternative to inactivity or to informal work. This is an area where more work is needed in other countries to better understand the structure of labor taxation. A recent study on Armenia found that, taking into account the combined effect of taxes and social protection, a beneficiary in a two parent household with children, where one decided to take up a formal job just above minimum wage would lose about 80 percent of additional gross earnings (World Bank, 2014). Second, for groups with low employment rates and high inactivity rates, the market is usually tighter than for workers with higher wages and more elaborate skill sets (Arias et al., 2014). For example, increases in payroll taxes are likely to be shifted on, at least in part, from employers to employees in the form of wage reductions.

4.1.1.1 Policy Responses

RECOMMENDATION 1

Where there is sufficient fiscal space, assess the possibility of shifting labor taxation to other taxes with a less direct impact on the decision to work (formally), and on how many hours to work. At the moment, in most countries, labor taxation – especially through social contributions – is an

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20 In Macedonia, underreported wages are an area of concern for the government. In response, the Macedonian government has created a ‘wage floor’ for determining tax levels. This wage floor is set at 50 percent of the average wage. Hence, everyone who earns less than 50 percent of the average wage pays a fixed minimum in social security contributions. This effectively raises the relative tax rates on low wage earners.

21 Evidence from the new EU member states confirms that disincentives for formal work, such as high tax rates and the potential loss of benefits, are associated with a much larger increase in informal employment among low-wage workers than among the employed generally (Koettl, 2012).
important source of fiscal revenue (Figure 27). Increased reliance on general taxation, property taxes or inheritance taxes, for example, could help in alleviating potential work disincentives. Costs and benefits of alternative tax structures would need to be carefully assessed.

**Figure 27: Many countries rely heavily on labor taxation**

**Sources of fiscal revenue, as share of GDP, 2011**

At the same time, countries could rethink the structure of labor taxation, especially in places where labor taxes are particularly high for the low-wage earners. With careful analysis, countries could assess the space available for making labor taxation more progressive. Part of this agenda could include, for example, eliminating or phasing out wage floors for social contributions in countries where these still exist. This would need to be accompanied by institutional reforms that strengthen the ability of the public revenue offices to monitor tax compliance, as well as longer-term reforms that improve overall tax morale.

**RECOMMENDATION 2**

Consider the introduction of negative labor income taxation or in-work benefits. In-work benefits (IWB’s) are programs that reduce ex-post tax liabilities (or give a tax refund) conditional on work – usually targeting low-wage earners. Kugler and Kugler (2008) suggest that for low-skilled, low-wage workers in particular, tax subsidies may be effective in boosting participation and employment, especially if applied to indirect benefits. For example, in the United States, the Earned Income Tax Credit (EITC) scheme provides low-income workers with a tax refund. Only employed individuals are eligible. The results of this tax credit scheme in terms of incentivizing work are encouraging, especially when it comes to single mothers, and mothers with low education levels or young children. Research has found that the EITC is strongly correlated with higher labor force participation in single-parent households (Hotz and Scholz 2001 in Arias et al., 2014). A second study found that from 1984-1996, the EITC may have been responsible for as much as 63 percent of the increase in employment among single mothers (Meyer and Rosenbaum, 2001). A similar program is used in the UK. Programs like the EITC scheme slightly reduce the amount of taxes earned by the government per worker, but a resulting boost in labor force participation extends the
tax base, bringing more workers into the fold and thus counterbalancing lost tax receipts. In some of the countries analyzed in this report, local researchers have started to assess the potential benefits of such schemes (Box 1).

Box 1: In-Work Benefit Programs: An Application to Macedonia

A recent study investigates the impacts of two hypothetical IWB programs in Macedonia (Blazevski, Petreski & Petreska, 2013): one ‘phase-in-phase-out’ individual IWB, and one family-based IWB. Eligibility for the individual IWB is conditional on working at least 16 hours a week in the formal economy. For the family IWB, a flat level of benefits is provided up to a certain income threshold, after which the program is phased out gradually. Three different benefit levels are offered to different groups:

1) A **high** level (95,000 MKD), for lone parents or couples with or without children, working formally for at least 40 hours per week;
2) A **medium** level (85,000 MKD), for lone parents or couples with children working formally for 16-39 hours, and couples without children working formally for 30-39 hours per week;
3) A **low** level (63,000 MKD), for singles without dependants, working formally for at least 16 hours per week.

The results from the authors’ simulations suggest considerable impacts on labor force participation. In particular, the authors find that the individual IWB, which does not take into account the composition of one’s family, is effective among couples, where an increase in labor force participation of 2.5 percentage points is found. Among singles, this benefit would increase labor force participation by 2.2 percentage points. The family IWB, on the other hand, is found to have the strongest effect among singles, where an increase in labor force participation of 5.8 percentage points is found. Among couples, the effect of this benefit on labor force participation is estimated to be close to zero, however. The estimated effects are larger among the poor and among women, two groups which are often excluded from labor markets in Macedonia.

**RECOMMENDATION 3**

In the case of market failures, implement targeted hiring or training subsidies. Many countries around the world use hiring subsidies for firms to increase the number of workers (often in the form of reduced social contributions). In cases where there are market failures—such as that the labor market does not have information about the potential productivity of an individual with no or little work experience, where there are prejudices, or excess layoffs in periods of cyclical downturns—these can be efficient. However, design, implementation and evaluation are critical, since there could be deadweight losses if individuals targeted by subsidy programs were able to find employment without this assistance. Moreover, care also needs to be taken to minimize substitution effects, that is, that subsidized workers are hired instead of, rather than in addition to,

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22 This type of program provides a benefit that increases in size up to a certain level of income, after which further increases in income result in the program being phased out for the individual.
other new hires or at the expense of dismissed workers. Duration of subsidies is also of key importance: the German kurzarbeit program, for example, has been evaluated as successful in mitigating temporary shocks related to the 2009 economic crisis (Grimmann et al., 2010). In sum, hiring subsidies can be effective in bringing disadvantaged groups into the labor market if there are market failures and the duration of subsidized work is limited.

Hiring subsidies are, however, quite complex, since in many cases they lead to waste as resources are used for workers that would get employment without subsidies or on firms that use the subsidies to have free labor and do not provide workers nor with employment nor with valuable training. This has been shown to be the case in Turkey, for example. Therefore, if these are implemented, they need to be well-targeted to groups that are otherwise hard to employ. In this report, we have argued this might be the case for youth from minorities or rural areas working in cities, or for women with young children.

### 4.1.2 Work Incentives in Social Protection Systems

**Social protection plays a key role in protecting vulnerable groups and ensuring efficient labor market transitions.** International evidence shows that, if properly designed, social protection systems can protect households against adverse shocks, without decreasing incentives to join the labor force. An approach that reduces risk levels for the poorest not only secures that those who are most in need of security gain access to it, but also allows the poor to engage in more 'high risk / high return' activities, including entrepreneurship, providing a possible way out of poverty (World Bank, 2001).

**However, if there are flaws in these programs, they can create disincentives to work.** First, social protection programs have an “income effect”, as households benefit financially from receiving social assistance or social pensions, for example. This means that if programs are too generous, they can make earnings from employment less relevant for the household. Evidence from OECD countries indeed suggests that if benefits are so generous that they approach market levels for low wages, they can introduce disincentives to join the labor force. On the other hand, evidence from developing countries, where benefits are generally much less generous, often does not find such disincentive effects.

**Second, the design features of social protection programs – including eligibility criteria – can make a combination with, or transition into, employment particularly unattractive and difficult, or sometimes even impossible** (Arias et al., 2014). For example, benefits are sometimes withdrawn abruptly as soon as individuals start working, even if the new job is part-time or if the individual starts a business. In many countries, one of the requirements for receiving social assistance is being registered as unemployed. The duration of benefits is another design feature

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24 Adema, 2006; Barr et al., 2010; Eissa and Liebman, 1996; Eissa and Hoynes, 2005; Eissa et al., 2004; Lemieux & Milligan, 2008; Meyer and Rosenbaum, 2001.
25 Adato and Hoddinott, 2008; Bourguignon et al., 2003; Fiszbein and Schady, 2009; Freije et al., 2006; Skoufias & Di Maro, 2008; World Bank, 2011e.
that can be improved. In many countries in ECA, the time period during which households can receive social assistance benefits is unlimited as long as eligibility conditions persist (Arias et al., 2014). Although facilitating a transition to work by not cutting benefits abruptly is important, it is equally crucial to structure the duration and size of benefits in ways that incentivize those who are able to work, but suffer from temporary shocks, to re-enter the workforce after some time.

Although in ECA’s poorest countries today, work disincentives associated with social protection systems are unlikely to play a major role in explaining overall low labor force participation, they could matter for labor force participation rates of specific sub-groups, as well as in determining whether a person works formally or informally. Pensions are by far the largest social protection program in these ten countries\(^{26}\), taking up anywhere between 2 and 16 percent of GDP and covering 23-43 percent of households (Arias et al., 2014). In terms of unemployment benefits, programs remain fairly small and need to be strengthened. The same holds for Active Labor Market Programs (Section 4.4). The remainder of this section will focus on work incentives associated with pensions (Section 4.1.2.1) and social assistance (Section 4.1.2.2).

### 4.1.2.1 Pensions

In the countries of this study, as much as two fifth of all households has pensioners, including mainly old-age pensioners. Among the adult population, women hold pensions more often than men, largely due to early retirement (Figure 28).

**Figure 28: Early retirement is common, especially among women**

Share of households with pensioners; share of individuals holding pensions, by gender and age

![Chart showing the share of households with pensioners and the share of individuals holding pensions by age group.](chart)

Panel A: Share of (households with) pensioners  
Panel B: Share of pensioners by age group

Source: Authors’ calculations, based on household surveys (2008-2011).

Notes: See Annex 1 for a detailed description of the surveys used. Individuals are characterized as pensioners based on a self-reported status of “being in retirement”. It should be noted that this group consists mostly of beneficiaries of old-age pensions.

\(^{26}\) For a more elaborate exploration of pensions in the ECA region, see World Bank, 2014.
pensions, and only a minority refers to, for example, disability pension beneficiaries. Panel B displays the cross-country average for the ten countries.

**This results, first, in high inactivity among older workers.** A substantial share of both inactive men and women of working age report that they are not looking for jobs because of retirement (Figure 29). In Albania and Tajikistan, for example, these shares start to grow from ages as low as 40-44. In Macedonia and Ukraine, pensions become reasons for inactivity even earlier: starting at ages 35-39 (Macedonia) and 20-24 (Ukraine). This early retirement reflects both low statutory retirement ages for receiving old-age pensions – especially for women (Figure 30), and the fact that people retire even before they reach official retirement ages – sometimes because of the availability of early retirement schemes, and in other cases due to eligibility for non-age related retirement.

**Figure 29: Retirement is a common reason to exit the labor force, often as early as age 40 or 45**

**Share of inactive men / women not looking for work because of retirement, by age group**

![Graphs showing retirement trends in Albania, Macedonia, Tajikistan, and Ukraine](image-url)

Source: Authors' calculations, based on Albania, LFS (2008); Macedonia, LFS (2011); Tajikistan, TLSS (2009); Ukraine, LFS (2009).

Notes: For women, child and family care responsibilities are crowding out the pension motive to a certain extent, especially below age 50. Dotted lines indicate statutory retirement ages, for women (blue) and men (red).
OFFICIAL RETIREMENT AGES ARE PARTICULARLY LOW AMONG WOMEN

OFFICIAL RETIREMENT AGE, 2013

Figure 30: Official retirement ages are particularly low among women

Sources: World Bank, Gender Law Library.
Notes: In Azerbaijan, the retirement age for women is to be increased gradually and reach 60 years in 2016. In Ukraine, the retirement age is to be increased gradually to 62 years for male civil servants by 2021.

Second, in households with pensioners, there can be spillover effects on labor force participation among those of working age who do not receive pensions. Working age individuals in households with pensioners are much less likely to participate in the labor force, as compared to households where no pensions are received (Figure 31). In most countries, this effect is much stronger, for women than for men. In Ukraine, for example, women who live in a household with at least one pensioner are 31 percentage points less likely to participate in the labor force than women who do not live in such households, even when other characteristics, such as age and education level, are controlled for. Beyond disincentive effects from pension income, this could reflect the fact that women often have to take care of older members of the family, making it more difficult to work outside the home.

Figure 31: Living in a household with pensioners is associated with lower labor force participation, especially among women

Conditional effects of living in a household with pensioners on labor force participation

Source: Authors’ calculations, based on household surveys (2008-2011).
Notes: See Annex 1 for a detailed description of the surveys used. See Annex 2 for a detailed report of the models from which these estimates were obtained. Individuals are defined as pensioners based on self-reported status of ‘being in
This group consists mostly of beneficiaries of old-age pensions, but in a minority of cases, other forms of pensions (such as disability pensions) are also included. Insignificant effects (p>0.1) are shown in lighter colors.

4.1.2.2 Social Assistance

In terms of social assistance programs, there is wide variation across countries in terms of generosity and coverage, but overall, these programs remain small compared to peer countries in the region. Moldova and Ukraine are possible exceptions, with general levels of coverage that are somewhat higher than in the other countries (Figure 32). In Georgia, recent program expansions have resulted in higher coverage and generosity as well. However, when focusing only on the poorest quintile of the population, it stands out that a substantial share of Moldova’s social assistance transfers – as much as 56 percent - accrue to households that are not among the worst off within the overall population. In Ukraine, this is 49 percent. Among the other countries, coverage of the poorest quintile is especially low in Albania, the Kyrgyz Republic, Macedonia and Tajikistan.

Figure 32: Social assistance programs have relatively narrow coverage

Coverage of social assistance (all programs)
In the poorest quintiles, social assistance transfers make up anywhere between 1 percent and 47 percent of households' total post-transfer consumption (Figure 33). Benefits are relatively generous in Albania, Georgia, Macedonia and Kosovo. However, it should be recognized that since generosity is measured as a share of consumption, it is not possible to draw any conclusions regarding how substantial these programs are in absolute terms: among the poorest population quintile, consumption levels are likely to be fairly low to begin with. As such, a social transfer that only provides a relatively small amount of income to a household in this quintile may still show up as relatively generous, depending on the household’s level of spending.

**Figure 33: Generosity differs across countries**

**Generosity of social assistance (all programs): benefits as percent of total consumption among beneficiary households in the poorest quintile**

Beyond the design features discussed earlier, these performance indicators of social assistance programs in the region suggest that while improving targeting to the poor can help reduce potential work disincentives on the non-poor, the low generosity and coverage of programs are unlikely to give rise to significant work disincentives today. One possible exception is the case of Georgia, where a recent study finds work disincentives among women who live in households that receive Targeted Social Assistance (TSA) (Box 2).

**Box 2: Work Disincentives Arising from Social Assistance in Georgia**

Few rigorous studies exist in developing countries that establish the causal link between social assistance, on the one hand, and labor market outcomes on the other hand. A new World Bank study analyzes the impact of a large Targeted Social Assistance (TSA) program in the Republic of Georgia on individuals’ labor market decisions (World Bank forthcoming b). Applicant households are evaluated through a proxy means test to determine eligibility. A newly designed survey of approximately 2000 households and administrative data were combined with a regression
discontinuity design in order to exploit the sharp discontinuities in treatment – defined as being a beneficiary of TSA – around the proxy means score threshold.

Results suggest that the TSA program indeed generates work disincentives around the threshold, with these disincentives being concentrated among women. On average, women who receive TSA are 7 to 11 percentage points less likely to be economically active than women who live in households that do not receive the transfer. Our analysis indicates, for example, that disincentives effects are larger for younger women, and for women who are married and/or have children. Among men, there is no statistically significant effect. These results suggest that women may choose to prioritize other activities, such as schooling or household- and childcare responsibilities, over work when there is more financial space to do so. Indeed, the disincentive effects found from the TSA program in Georgia are mediated by the lack of appropriate mechanisms for supporting working women, especially when they are married and/or have children. In this case, it appears that the TSA program serves as a safety net that allows these women to care for their children and homes. Moreover, preliminary qualitative evidence suggests that social norms may inhibit women to work as well.

4.1.2.3 Policy Responses

RECOMMENDATION 1

Increase the official retirement age, while also effectively improving incentives to retire later, including options for flexible work arrangements (see Section 4.3.2), and options for combining partial pensions with employment. In addition, it would help to equalize retirement regulations across gender. Providing incentives for active ageing could include the opportunity to work past one’s retirement age, for example by providing financial incentives to older workers who choose to do so. In many European countries, this approach has already been adopted (EC, 2012). Pension-benefits could also be (partly) means-tested to reduce costs (Schwarz and Arias, 2014).

RECOMMENDATION 2

Restrict early retirement options. In many European countries, recent reforms have included increases of the minimum age at which early retirement can be obtained, as well as increases in the period of contributions required to access early retirement. In other cases, the financial benefit of taking early retirement has been reduced by cutting benefits for those who choose to retire early (EC, 2012). Given the high rates of early retirement in the countries analyzed here, the latter could opt for similar changes in regulation.

RECOMMENDATION 3

Rethink the design of social assistance systems, to allow for combining work and the receipt of benefits. This is particularly important for women – especially if they are low-skilled, for low-skilled workers more generally, and for youth who have low expected wages when entering the labor market. Combining social assistance and work could be achieved by removing eligibility
conditions based on inactivity or unemployment, but also by reducing benefits only gradually as a person starts to work, for example, through income disregards in social assistance programs. Such income disregards ensure that the amount of social assistance received is not reduced due to income from employment, although a phase-out strategy may be adopted after the individual has been working for some time.

**RECOMMENDATION 4**

Expand research efforts examining the impact of social protection on labor force participation in this specific group of countries. Despite its critical importance – especially moving forward – there is very little rigorous research on the impact of social protection systems on labor force participation or employment in the ten countries analyzed in this report. There are two exceptions: recent studies have examined the relationship between specific social protection programs and labor force participation in Armenia (World Bank, 2011e) and Georgia (World Bank, forthcoming b). Even when comparing these two studies, the results highlight important context dependencies. Hence, it is crucial to do more country-specific research on this topic.

4.2 **SKILLS**

While quality of education and misalignment of skills with labor market needs are a concern across all groups, some groups – including the poor, large groups of women, and many of the Roma, for example – still face barriers to accessing education in the first place (Box 3). Beyond access, economic development also requires making sure, to the largest extent possible, that the acquired skills can subsequently be put to use on the labor market. Due to quality issues and skills mismatches, the latter remains an important challenge in most of these ten countries.

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**Box 3: Restricted Access to Education: The Case of Roma in Macedonia**

**Across countries in the region, Roma children are often out of school.** For example, among five new EU member states, Bulgaria, the Czech Republic, Hungary, Romania and Slovakia, only 12-29 percent of Roma men complete upper secondary education, whereas among women, this is 9-21 percent (de Laat, 2012a). In Macedonia, a similar situation exists: here, half of the Roma children aged 6-20 do not attend school. In addition, 16 percent of Roma girls in this age-group, and 13 percent of Roma boys, cannot read and write. Among the parents of children who are not enrolled in school, a majority indicates that their children cannot attend school because of cost constraints – either because the cost of education itself is too high, or because the family could not afford proper clothing (Figure 34). These reasons figure most prominently among younger age cohorts, and apply to both boys and girls. A small minority also drops out because of illness, which may be traced back to the fact that three quarters of all Roma families in the country indicates that medicine is generally not affordable for them. Among non-Roma families living nearby, these rates are substantially lower.
**Figure 34: Most Roma children and youth do not attend school because of cost barriers**

**Reasons for not attending school among Macedonia’s Roma children and youth, 2011**

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<th>Agegroup 13-16</th>
<th>Agegroup 17-20</th>
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<td>Illness</td>
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<td>80%</td>
<td>64%</td>
<td>55%</td>
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<tr>
<td>Did not have money for proper clothes</td>
<td>61%</td>
<td>61%</td>
<td>50%</td>
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<tr>
<td>Other</td>
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<tr>
<td><strong>Female</strong></td>
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<td>Illness</td>
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<td>Other</td>
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</table>

*Source: Authors’ calculations, based on UNDP/World Bank/EC regional Roma survey (2011).*
4.2.1 **Educational Attainment and Labor Force Participation**

There is a stark correlation between educational attainment and labor force participation (Figure 35). Among both men and women, those with no education participate the least, whereas those with tertiary education have the highest levels of labor force participation. These relationships hold for almost all of the countries analyzed: the only exceptions are Armenia, where participation of men is higher among those with no education as compared to those with primary education, and Georgia, where participation among women is higher for lower education levels – probably reflecting the relatively high share of women working in agriculture.

**Figure 35: Labor force participation is positively correlated with educational attainment**

**Participation rates among women and men, by educational attainment: cross-country average, age group 20-64 (percent)**

![Graph showing labor force participation rates by educational attainment for women and men.](image)

Source: Authors’ calculations, based on household surveys (2008-2011).
Notes: See Annex 1 for a detailed description of the surveys used. Error bars reflect the range of individual country estimates.

The correlation between labor force participation and education is stronger than between unemployment and education (Figure 41). Across education levels, unemployment generally does not differ much. However, inactivity rates are very different across education levels. This implies that education levels matter most for the initial decision to participate or not in the labor market. In part, this pattern may also reflect that women, the low-skilled and ethnic minorities in particular, expect wages from work that are relatively low. In Tajikistan, Georgia, the Kyrgyz Republic, Macedonia and Albania, women earn anywhere between 80 percent (Tajikistan) and 20 percent (Albania) less than men, even when education levels and other background characteristics are kept constant (Arias et al., 2014).
**Figure 36: It is mainly inactivity that varies with education level**

**Inactivity rates and percent of unemployed, by education level**

*Panel A: Inactivity*  
*Panel B: Unemployment*

Source: Authors’ calculations, based on household surveys (2008-2011).

Notes: See Annex 1 for a detailed description of the surveys used. Figures presented in Panel B refer to the share of unemployed in the working age population, rather than the unemployment rate.

Even when other background characteristics are taken into account, the main relationships remain: having secondary education generally increases both men’s and women’s chances of being in the labor force. These differences may partly reflect the relatively high returns to tertiary education once a person works. Indeed, the financial returns to obtaining tertiary education are significant, although cross-country variation is large. In the Kyrgyz Republic and Tajikistan, for example, obtaining tertiary education results in an average wage premium of approximately 30 percent as compared to only having secondary education. In Albania, Armenia, Georgia and Macedonia, the returns are even more pronounced, with premia exceeding 60 percent in the latter two countries (Arias et al., 2014). Although these estimates do not take into account the direct costs of education – such as tuition fees, these high rates of return suggest important payoffs to education, especially beyond secondary school.
To bring these results into perspective, it is worthwhile to examine how many individuals, and which specific groups, have low levels of education. On average across this group of countries, one fifth of the working age population has not completed secondary education, and education levels are particularly low among the groups that were defined in the previous section as having especially poor labor market outcomes (women, older workers, and ethnic minorities). This figure is driven up mainly by high dropout rates after lower secondary school in Albania and Macedonia. In a few countries, high shares of individuals in the relevant age group are not enrolled in primary school – about one fifth in Azerbaijan and the Kyrgyz Republic. It should also be noted that compared to the ECA region overall, many of these countries are among the poorest performers with respect to primary enrollment among girls (83–86 percent range) (Sattar, 2012). Across the ten countries, education levels are lower for older workers – especially among women, reflecting important generational shifts.

The analysis presented in this section suggests that there is a lot to be gained by bringing women with secondary education into the fold in terms of labor force participation. Women with secondary education show low participation rates, lagging far behind those of men with the same educational attainment. At the same time, the group of women with secondary education is very large: they make up three fifth of the average national female working age population in this group of ten countries – and many of them are young (Figure 38). Since they have attained a relatively high level of education, they are likely to have the foundational skills necessary to learn new trades and perform well in today’s labor market. As such, designing policy measures targeted at this specific group could have large and long-lasting impacts on the labor markets and overall economies of these countries.
**Figure 38: Inactive women with secondary education are relatively young on average**

Share of inactive women aged 20-64 with secondary education that belongs to each age-group

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**Source:** Authors’ calculations, based on household surveys (2008-2011).

**Notes:** See Annex 1 for a detailed description of the surveys used. Figures presented in the top panel refer to simple averages across nine of the ten countries, excluding Macedonia. Error bars represent the range of individual country estimates. The bottom panel gives a breakdown of country estimates.

**Similarly, in due time, labor market gains from improving overall access to quality and affordable pre-school can be large.** Preschool enrollment is low in most countries. In Azerbaijan, the Kyrgyz Republic, Macedonia and Tajikistan, for example, a quarter or less of young children are enrolled. To level the playing field, investment in early childhood education and other early childhood services is important, as it has shown to be both highly effective and cost efficient in increasing opportunities later in life, including secondary school completion (de Laat, 2012a). Gains can be particularly important for children from disadvantaged backgrounds, who may be more likely to lack a supporting environment for learning and developing the socio-emotional skills that are needed later in life to succeed on the labor market. In addition, it can also increase the labor force participation of mothers.
4.2.2  **Low Quality of Education Restricts Opportunities on the Labor Market**

In addition to educational attainment, the quality of schooling is of concern in this group of countries: the transition process has resulted in skills mismatches for many, further constraining employment opportunities. Reflecting a broader debate in the ECA region, many individuals lack the skills that employers perceive as the most crucial for successful on-the-job performance, even if they did obtain degrees and diplomas (Arias et al., 2014; World Bank, 2012f). Figure 39 illustrates this point, showing that in many countries, one third of business owners, or more, identify an inadequately educated workforce as a major constraint to doing business.

**Figure 39: Many firms identify inadequate education as a major constraint to doing business**

![Figure 39: Percent of firms identifying an inadequately educated workforce as a major constraint](image)


These skills mismatches reflect both weaknesses in the provision of cognitive and technical skills, and, just as importantly, in the provision of socio-emotional skills. In countries where standard assessments are done, these suggest below average performance in the countries that this report focuses on. For example, mathematics scores as recorded in the ‘Trends in International Mathematics and Science Study’ (TIMMSS) survey, provide country-averages between low and intermediate for Armenia, Georgia, Macedonia and Ukraine. Similarly, whereas in OECD countries, on average, only 24 percent of boys and 12 percent of girls are functionally illiterate, this is the case for 55 percent of boys and 49 percent of girls in Albania. In addition to these indications of poor quality, systems in the region are failing to equip workers with increasingly demanded socio-emotional skills. One example is Ukraine, where employers indicate that finding skilled workers is extremely difficult, citing that the main bottleneck in recruiting workers is socio-emotional skills rather than technical skills (World Bank, 2009). After controlling for other characteristics, workers with the right “new economy” socio-emotional skills in countries as varied as Armenia, Georgia and Tajikistan are disproportionately likely to be employed, especially in “modern” sectors. In Georgia

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27 ‘Functional illiteracy’ is defined as scoring below Level 2 in the Program for International Student Assessment (PISA) reading test. This test scores students aged 15 on performance levels ranging from 1-6.
and Armenia, for example, the earnings premium for doing problem solving and learning new things at work is close to 20 percent.\textsuperscript{28}

The nature of skill mismatches varies with age. For older workers, the biggest risk is skills obsolescence. As emphasized in previous studies, “transition from central planning to market economies (...), involve[s] major employment reallocation and significant changes in the skill content of jobs (Commander and Kollo, 2004),” (EBRD, 2006: 2). For example, in Macedonia, the jobs held by older cohorts are generally characterized by high levels of manual skills, whereas “new economy skills”\textsuperscript{29} are found much less often in jobs held by this cohort. Among younger cohorts, on the other hand, new economy skills are increasingly being used (Figure 40). For youth, the biggest risk is not getting an initial opportunity to build up work experience, because employers are keen not to hire inexperienced workers. Since many skills are in fact learned in the job and work references are critical for getting a new job, youth lack practical work skills.

**Figure 40: The skills of older age cohorts are at risk of becoming obsolete**

Evolution of skills intensity of jobs held by each age cohort, 2007-2011

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure40.png}
\caption{The skills of older age cohorts are at risk of becoming obsolete}
\end{figure}


Notes: The y-axis plots the percentile of the skill distribution for jobs held by each cohort in any given year, with respect to the corresponding median skills intensity of jobs held by that cohort in the initial year. See Arias et al., 2014: 223 for full explanation of methodology.

4.2.3 **Policy Responses**

The main conclusions of this section are as follows: first, education boosts participation, and especially among women, this occurs mainly at higher levels of education. Second, although these ten countries have achieved a lot in terms of access to education in general, a significant share of working age populations remains excluded from completing secondary school. Third, the quality

\textsuperscript{28} Calculations based on STEP household surveys.

\textsuperscript{29} ‘New economy skills’ include nonroutine analytical skills – e.g. abstract thinking, processing and decision-making, and nonroutine interpersonal skills, such as character traits and behaviors underlying teamwork and interpersonal relationships, such as relations with clients or personnel (Arias et al., 2014).
standards of education systems in these countries leave room for improvement, which, crucially, would increase the payoffs of participation for individuals. Based on these main observations, this section provides five key policy recommendations.

RECOMMENDATION 1

**Strengthen general skills, including socio-emotional skills.** This implies, first, that remaining gaps in educational attainment must be remedied, at least up to and including secondary school. Students going into vocational education should also get a strong foundational on general skills. Second, it implies that standard school curricula and teaching practices must better streamline the provision of socio-emotional skills. Existing literature shows that these types of skills matter: returns to socio-emotional skills can be particularly important for groups with low levels of formal education, among which the returns to obtaining such skills can be particularly high. Hence, investing in socio-emotional skills, in and by itself, could have an equalizing effect on labor market participation (Box 4). This is illustrated by recent evidence on the predictive power of widely-used 'achievement tests', which measure cognitive skills, versus the predictive power of socio-emotional skills tests when it comes to success on the labor market. Although evidence is still far from abundant, existing studies suggest that the latter have at least as much predictive power as the former (Heckman and Kautz, 2013).

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**Box 4: Youth and Employment Programs in Latin America**

Aiming to improve the employability of youth at risk, the Dominican Republic started implementing a labor market insertion program in 2002, called ‘Youth and Employment’ ('Juventud y Empleo' in Spanish), that provides life and technical skills training combined with private sector internships. The target individuals are youth aged 16 to 29 who dropped out from the education system before finishing their secondary studies, are unemployed, underemployed or inactive and are below a poverty threshold, defined both in terms of their residential area and household income.

The program consists of 225 hours of in-class training, divided into Life Skills training (75 hours) and Technical Vocational Education and Training (TVET) (150 hours), complemented by 2 months (224 hours) of on-the-job learning through and internship. The life skills module focuses on four competences: motivation (self-esteem, interpersonal relationships and self-fulfillment), life at work, social skills and job search. Technical courses, including for salesmen, beauticians, waiters, pharmacy clerks, are decided according to the private sector demand. The average cost per participant is estimated in US$ 400, which includes a daily stipend, transportation subsidies and medical and accident insurance.

The program has been rigorously evaluated. From the pool of eligible applicants, participants to the program are selected randomly for two different treatments; the first group receives only the life skills training while the second group benefits from both the life skills and the TVET. Additionally, some applicants are left aside from the intervention and considered the control group. Results from the different evaluations— Card et al. (2011) studied the effects of the program on the
2004 cohort, Ibarrán et al. (2012) analyzed the impact on the 2008 cohort and Vezza, Cruces and Amendolaggine (2013) studied the 2008-2009 cohorts – introduced a dynamic component in the program, enabling its continuous improvement according to the lessons learned from previous cohorts. For example, after the first impact evaluation showed limited impacts on employment and wages, the program was modified, focusing on the key components identified by the employers (closer collaboration with the private sector and stronger life skills component).

Vezza, Cruces and Amendolaggine (2013) find that Juventud y Empleo had heterogeneous effects, both by gender and between the short and medium term. In the short term, women showed the largest gains, experiencing an increase in their probability of being employed as well as an improvement in their job satisfaction and more positive expectations about their future prospects. Additionally, the probability of having a child decreases for women participating in both life skills and TVET modules. Among men, on the other hand, labor force participation increased in the short run, but this change was translated into higher unemployment rates for the participants in the life skills module. No effects were found on the weekly hours worked or on the monthly income for those individuals who were already working. In the medium term, the impact on labor market participation faded out and the lower probability to have children for women got reverted.

Other programs with similar characteristics have been implemented elsewhere in Latin America, including the Chile Joven, Jóvenes en Acción in Colombia and PROJOVEN in Peru.


Increasing secondary completion rates and investing in socio-emotional skills both require a number of policy measures, starting at early childhood. Families and communities play a fundamental role in early childhood development. Public policy can provide support through establishing the necessary infrastructure for universal preschool enrolment, providing access to preschool in locations that are currently left out, and through information campaigns, targeted in particular at low-income families. The latter may include an emphasis on ways to provide children with learning opportunities at home, as well as an emphasis on the importance of preschool. This can often be done by using existing information infrastructures, e.g. through health centers and schools.30

RECOMMENDATION 2

Strengthen links between the private sector and higher education and vocational systems. Ensuring that graduates from the education system acquire job-relevant cognitive, socio-emotional and technical skills requires that firms, universities and vocational schools, and current and future students become better connected. The German “dual system” is very formal and institutionalized way of fostering these links, but there are other approaches. For example, in Chicago, USA, “College to Careers” revisions to the city's community colleges resulted in curricula that were targeted more explicitly to sectors with a large presence in the region, including manufacturing and insurance.

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30 For a more elaborate discussion on this topic, see EC (2011).
Specific components of these curricula were discussed with major employers in these sectors, so as to ensure relevance for the job market.

**Rather than top-down approaches, the international experience suggests that governments’ should focus on:**

- Developing standards and certification systems for the skills and competencies that workers have (including those acquired in non-traditional institutions, such as those in online education);
- Investing in the capacity of education institutions, ensuring competition, and providing the right financial and institutional incentives for schools and universities to be responsive to information and to engage with the private sector. This could be done, for example, by giving some autonomy to higher and vocational educational institutions to adjust their teaching methods and content to changing labor market needs while increasing accountability and introducing, for example, a financing system that is at least partially based on results.
- Acting as convening power for the different actors and facilitating the flow of information (see discussion on employment observatories below).

**RECOMMENDATION 3**

**Provide incentives for student mobility, especially in rural areas.** Early in life, individuals are more mobile than at later stages (Arias et al., 2014), and this provides an important opportunity for matching jobs in growing areas to workers from other areas in the country. At the European level, this has been recognized: in EU member states, student mobility is encouraged through the Erasmus scholarship program, which is available to European students wishing to study, work or volunteer abroad. Within the ten countries analyzed here, internal mobility could be incentivized through similar programs within countries, expanding access to economic opportunities for populations living in economically disadvantaged areas. Youth can also be incentivized to move towards economic centers in a number of other ways, including through information campaigns and scholarships.

**RECOMMENDATION 4**

**Inform and incentivize youth and their parents, as well as job-seekers more generally, to build the skill sets that are in demand.** With respect to tertiary education in particular, existing studies have voiced a concern that the fast expansion of supply has enticed many youth to enroll even though they were not well-prepared to start college (Arias et al., 2014), and that the choice of fields of study is often far from optimal and characterized by a strong gender divide (Sattar, 2012). Hence, once programs are in place that offer students the opportunity to build job-relevant skills (Recommendation 2), youth and their parents need to be informed on how to choose and where to find programs that will optimize their chances on the labor market. The government could play a key role in this, by providing households with objective information on, for example, the number of vacancies in specific sectors, median wage levels, and educational requirements. In countries such as Chile, Colombia, the Czech Republic and Poland, labor market observatories have been established to fulfill this role.
RECOMMENDATION 5

Ensure availability of employment services which match workers to jobs, including opportunities for life-long-learning. As discussed below in Section 4.4, ALMP’s are one avenue to provide such services. More broadly, adult learning programs can assist jobless, working age individuals in accessing employment. Currently, such programs remain weak in the ten countries analyzed here, whereas a large body of empirical evidence documents their potential role in maintaining or increasing employability, especially among those that are difficult to place in jobs (World Bank, 2012f). In particular, governments can: (i) provide students with practical training and exposure to the world of work even prior to their graduation; (ii) make learning "stackable" so that students can fluctuate between education and work, as is done in Denmark or in College to Careers in the United States; (iii) provide incentives for firms to keep retraining their workers, for example through tax breaks in the case of skills training that is not firm-specific; and (iv) Provide incentives for individuals to continue their own life-long learning. In OECD countries, there are different co-financing savings and loan schemes that match individual contributions to contributions from employers and governments. Individual learning accounts, learning vouchers and income-contingent repayment loans are just some of the possible instruments that could be used.31

4.3 BARRIERS

4.3.1 SOCIAL NORMS AND VALUES

Certain attitudes and social norms can be significant barriers to labor force participation and employment. Attitudes and social norms have a strong impact on markets and institutions: they shape individuals’ and families’ decisions, including those – directly or indirectly – related to the labor market (Arias et al., 2014). In particular, attitudes and social norms can influence firms’ decisions on which workers to hire, what to pay them, and what type of contract to give them. On the other side of the spectrum, individuals’ decisions on whether to look for work are similarly influenced by such belief systems. Negative attitudes towards labor market inclusion of certain population groups can manifest themselves in relatively subtle ways, especially when they are engrained in the culture and become widely accepted social norms. Nonetheless, the impact of such engrained value systems remains profound, and does not necessarily reflect the preferences of the individual.

Outright discrimination is a manifestation of attitudes that is particularly restrictive to labor market opportunities. In the ten countries of this report, discrimination remains common, particularly in terms of ethnicity, gender and age. Roma respondents to a recent survey in Macedonia, for example, reported in 34 percent of all cases that they had experienced discrimination based on their ethnicity in the past 12 months. Among non-Roma living nearby, this was 10 percent. Among the one third of Roma having experienced discrimination, almost half reported to have been discriminated against when looking for work, and 31 percent reported to

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31 http://www.oecd-ilibrary.org/docserver/download/9104051e.pdf?expires=1426615385&id=id&accname=ocid195787&checksum=078C4C4C546215232EC044D00785231E
have experienced discrimination on the work floor.\textsuperscript{32} In the ten countries analyzed here, an average of 25 percent of respondents in the Life in Transition survey (2010) perceived that the presence of people from other ethnic groups contributes to insecurity. Thirty percent considered that the presence of other ethnic groups also drives up unemployment rates (Figure 41). 29 percent was of the opinion that immigrants in particular are a burden to the national social protection system.

**Figure 41: Ethnic minority groups are often believed to drive up unemployment rates**

*Share of population agreeing that the presence of ethnic minority groups drives up unemployment rates, vs. share of ethnic minority population*

![Figure 41: Ethnic minority groups are often believed to drive up unemployment rates](image)

Source: Authors’ calculations, based on LiTS (2010) and CIA World Factbook.

**Discrimination along gender and age lines also remains:** between 85 and 38 percent of male and between 73 and 23 percent of female survey respondents agreed that men have more right to a job than women when jobs are scarce (Table 2). Older workers often find that their age restricts their opportunities on the labor market. Umsunai, a jobless woman in the Kyrgyz Republic, shares her experience: “When you go to a job interview, they ask you about your age right away. If you are older than 35, they will never take you”.

**Table 2: Men, and to a lesser extent also women, view jobs and education as more suitable for male workers**

*Results from the Life in Transition Survey, on norms related to work and gender, 2011*

<table>
<thead>
<tr>
<th>Share of respondents agreeing that…</th>
<th>Azerbaijan</th>
<th>Armenia</th>
<th>Kyrgyz Republic</th>
<th>Ukraine</th>
</tr>
</thead>
<tbody>
<tr>
<td>… when jobs are scarce, men should have more right to a job than women</td>
<td>85</td>
<td>73</td>
<td>65</td>
<td>48</td>
</tr>
<tr>
<td>… if a woman earns more money than her husband, it’s almost certain to cause problems</td>
<td>46</td>
<td>30</td>
<td>47</td>
<td>31</td>
</tr>
<tr>
<td>… having a job is the best way for a woman to be an independent person</td>
<td>31</td>
<td>35</td>
<td>42</td>
<td>47</td>
</tr>
<tr>
<td>… a university education is more important for a boy than for a girl</td>
<td>40</td>
<td>22</td>
<td>30</td>
<td>21</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Share of respondents disagreeing that…</th>
<th>Azerbaijan</th>
<th>Armenia</th>
<th>Kyrgyz Republic</th>
<th>Ukraine</th>
</tr>
</thead>
<tbody>
<tr>
<td>… having a job is the best way for a woman to be an independent person</td>
<td>27</td>
<td>29</td>
<td>33</td>
<td>31</td>
</tr>
</tbody>
</table>

\textsuperscript{32} UNDP/World Bank/EC regional Roma survey (2011).
Although many ECA countries have a legal framework in place that prohibits discrimination based on one’s background, such as gender, age and race, legal provisions could still be improved: for example, Table 3 shows that in only four of the ten countries analyzed in this report equal pay and fair hiring across gender are guaranteed by law.

### Table 3: Not all countries have legislation that guarantees non-discriminatory hiring and remuneration

<table>
<thead>
<tr>
<th>Country</th>
<th>Law mandates equal remuneration for men and women for work of equal value</th>
<th>Law mandates non-discrimination based on gender in hiring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Armenia</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Georgia</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Kosovo</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Macedonia, FYR</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Moldova</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Ukraine</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: World Bank, Gender Law Library.

Aside from discrimination, women’s participation in the labor markets, in particular, is often limited by the traditional role assigned to them as housewives and/or main caregivers. As a young woman from a Roma community in Skopje, Macedonia explains: “If she is married, her husband may not allow her to work, so that is the main reason why young girls here in [the village] do not look for a job. In some cases, the parents of the young woman may also not allow her to work”[^33].

Similarly, in the Kyrgyz Republic, many parents and husbands do not allow women in the family to work, as they are afraid that interacting with others at the workplace will have a deteriorating effect on women’s morals (ibid). In Tajikistan, women out of the labor force predominantly report ‘being a housewife’ as the main reason not to look for work. Another example is provided by the reasons given by inactive men and women in Albania, Macedonia and Ukraine for not looking for work: among inactive women in Albania, for example, 20 percent indicates that they are not looking for work because of a need to look after children or incapacitated adults, or for other personal or family responsibilities, versus 1 percent among inactive men.[^34] Among women aged 25-39, the same figure is over 70 percent (Figure 42). In Macedonia, the contrasts are even sharper: over 90 percent of inactive women in their thirties indicate that they do not (look for) work because of household responsibilities. In Kosovo, 50 percent of women report not to be looking for work due to household and/or family responsibilities, versus 5 percent among men.[^35]

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[^33]: World Bank, Qualitative interviews (2013).
[^34]: LFS (2008).
[^35]: LFS (2012).
SHARE OF INACTIVE MEN / WOMEN NOT LOOKING FOR WORK BECAUSE OF A NEED TO LOOK AFTER CHILDREN OR INCAPACITATED ADULTS, OR FOR OTHER PERSONAL- OR FAMILY RESPONSIBILITIES: ALBANIA, MACEDONIA AND UKRAINE

Although it is difficult to determine what share of individuals conform to social norms voluntarily, and what share does so because they feel they have no other option, it should be recognized that in many cases, the latter group exists, and that many individuals are likely to find themselves trapped in inactivity as a consequence. For example, Roma women in Macedonia report to feel a strong pressure to marry and have children at a young age, as well as to remain out of the labor force and take full responsibility for household and family duties. Roma women who have obtained secondary education or higher object much more strongly to such norms than their peers with lower levels of education. These results suggest that when better informed, Roma women may choose to enter the labor market rather than staying at home. A similar link between attitudes to work and education level has been found among other ethnic minority women across countries (World Bank, forthcoming c).

Norms and values do not just have a direct impact on labor market opportunities, but they also have indirect effects. Social norms affecting women are a case in point. Given that women are often expected to take care of the household, norms and values effectively translate into a schedule that simply does not allow women much time to (look for) work. In Armenia, the Kyrgyz Republic and Macedonia, women spend up to five times as much time on household chores as men do, and only slightly more than half as much time working. When women do work, they often self-select into jobs that are compatible with the household and family responsibilities they are expected to perform. Such choices result in occupational segregation and lower the earnings of women relative to those of men.

As a result, family and household responsibilities are often an obstacle to labor force participation among women, starting at a young age. Women in these countries marry young. Among those aged 15-24, an average of 22 percent of women are married, as opposed to 8 percent.

36 Arias et al., 2014; Sattar, 2012.
Among men. As such, the impact of marriage, which often comes with substantial expectations directed at the wife in relation to running the household and family care, starts at a young age. Early marriage can also influence decisions on schooling, and again, such impacts have a gender dimension: among Roma in Macedonia, for example, 7 percent of girls (and no men) currently not enrolled in school in the age-group 13-16 indicate that they stopped attending classes because they got married.\(^{37}\) Perhaps not surprisingly, labor force participation among married women is particularly low (Figures 43 and 44). For example, in Kosovo, 81 percent of married women do not participate in the labor force. Even in Ukraine, which is the best performer out of this group of ten countries in terms of labor force participation among married women, one third of these women remain inactive.

**Figure 43: Inactivity rates are much higher among married women than among married men**

**Inactivity among married individuals, by gender, age group 25-64**

![Graph showing inactivity rates among married individuals by gender and age group 25-64.](image)

Source: Authors’ calculations, based on household surveys (2008-2011).
Notes: See Annex 1 for a detailed description of the surveys used. All reported differences are significant at the 5 percent level.

**Figure 44: Being married is associated with a lower chance of being in the labor force among women**

**Marginal effects of being married on labor force participation, country models, age group 20-64**

![Graph showing marginal effects of being married on labor force participation.](image)

Source: Authors’ calculations, based on household surveys (2008-2011).
Notes: See Annex 1 for a detailed description of the surveys used. See Annex 2 for a detailed report of the models from which these marginal effects were obtained. Insignificant coefficients (p>0.1) are indicated in lighter colors.

Beyond marriage, child care responsibilities also make it difficult to seek or hold a job outside the home, especially when the youngest child has not yet reached an age of seven or older (Figure 45). For women, having a child aged 0-6 years – compared to living in a household without any children – decreases the likelihood of participating in the labor force, even when other background characteristics such as education level, household size and marital status are controlled for. For men, on the other hand, there is no lower chance of being in the labor force for those living in households with young children: in fact, in most countries, men who live in households with children are more, rather than less, likely to participate in the labor force.

**Figure 45:** Beyond marriage, having children is further associated with lower participation among women

*Conditional effect of having children on labor force participation, country models, age group 20-64*

Source: Authors’ calculations, based on household surveys (2008-2011).
Notes: See Annex 1 for a detailed description of surveys used. See Annex 2 for a detailed report of the models from which these marginal effects were obtained. The figure reports marginal effects for ‘living in a household where the youngest child is aged 0-6 (left panel) or aged 7-17 (right panel) compared to living in a household with no children. Insignificant coefficients (p>0.1) are indicated in lighter colors.

### 4.3.1.1 Policy Responses

**RECOMMENDATION 1**

**Increase the availability and affordability of child and elderly care** and preschool. First, it will be important to align regulations and explore options for making child and elderly care services more affordable. As explained by a man from the Kyrgyz Republic: “We’ve got many children in our family. Where to place them? If my wife would get a job at the market, the children would have to go to kindergarten. Then she will pay all her money earned from work to the kindergarten. There is no benefit”³⁹. Laws regulating the public provision of childcare do exist in most of the countries of focus in this study. Some countries also provide families with childcare subsidies. However,

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³⁸ We focus the discussion here on child care services. However, with rapidly aging populations, informal care for older family members is expected to play an increasingly crucial role, with a disproportionate effect on women (World Bank, forthcoming, a; Sattar, 2012).
³⁹ World Bank, qualitative interviews (2013).
available data also show that none of the ten countries have child care tax credits, which would help by substantially reducing the net cost of early childhood care (Table 4). This could be one possible area of policy intervention. The academic literature has shown that affordable childcare options can have positive effects on boosting female labor supply. In the US, for example, Fox, et al. (2013), find that child care subsidies and the Department of Health and Human Services’ Head Start program\(^{40}\) have had positive effects on the employment rates of low-educated mothers of young children, with a three percentage point increase in subsidy funding leading to a one percentage point increase in employment.\(^{41}\)

**Table 4: Payments for childcare are not tax deductible**

**Legislative Childcare Provisions, 2013**

<table>
<thead>
<tr>
<th></th>
<th>Are payments for childcare tax deductible?</th>
<th>Is there public provision of childcare for children under the age of primary education?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Armenia</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Georgia</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Kosovo</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Macedonia, FYR</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Moldova</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Ukraine</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: World Bank, Gender Law Library.

**Second, it will be important to increase supply of public child care and/or create incentives for private provision.** Qualitative evidence illustrates that many communities remain without adequate childcare provisions in the countries analyzed here\(^{42}\), and that this mainly constrains labor market opportunities among women. Hence, increasing access to childcare, through public as well as private providers, possibly with targeted subsidies on either the supply or demand side, is an important step towards equalizing labor market opportunities. This can also help to partly address affordability concerns by introducing more competition into the market of child care services.

**Third, where needed, formal services could be complemented with support to informal caregivers, advanced in a gender-neutral manner.** As part of this process, for example, jobless women could be assisted to start a child-care business. In Austria, Germany and countries in Scandinavia, informal caregivers receive pension credits to compensate their efforts. Informal caregivers could be assisted by formal institutions, if the tasks required are beyond their level of expertise or capacity. In the Netherlands, for example, informal and formal care are provided in

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\(^{40}\) The Head Start Program is a early childhood education program organized by the United States Department of Health and Human Services. In addition to early childhood education, it provides health, nutrition, and parent involvement services. The program is targeted towards low-income children and their families.

\(^{41}\) For other references on this issue, see: Attanasio, Low and Sanchez-Marcos (2008), Nollenberger and Rodríguez-Planas (2011) and Sánchez-Mangas and Sánchez-Marcos (2008).

\(^{42}\) World Bank, qualitative interviews (2013).
cooperation (Sattar, 2012). Moreover, in various countries, including the US and the UK, childcare programs have been set up in which unemployed or inactive women are trained to set up their own local child-care business. These women are offered training that prepares them for running the business, are provided with start-up credit, and are connected to an existing kindergarten, where staff can act as mentors (World Bank, 2013c).43

RECOMMENDATION 2

Provide training and hiring subsidies for specific sub-groups which are faced with adverse social norms, and potentially discrimination. When specific sub-groups are underrepresented among new entrants in the labor market or in specific sectors or occupations, employers (or, for example, suppliers of productive inputs such as credit) can face more uncertainty than usual about the productivity levels of members of those groups. For example, incomplete information about the potential productivity of minority groups may cause employers to hesitate to hire ethnic minority workers. In Germany, a randomized study on labor market discrimination made use of Turkish-sounding versus German-sounding names to gauge the effect of ethnicity on the evaluation of resumes. The study found that the initial 14 percent gap in callback probabilities between the two groups disappeared once the study was restricted to applications which included positive reference letters, exposing favorable information about the candidate’s personality (Kaas and Manger, 2010 in Arias et al., 2014). Subsidies for employment and training can reduce the costs to employers of trying out these workers and gaining more information on the true productivity of traditionally excluded groups. Similarly, raising awareness among employers on the benefits of including and training particular groups, such as older workers, can help reduce biases regarding productivity (EC, 2012).

RECOMMENDATION 3

Introduce and enforce zero-tolerance policies with respect to discrimination, and improve incentives for firms to go beyond minimum requirements. Closing gaps in legislation is an important first step to take. In addition, rigorous implementation is of crucial importance when it comes to discrimination policies. Providing low-threshold access to legal support for victims, raising awareness of both the legal consequences of engaging in discrimination, and of individuals' rights, and making discrimination ‘costly’ are examples of possible approaches. Beyond regulations, governments can improve incentives for firms to promote inclusiveness. One example of an effective method is the Gender Equity Model (GEM)44, which aims to promote gender equality best practices in the areas of recruitment, career development, work-life balance and sexual harassment policies. GEM is a certification scheme that works much like the certification of food products. Firms that are certified are clearly recognizable by job seekers as well as the general public. The project was first designed and tested in Mexico (2003), and later spread to a wide range of countries in Latin America, as well as to Egypt and Turkey. Evaluations show that certification is effective in reducing gender gaps and promoting women to managerial positions, among others. Moreover,

43 More information on the UK’s ABC Pathway Program can be found here: http://www.barnardos.org.uk/commission_us/our_services/childrens_centres/childrens_centres_abc.htm.
44 More information on the GEM initiative can be found here: http://go.worldbank.org/CV8I2LNQS1.
productivity often increases after certification, due to increased diversity on the work floor and higher worker satisfaction.\textsuperscript{45}

**RECOMMENDATION 4**

Use the education system and information campaigns to improve social attitudes. It is important that children in school are treated in a gender-neutral way, starting at an early age. This could be achieved by ensuring access to the exact same curriculum, by training teachers, and by promoting and showcasing examples of successful women, as well as role models from ethnic minorities. Demonstration effects and dissemination of relevant information on benefits of schooling and work can have important pay-offs.\textsuperscript{46}

**RECOMMENDATION 5**

Improve the gender neutrality of regulations governing work. This calls for reconsidering some of the regulations governing the labor market rights of women, especially when forming a family (Table 5). For example, regulations such as parental leave are currently almost non-existent for fathers, and very generous for mothers. Similarly, regulations incentivize women to take up childcare responsibilities much more than men.

| Table 5: Legislation on hiring and work environment often has a gender-bias |
|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Is it illegal for employers to ask about family status during job interviews? | Are there laws penalizing/preventing dismissal of pregnant women? | Must employers give employees an equivalent position when they return from maternity leave? | Are employers required to provide break time for nursing mothers? | Do employees with minor children have rights to a flexible/part-time schedule? |
| ALB | No | Yes | No | Yes | No |
| ARM | No | Yes | Yes | Yes | Yes |
| AZE | No | Yes | Yes | Yes | Yes |
| GEO | No | No | No | No | No |
| KSV | No | Yes | Yes | No | No |
| KGZ | Yes | Yes | Yes | Yes | Yes |
| MKD | No | Yes | No | No | No |
| MDA | No | Yes | No | No | Yes |
| TJK | No | Yes | Yes | Yes | Yes |
| UKR | No | Yes | Yes | Yes | Yes |

Source: World Bank, Gender Law Library.

Leave regulations, in particular, can be made more gender-neutral. In many transition countries, maternity benefits are currently generous (Table 6) and coupled with regulations such as

\begin{itemize}
  \item More information can be found at: \url{http://go.worldbank.org/CV8J2LNQ51}.
  \item See, for example, Heath and Mobarak (2012) and Beaman et al. (2012). In Romania, a new initiative has recently been started to increase awareness of Roma role models among Roma children, with an expected positive effect on school enrolment and attendance.
\end{itemize}
entitlements to extended periods of maternity leave and guaranteed return to a suitable job with the same employer (Brainerd, 2000). Parental leave is often available only for mothers. Making parental leave regulations more gender balanced than they are now would reduce the gender differences perceived by employers in association with family formation, while providing mothers with more opportunity and incentive to re-enter the labor force.

Table 6: Parental leave benefits also have a gender bias

<table>
<thead>
<tr>
<th>Parental Leave Benefits, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Law mandates paid or unpaid leave?</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>ALB</td>
</tr>
<tr>
<td>ARM</td>
</tr>
<tr>
<td>AZE</td>
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<tr>
<td>GEO</td>
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<tr>
<td>KSV</td>
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<td>KGV</td>
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<tr>
<td>MKD</td>
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<tr>
<td>MDA</td>
</tr>
<tr>
<td>TJK</td>
</tr>
<tr>
<td>UKR</td>
</tr>
</tbody>
</table>

Source: World Bank, Gender Law Library.

Notes: Days refer to calendar days. Where the government pays 0 percent of benefits, the employer is responsible for the costs.

4.3.2 Labor Regulations & Flexible Work Arrangements

4.3.2.1 Labor Regulations

Addressing the labor market participation challenge can require changes in labor regulations and institutions. In order for firms to grow and for individuals to see value in the jobs they offer, regulatory frameworks need to encourage employment, good working conditions as well as an environment that allows entrepreneurs to thrive. Recent literature indicates that the effect of labor market regulation on aggregate employment/unemployment is not as big as previously thought. Critically, however, they have been shown to impact employment outcomes of groups that are traditionally outside of the labor market, such as youth and women, because they protect “insiders” with jobs at the cost of “outsiders” out of employment.

There is significant variation in labor market regulations across the ten countries analyzed in this report. Employment protection legislation governing hiring and firing procedures, as well as working conditions, have often become more flexible since the transition, making it easier for firms to hire and fire workers. However, many countries could still achieve additional improvements (Figure 46). In most countries, minimum wages have increased, in relative terms,
although they remain low as compared to (average) productivity (Figure 48).\(^{47}\) High minimum wages can be a binding constraint for youth and low-skilled workers in particular, as their productivity risks to fall below the minimum wage level.\(^{48}\) At the same time, extremely low minimum wages can discourage workers, due to a lack of financial incentives to seek work.

**Figure 46: Labor market efficiency, in terms of regulations, differs starkly across countries**

**Ranking of labor market efficiency, 2011-2012**

![Graph showing global ranking of labor market efficiency](image)

Source: Authors’ calculations, based on World Economic Forum.

**Figure 47: In most countries, minimum wages are still relatively low compared to average productivity, but have been rising**

**Minimum wage as a percentage of value added per worker, 2014**

![Graph showing percentage of minimum wage to value added](image)

Source: Authors’ calculations, based on Doing Business (2014): ‘Employing Workers’.

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\(^{47}\) It is important to note that, even if minimum wages are low compared to average productivity, they can be binding if productivity varies significantly across individuals.

\(^{48}\) See Betcherman (2014) for a recent review of this literature.
4.3.2.2 Flexible work arrangements

The lack of flexible work arrangements can also have negative impacts on participation. Given the levels of participation and overall labor market structure in these countries, part-time work is arguably the main priority in this area. For example, women who cannot find a part-time job may opt out of the labor force altogether, so that they can take care of children or elderly in the household. Youth who want to invest in further education, but do not have the money to do so without working to complement their income may face similar constraints. For this group, part-time jobs and internship or vocational work-and-learn arrangements may also lead to future employment opportunities, by building both job-relevant skills and trust between employer and employee. For older workers, part-time and home based work could provide a compromise to those who want to remain active, but find it hard to still handle a fulltime workload or long commutes. This would also provide more options for workers who have already reached the official retirement age.

The largest share of current part-time jobs is, in most countries, filled by women (Figure 48). Part-time employment as a share of total employment is generally higher among women than among men. This is consistent with existing evidence on preferences for specific job types among women and men. However, total part-time employment often remains relatively low, with the exception of Albania and Georgia.

**Figure 48: Many women seek part-time jobs**

**Share of employed men / women in part-time employment**

Source: Authors’ calculations, based on World Bank: World Development Indicators.

4.3.2.3 Policy Responses

**RECOMMENDATION 1**

When thinking about reforming labor market regulations, an important guideline is to avoid binding regulations while still protecting workers. Regulations are binding when they are so strict that employers incur a cost higher than the benefit of employing a certain worker, given his or

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49 Arias, et.al 2014. As discussed earlier, the prevalence and attractiveness of part-time work depends not only on regulations, but also on taxation.
her level of productivity. This is a particularly relevant issue for low-productivity workers, such as new labor market entrants, low skilled workers, or workers with a skills mismatch or lack of experience. In order to incentivize firms to hire workers in these specific groups, governments can decrease the costs associated with such hiring and introduce more flexibility into regulatory frameworks. In the above, we discussed specific areas where labor regulations remain relatively tight in the various countries analyzed here. At the same time, it is crucial to combine more flexible hiring and firing regulations with a stronger social protection system that can protect workers and their families during periods of unemployment.\footnote{For a detailed discussion on social protection systems, see: Grosh et al., 2008. See, also, for example, Robalino (2014) for a discussion on designing unemployment benefit systems in developing countries.}

**RECOMMENDATION 2**

**Reduce the cost of hiring, especially among low productivity workers, through probation periods, apprenticeships and internships.** In this light, a careful review of minimum wage regulations is also appropriate. Although a certain level of wage protection is important to prevent exploitation, some of these ten countries could still improve regulatory frameworks related to wages, for example by introducing a “phasing in” of the minimum wage among youth – starting, for example, at 60-80 percent of the official minimum wage for youth, with gradual increases to the full minimum wage over time. This is common practice in most OECD countries. Many countries in the region are opting for hiring subsidies as a way to reduce hiring costs of specific groups, as we discussed earlier. The risk with these policy measures is that they can be inefficient if not well-targeted, or if implemented as temporary measures.

**RECOMMENDATION 3**

**Increase regularity and fairness of enforcement.** Without rigorous and regular enforcement, labor market regulations do not have an effect, or may even have an adverse impact. Labor inspection authorities with appropriate levels of capacity, responsibility and authority are therefore crucial. In addition, transparency is important to prevent corruption. Many OECD countries follow a risk-based approach to inspections that could be relevant for these ten countries. See Kuddo et al. (2009a) for an extended discussion on labor inspections and enforcement of labor regulations.

**RECOMMENDATION 4**

**Provide flexible work arrangements in public sector jobs, and incentivize private sector firms to do the same.** In both public and private jobs, it is essential that such arrangements are accessible. It is equally essential that there are no large gaps in these provisions between the public and the private sector. Currently, such gaps sometimes discourage women from seeking private sector jobs, making the set of job opportunities to choose from a lot smaller and making public jobs disproportionately attractive for women.

4.3.3 **ACCESS TO PRODUCTIVE INPUTS**

Similar to disparities in accessing labor markets, there are significant disparities in accessing education (Section 4.2), credit, land, labor market information and networks:
inputs needed to be productive and successful on the labor market. Poor access to these productive inputs limits labor force participation directly, but also indirectly by reducing the potential returns to participation.

Mainly in Central Asia, credit markets are still growing. Particular groups, including women, youth, older workers and sometimes ethnic minorities, often face additional constraints when attempting to access credit. For example, throughout all of these ten countries, effective "base-of-the-pyramid" (that is, directed at lower income groups) credit reporting systems are still weak, posing a challenge for making credit accessible to the poor (CGAP, 2014). At the same time, many of these countries still face challenges in providing credit to groups such as women, youth and older workers. In Kosovo, for instance, the share of female adults that had a loan in the past year was 10 percentage points lower than the same share among men (Findex, 2011). Similarly, qualitative interviews in Tajikistan suggest that women often lack self-confidence when it comes to obtaining credit, and that many families would not support them in this endeavor given the risk of debt. In all ten countries apart from Moldova and Ukraine, loans were also held much less often by youth (aged 15-24) as compared to prime age workers (Findex, 2011). Indeed, qualitative evidence from the Kyrgyz Republic illustrates the obstacles youth face when trying to access credit: in the Kyrgyz Republic, permanent employment is de facto a prerequisite for obtaining credit, which many youth do not have. Overall, the strength of credit reporting systems and the effectiveness of collateral and bankruptcy laws could be particularly improved in countries like Tajikistan and Azerbaijan.

It should be noted that these gaps in access to credit are often the result of gaps in other realms: for example, groups such as youth, women and older workers may be less likely to possess land and other assets that could serve as collateral. Indeed, survey findings from Tajikistan suggest that on average, women holding long-term loans are charged a 16 percent interest rate, whereas the same rate for men is 4 percent. Women may be assumed to be less credit-worthy than men, partly because they own fewer assets – including livestock and land, and earn lower wages (World Bank, 2009 in Sattar, 2012). Discriminatory attitudes towards these groups may be an additional barrier to accessing productive inputs.

There are discrepancies between groups in their ability to access land. In countries which heavily depend on agriculture and where women often work in an (agricultural) family business, land means access to work. However, land also has additional benefits: it can often be used as collateral for obtaining credit. As discussed earlier, since women often earn less than men, they have less opportunity to buy land, which, indirectly, also constrains their opportunity to access credit. Moreover, discriminatory practices and social norms cause further challenges, and women often lack awareness of their rights in this matter (IFAD, 2013). In some countries, such as the Kyrgyz Republic, unequal access to inheritance, land and property rights aggravate inequalities further (UN Women, the Kyrgyz Republic).

51 World Bank, qualitative interviews (2013).
52 World Bank, qualitative interviews (2013).
53 For an elaborate exploration of best practices in broadening access to land and other productive inputs among women, see UN (2013). This publication reviews international and regional legal and regulatory frameworks, as well as international best practices.
In addition to traditional production inputs, access to labor market information and networks is also key in linking people to jobs. First, information on where jobs can be found, wage prospects, and which types of jobs are accessible given an individual's level of education and work experience is crucial, from the perspective of both individuals and employers. Second, (professional) network ties are often one of the most important avenues to find employment, making job search efforts much more difficult for individuals who are excluded from such networks (Arias et al., 2014; J-PAL, 2013). In Albania, networks are indeed among the main avenues through which jobs are found, especially for (young) men (Figure 49). Similarly, in Tajikistan, 22 percent of men and 13 percent of women with jobs indicate to have found their job through personal connections. Sometimes, networks are tied to political interests: “If you are not associated with a party, you cannot get a job” (Urban youth, Macedonia) (UNDP, 2011: 20). These ties – or the lack thereof – can also have indirect effects, including impacts on individuals’ educational decisions. Similarly, networks may be limited among ethnic minorities, with language barriers being one possible contributing factor (Arias, et al., 2014).

**Figure 49: Informal networks are often used to find jobs: the case of Albania**

**Job search strategies in Albania, by age-group and gender, 2008**

Source: Authors’ calculations, based on LFS (2008).

### 4.3.3.1 Policy Responses

**RECOMMENDATION 1**

Increase access to productive inputs, including credit and land, among women and other groups which currently face challenges in this realm. One avenue through which this can be achieved is regulation. A strong regulatory framework that ensures equal access for all – including for women, ethnic minorities and other traditionally excluded groups, accompanied by rigorous enforcement, can protect these groups from exclusionary norms and cultural traditions. Over time, they can even contribute to changing these norms and traditions. The Food and Agriculture Organization of the United Nations (FAO) recently released five new country profiles on land rights and gender in Central Asia, highlighting that, although these countries have accepted international gender equality agreements, “women (...) have been widely overlooked by post-Soviet land reforms and redistribution programmes. This, combined with women’s limited access to paid

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54 TLSS (2009).
55 Countries covered: Azerbaijan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan.
employment, has negatively affected household food security and also weakened their decision-making power within their families and communities,” (FAO, 2014). At the same time, the FAO highlights that important improvements have already been realized in the Kyrgyz Republic and Tajikistan. Both countries have reformed land laws to increase their sensitivity to gender equality, and the Kyrgyz Republic has invested in training seminars among rural communities to increase awareness on the implications of these reforms (ibid.).

In addition, policy needs to aim at addressing failures in credit and land markets, especially those that disproportionately affect women, youth, older workers and ethnic minorities. For example, subsidies and information programs that improve awareness of legal rights, ways to assemble collateral, and access to credit could be helpful in this regard. Around the world, private and public sector stakeholders have started strengthening credit markets, including micro-credit programs targeted specifically at groups that are traditionally excluded from the credit market. This often includes the provision of alternative forms of collateral, which can help expand access to credit to groups which lack traditional assets. For example, many microcredit institutions around the world rely on a combination of social peer pressure and ‘light’ forms of collateral to ensure compliance with loan repayment terms (de Laat, 2012b; Armendáriz and Morduch, 2010). Technology also plays an increasing role in this process.56

**RECOMMENDATION 2**

**Encourage and facilitate network formation and information flows.** There are various policy initiatives that could improve network formation, especially among women, youth, older workers and ethnic minorities. Existing research shows that when combined with a spatial approach – that is, targeting local communities, and simultaneously facilitating network formation within these communities – positive impacts on employment are found (J-PAL, 2013).

**Job information centers and public employment services have a critical role to play in this area.** Job information centers have been shown to have an important effect on youth’s educational attainment and to facilitate the transition to the labor market, for example (Saniter and Siedler, 2014). Some of the ten countries analyzed here, such as Azerbaijan and Moldova, have increased the number of staff, employed through social welfare and public employment services, who work directly with job seekers, allowing for network formation opportunities as well as ‘signaling’ opportunities towards employers (Arias et al., 2014). However, the capacity of these agencies often remains a concern, and in addition, some jobseekers do not register for these services, making it difficult to assist them (ibid.). Lastly, limited budgets and – in some cases – limited expertise can impact both the range and quality of services provided by these agencies.

**Putting in place incentives – including tax related incentives – to improve access to paid internships and apprenticeships for youth can ease the transition to work, not just because they allow youth to build experience, but also because it allows them to start forming important professional networks** (Arias et al., 2014). Mentorship programs can fulfill similar

56 See, for example,
roles, and can also have an important impact on job-seekers’ motivation and morale. Other countries hold job fairs that unite firms and job seekers, especially youth. In addition to providing networking opportunities, such initiatives can also alleviate adverse attitudes towards youth, ethnic minorities and other groups, and improve employers’ access to information on these groups (Arias et al., 2014).

**RECOMMENDATION 3**

**Facilitate business start-ups and formalization, especially in regions where agriculture and informality dominate, and provide transition-paths to formalization for family businesses.** Initiatives such as the Graduation approach (Hashemi and De Montesquiou, 2011) have shown that it is both possible and beneficial to invest in start-ups and formalization among the poor and among specific disadvantaged groups, such as women. For example, in many of the countries analyzed here, women’s restricted access to credit, land and property rights severely constrain their opportunity to embark on entrepreneurial endeavors. In regions where agriculture dominates and where large shares of the employed work in family businesses, initiatives which would facilitate an increase in entrepreneurship can create additional job opportunities, better perspectives for future workers, and an increased tax base. Business training, financial literacy training and skills building programs towards entrepreneurship are likely to be a key part of this agenda.\(^{57}\)

**4.3.4 Location & Mobility**

Most countries do not display a major difference in overall participation rates between urban and rural environments. The most prominent exceptions are Azerbaijan, Georgia and Kosovo (Figure 50). There are countries where urban participation is higher than rural participation, and countries where the opposite is the case. The gaps appear to be largest in Armenia, Azerbaijan, Kosovo and Georgia. Of the three countries with a predominant share of the population living in rural areas – Tajikistan, the Kyrgyz Republic and Moldova, the Kyrgyz Republic is the only one with rural participation rates exceeding those in urban environments, albeit by a small margin. Conversely, the two countries with the most predominant share of their populations residing in urban settings both have higher participation rates in the country-side.

**Figure 50: Urban-rural differences in participation exist, but the direction of the gap differs per country**

**Urban vs. rural participation rates**

\(^{57}\) See Valerio et al. (2014) for an in-depth discussion of global experiences with entrepreneurship education and training programs around the world.
When controlling for other characteristics, including gender, age, region and marital status, one’s chances of participating in the labor force are often lower in urban environments than in rural localities (Figure 51). Living in an urban environment is negatively correlated with one’s chance to participate, especially in Azerbaijan and Georgia, and moderately in Armenia, the Kyrgyz Republic and Ukraine. In Moldova and Macedonia, there is only a very weak association, whereas in Kosovo, urban residence is positively correlated with participation: in this country, living in a city is associated with an increase in likelihood to participate in the labor force of ten percentage points. This partly reflects the fact that agriculture – especially self-employment in the agricultural sector – is still the main employer in many rural areas, and that participation in this sector – especially among women – is high.\(^\text{58}\)

\textbf{Figure 51: Living in an urban area is usually associated with a lower participation rate in the labor force when taking other background characteristics into account}

\textbf{Conditional effect of living in an urban area on participation: country Probit models}

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\(^{58}\) However, the quality of jobs in agriculture is often low: work tends to be seasonal, and low pay is common.
Not surprisingly, in most of the countries analyzed here, the participation gap between urban and rural locations is much larger for women than for men. The only two exceptions are the Kyrgyz Republic and Moldova, where urban-rural participation gaps are small in general. For women, the chance of being in the labor market is much higher in rural environments in Armenia, Azerbaijan and Georgia, whereas the opposite holds in Kosovo, Macedonia and Moldova. As countries urbanize and become richer, female labor force participation is likely to fall at first. This partly reflects the fact that women in rural areas are very likely to work in agriculture, a sector that essentially does not exist in urban areas, and that it takes time for women to move into other sectors. In addition, informal support mechanisms – such as family members taking care of children – are less common in urban areas, especially for new migrants that have only arrived in the city fairly recently (World Bank, 2011c).

Beyond the urban-rural divide, regional labor force participation rates between regions differ substantially in these countries (Figure 52). In Macedonia and Georgia, for example, the range of regional participation rates is 29 percentage points, with the worst performing regions having participation rates of about half those of the best performing regions. In almost all countries, the differences in participation between regions are largely driven by women and youth (Figure 53). Whereas for men, the regional coefficient of variance usually does not exceed 10 percent of the mean, for women, it often exceeds 20 percent. Coupled with the generally lower participation rates among women, this means that there are specific geographic locations where women are particularly disadvantaged, and hardly participate in the labor force at all.

**Figure 52: Participation rates differ starkly by region within countries**

*Labor force participation rates in the worst performing (lowest) and best performing (highest) region, compared to the country average*

![Figure 52 diagram](image)

Source: Authors’ calculations, based on household surveys (2008-2011).
Notes: See Annex 1 for a detailed description of the surveys used. For Macedonia, data from 2006 were used.

**Figure 53: Regional Variation in participation rates is also stronger among youth than among other age groups**

*Coefficient of variation (CV) in labor force participation among regions: by age group*
Although employment and participation rates are highly unequal across regions, not all working age individuals are willing and able to move to places where job markets have more to offer. As shown in Figure 54, at least 60 percent of individuals aged 18-64 report that they would not be willing to move to a different region within the same country for reasons related to employment. In some countries, such as Tajikistan, only (less than) one fifth reports a willingness to move for employment reasons (12 percent in Tajikistan). This is despite the fact that external migration is very high.59

FIGURE 54: MANY WORKING AGE INDIVIDUALS ARE NOT WILLING TO MOVE TO OTHER REGIONS WITHIN THE COUNTRY FOR EMPLOYMENT

WILLINGNESS TO MOVE FOR EMPLOYMENT, AGE GROUP 18-64, 2010

4.3.4.1 Policy Responses

RECOMMENDATION 1

Bring women in urban environments into the labor force through investments in skills. Women in urban environments are often disproportionally unlikely to participate in the labor force.

59 A more elaborate discussion on the relationship between migration and labor force participation can be found in Arias et al., 2014.
At the same time, these ten countries are generally characterized by agricultural sectors with a shrinking overall value, and service sectors which are growing in terms of value added. Investing in skills for urban women that they can use in service jobs can be a crucial avenue towards inclusion of this group into the labor market.

**RECOMMENDATION 2**

**Identify location-specific challenges, especially for women and ethnic minorities.** Investigating specific restrictions to labor force participation at the regional and local level is a crucial first step towards designing adequate policy responses. Challenges can range from skills mismatches to infrastructure and from a lack of local job opportunities to dominant cultural norms. Central governments can cooperate with local officials to determine where the main culprits lie, and consult with a range of local stakeholders to design policy responses that address these main challenges.

**RECOMMENDATION 3**

**Encourage mobility and improve labor conditions and opportunities for migrants.** This may include measures such as improving the functioning of credit, mortgage and housing markets, making benefits portable, increasing awareness of the opportunities for migration, investing in building skills that are relevant for jobs commonly filled by migrants, and providing child and elderly care options that relieve household members of working age, and especially women, from the responsibility to care for other members of the household.  

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60 See, for example, World Bank (2012h) for a detailed study of internal labor mobility in Ukraine.
5 Concluding Remarks

Labor force participation is an important policy priority for ECA’s poorest countries. Increasing labor force participation overall is crucial to maintaining a healthy economy and to achieving shared prosperity. This report has identified patterns of inequality with respect to labor force participation, particularly affecting women, youth, older workers and ethnic minorities. It has elaborated on the role of incentive structures and tax systems in creating a framework that makes work pay, as well as on how skills can help these groups gain access to more labor market opportunities. It has also highlighted the main barriers faced by these specific groups and has explored how activation policies in particular can bring these groups closer to the labor force.

Although not extensively addressed in this report, an important step towards increased labor force participation is to boost labor demand at home. In many of these countries, especially in Central Asia, migration is currently an important channel for managing labor market pressures. In this report, however, we have focused on elements affecting the readiness of all workers to access jobs, and on policies that could make work a more worthwhile option. At the same time, and although the types of policies discussed in this report mainly operate on the supply side of the labor market, these policies may also make it more attractive for employers to hire workers (Arias et al., 2014). For example, if the tax wedge on labor is lowered, employers may be able to afford hiring more workers. In addition, with more people entering the labor force, it may become more attractive for companies to locate in a certain country.

The policy-matrix in Table 7 gives an overview of the main policy recommendations provided in this report, emphasizing, for each recommendation, to which driver of inequality it applies. Some of the policy-recommendations provided above are generic in nature: they have an impact on the entire working age population. Others are specific to one particular demographic group.

Table 7: Policy-matrix: increasing labor force participation in ten of ECA’s poorest countries

<table>
<thead>
<tr>
<th>Labor Taxation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Where there is sufficient fiscal space, assess the possibility of shifting labor taxation to other taxes with a less direct impact on the decision to work (formally), and on how many hours to work.</td>
<td></td>
</tr>
<tr>
<td>• Rethink the structure of labor taxation in a revenue-neutral manner.</td>
<td></td>
</tr>
<tr>
<td>• Consider the introduction of negative labor income taxation or in-work benefits.</td>
<td></td>
</tr>
<tr>
<td>• Implement targeted hiring subsidies, for example in the form of lower social contributions, in the case of market failures.</td>
<td></td>
</tr>
</tbody>
</table>

Especially important for countries with high relative rates of labor taxation: Armenia & Ukraine.

<table>
<thead>
<tr>
<th>Social Protection Systems</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increase the official retirement age, while also improving incentives to retire later, including options for flexible work arrangements and options for combining partial pensions with employment. In addition, it would help to equalize retirement regulations across gender.</td>
<td></td>
</tr>
<tr>
<td>• Restrict early retirement options.</td>
<td></td>
</tr>
<tr>
<td>• Rethink the design of social assistance, to allow for combining work and receipt of benefits.</td>
<td></td>
</tr>
</tbody>
</table>
- Expand research efforts examining the impact of social protection on labor force participation in this specific group of countries.

**Especially important for countries with large conditional effects on labor force participation of belonging to the older segments of the working age population: Albania, Macedonia & Kosovo.**

### Skills
- Strengthen generic skills, including socio-emotional skills. This implies, first, that remaining gaps in educational attainment must be remedied, at least up to and including secondary school. Second, it implies that standard school curricula must better streamline the provision of socio-emotional skills.
- Strengthen the links between educational institutions and the private sector.
- Incentivize student mobility.
- Inform and incentivize youth and their parents, as well as job-seekers more generally, to build the skill sets that are in demand.
- Ensure availability of employment services to match workers to jobs, including opportunities for life-long-learning.

**Especially important for countries with large conditional effects on labor force participation of education levels: Albania, Armenia, Macedonia, Kosovo, The Kyrgyz Republic, Moldova & Ukraine.**

### Norms and Values
- Increase the availability and affordability of child and elderly care, and preschool.
- Provide training and hiring subsidies for specific sub-groups which are faced with adverse social norms, and potentially discrimination.
- Introduce and enforce zero-tolerance policies with respect to discrimination, and improve incentives for firms to go beyond minimum requirements.
- Use the education system and information campaigns to improve social attitudes.
- Improve the gender neutrality of regulations governing work

**Especially important for countries with large conditional effects on labor force participation of gender: Albania, Azerbaijan, Macedonia, Kosovo, the Kyrgyz Republic & Tajikistan. For some of these countries, policy measures in this area are also important because of large conditional effects on labor force participation of ethnic background.**

### Labor Regulations and Flexible Work Arrangements
- Avoid binding regulations while still protecting workers.
- Reduce the cost of hiring, especially among low productivity workers, through probation periods, apprenticeships and internships.
- Increase regularity and fairness of enforcement.
- Provide flexible work arrangements in public sector jobs, and incentivize private sector firms to do the same.

**Especially important for countries with low rankings of labor market efficiency: Albania, Armenia, The Kyrgyz Republic, Macedonia, Moldova & Ukraine.**

### Access to Productive Inputs
- Increase access to productive inputs, including credit and land, among women and other groups which currently face challenges in this realm, for example through regulation.
- Encourage and facilitate network formation and information flows, making use of, among others, job information centers and public employment services.
- Facilitate business start-ups and formalization, especially in regions where agriculture and
informality dominate, and provide transition-paths to formalization for family businesses.

Especially important for countries with high rates of self-employment and large agriculture sectors: Albania, Armenia, Azerbaijan, Georgia, The Kyrgyz Republic & Tajikistan

Location and Mobility

- Bring women in urban environments into the labor force through investments in skills.
- Identify location-specific challenges, especially for women and ethnic minorities.
- Encourage mobility and improve labor conditions and opportunities for migrants.

Especially important for countries with large negative conditional effects on labor force participation of living in an urban environment, and for countries with large regional inequalities in labor force participation: Albania, Armenia, Azerbaijan Macedonia, The Kyrgyz Republic & Georgia
REFERENCES


Hashemi S., and A. De Montesquiou. 2011. “Reaching the Poorest: Lessons from the Graduation Model.” Focus Note 69, Consultative Group to Assist the Poor, Washington, DC.


Ibarraran, Pablo, Laura Ripani, Bibiana Taboada, Juan Miguel Villa, and Brígida García. ”Life skills, employability and training for disadvantaged youth: Evidence from a randomized evaluation design.” (2012).


World Bank. forthcoming c. "Employment Opportunities in Europe and Central Asia: A Qualitative Assessment".
ANNEX 1: METHODOLOGY

DEFINITIONS

To the extent possible, use was made of the Labor Market Micro-level Database (LMMD) guidelines for establishing key labor market definitions (LMMD a-c, 2009). For example, these definitions were used to define what it means to be ‘employed’, to be ‘unemployed’ and to be ‘out of the labor force’. However, a certain amount of variation across countries must still be assumed, as the exact formulation of questions in the various household surveys may have differed. In this report, the terms ‘inactivity’ and ‘out of the labor force’ are used interchangeably. The same holds for ‘activity’, ‘participation’ and ‘labor force participation’.

DATA SOURCES

New cross-country summary-dataset capturing basic labor market characteristics for the ten countries

For cross-country comparisons, various household surveys are used. The original sources of these data are shown in Table 8. As shown in the table, Labor Force Surveys (LFS) were used whenever possible. For countries in which recent LFS surveys were not available, other household surveys were used, such as the Household Budget Survey (HBS), and the Living Standards Measurement Study (LSMS). Estimates presented in this report are restricted to the working age population (15-64), to enable cross-country comparisons that are compatible with the various survey methodologies. To the extent possible, use was made of the Labor Market Micro-level Database (LMMD) guidelines for establishing key labor market definitions. For example, these definitions were used to define what it means to be ‘employed’, to be ‘unemployed’ and to be ‘out of the labor force’. However, a certain amount of variation across countries must still be assumed, as the exact formulation of questions in the various household surveys may have differed.

61 As illustrated by the ILO (KILM), even a comparison of activity rates reported only in Labor Force Surveys (LFS) across countries may not be fully uniform: “despite their strength, labour force survey data may contain non-comparable elements in terms of scope and coverage, mainly because of differences in the inclusion or exclusion of certain geographic areas, and the incorporation or non-incorporation of military conscripts. Also, there are variations in national definitions of the labour force concept, particularly with respect to the statistical treatment of “contributing family workers” and “unemployed and not looking for work”.

62 Figures were crosschecked with numbers reported in existing literature. When comparing basic labor market estimates from different sources, the figures obtained generally differ by at least a few percentage points. This may be due to a variety of factors, including the sampling methodology or slight variations in definitions.

Table 8: Original data sources for cross-country dataset

<table>
<thead>
<tr>
<th>Year</th>
<th>ALB</th>
<th>ARM</th>
<th>AZE</th>
<th>MKD b</th>
<th>GEO</th>
<th>KSV</th>
<th>KGZ</th>
<th>MDA</th>
<th>TJK</th>
<th>UKR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source D</td>
<td>LFS</td>
<td>ILCS A</td>
<td>LSMS</td>
<td>LFS</td>
<td>HBS</td>
<td>LFS</td>
<td>HBS</td>
<td>LFS</td>
<td>LFS</td>
<td>LFS</td>
</tr>
<tr>
<td>Sample C</td>
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<td>33</td>
<td>25</td>
<td>54</td>
<td>41</td>
<td>24</td>
<td>56</td>
<td>111</td>
<td>17</td>
<td>342</td>
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</tbody>
</table>

Notes: A ILCS refers to the Armenia ‘Integrated Living Conditions Survey’. b For Macedonia, use was made of LFS data from 2011 included in World Bank (2013a). Where data from 2011 were not available, data from LFS, 2006 were used. c Sample sizes refer to the number of individuals sampled (in thousands). d For data on NEET, use was made of different sources in the following cases: Albania: LSMS, 2008; Georgia: HBS, 2007; Tajikistan: LSMS, 2009.

In order to compare these countries to various reference groups, use was made of the ‘EU15’ – that is, the 15 EU member states before the accession of 10 new member states on 1 May 2004, the ‘EU10’ – that is, the 10 new EU member states that joined the EU on 1 May 2004, and the ‘OECD, Non-EU’ countries. Malta and Cyprus are left out of the second group because of a lack of adequate data for these countries. The EU15 include: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. The EU10 include: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia. The OECD, non-EU countries include Australia, Canada, Chile, Iceland, Israel, Japan, the Republic of Korea, Mexico, New Zealand, Norway, Switzerland, Turkey and the United States.

The Regional Roma survey

The regional Roma survey, referenced in this report as ‘UNDP/World Bank/EC regional Roma survey (2011)’, is a comprehensive survey that is representative of approximately 88 percent of the Macedonian Roma population, including Roma living in mixed, separated and segregated neighborhoods. The survey questionnaire was designed by the World Bank and UNDP in partnership, and implemented by UNDP through the IPSOS polling agency in May-July 2011 on a random sample of Roma living in communities with concentrated Roma populations in Bulgaria, the Czech Republic Hungary, Macedonia, Romania and Slovakia. The European Commission DG Regional Policy financed the survey. In each of the countries, approximately 750 Roma households, including over 3,500 individuals, and approximately 350 non-Roma households living in the same neighborhoods or vicinity were interviewed. More detailed sampling information on Macedonia specifically can be found in Table 9. The sample is not representative of all Roma in these countries, but rather includes those communities where the share of the Roma population equals or is higher than the national share of Roma population. This covers 88 percent of the Roma population in Macedonia. Once identified, a random sample of these areas was drawn, and households were randomly sampled within these enumeration areas.
Table 9: Sampling covers 88 percent of the Roma population in Macedonia

Sampled Roma and non-Roma in Macedonia, 2011

<table>
<thead>
<tr>
<th></th>
<th>Roma</th>
<th>Non-Roma</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban</td>
<td>Rural</td>
<td>Total</td>
</tr>
<tr>
<td>Households</td>
<td>694</td>
<td>94</td>
<td>788</td>
</tr>
<tr>
<td>Individuals</td>
<td>3230</td>
<td>466</td>
<td>3696</td>
</tr>
</tbody>
</table>


Notes: Data are not nationally representative, but reflect rates in neighborhoods and communities where one can find a higher-than-national concentration of Roma.

The regional Roma survey data provide reliable estimates of the conditions in which the vast majority of the Roma in Macedonia live, compared to the conditions of their non-Roma neighbors. Comparisons with non-Roma living nearby provide a crucial frame of reference, since the sampled non-Roma households live in the same or proximately located municipalities, and thus share local labor markets, community-, school-, and health facilities as well as other services and collective infrastructure. Hence, if we observe differences in e.g. education, or employment between Roma and non-Roma households, these are highly likely to reflect particular disadvantages faced by Roma.

Qualitative surveys on "Jobs, Mobility and Gender"

The qualitative surveys cited in this paper, referred to in the text as ‘World Bank: Qualitative interviews (2013)’ refer to data collected in the framework of the cross-country project “Qualitative Assessment of Economic Mobility and Labor Markets in ECA: A Gender Perspective”. In a set of nine countries, the qualitative survey (a mix of focus groups, in-depth interviews and key informant interviews) took place between May and August 2013. Among the ten countries analyzed here, five were also included in this qualitative work: Georgia, Kosovo, the Kyrgyz Republic, Macedonia and Tajikistan. The project was led by a cross-sectoral World Bank team.

Other Data Sources

Throughout this report, a number of other publicly accessible sources of data were used. These include:

• World Bank, ECAPOV database.
## Annex 2: Correlates of Labor Force Participation: Estimation Results

### Table 10: Overview of variables included in country Probit models of labor force participation

<table>
<thead>
<tr>
<th>Country</th>
<th>ALB</th>
<th>ARM</th>
<th>AZE</th>
<th>MKD, 2006</th>
<th>MKD, 2011</th>
<th>GEO</th>
<th>KSV</th>
<th>KGZ</th>
<th>MDA</th>
<th>TJK</th>
<th>UKR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Predictors - Basic</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gender</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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</tr>
<tr>
<td>Age groups</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<td>Education level</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>Marital Status</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Household Head</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<td>Regions</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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</tr>
<tr>
<td>Urban / rural</td>
<td>.</td>
<td>x</td>
<td>x</td>
<td>.</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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</tr>
<tr>
<td><strong>Predictors - Full</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Age of youngest child</td>
<td>.</td>
<td>x</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>.</td>
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</tr>
<tr>
<td>Household has pensioners</td>
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<td>x</td>
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<td>x</td>
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<tr>
<td>Hh. employment</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>Regional unemp. rate for relevant education level</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>.</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>Ethnic Maj.</td>
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<tr>
<td>Migrants</td>
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<td>.</td>
<td>.</td>
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<tr>
<td>Unemp. benefits</td>
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<td>Social Assistance</td>
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<td>.</td>
<td>.</td>
<td>.</td>
<td>x</td>
</tr>
</tbody>
</table>

Table 11: Summary of country models estimates – both genders combined

Probit regressions of labor force participation, reporting marginal effects

<table>
<thead>
<tr>
<th>Country</th>
<th>ALB</th>
<th>ARM</th>
<th>AZE</th>
<th>MKD, 2006</th>
<th>MKD, 2011</th>
<th>GEO</th>
<th>KSV</th>
<th>KGZ</th>
<th>MDA</th>
<th>TJK</th>
<th>UKR</th>
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<tbody>
<tr>
<td>Male</td>
<td>.25***</td>
<td>.12***</td>
<td>.26***</td>
<td>.30***</td>
<td>.14***</td>
<td>.46***</td>
<td>.27***</td>
<td>.03***</td>
<td>.34***</td>
<td>.13***</td>
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</tr>
<tr>
<td>Age 25-29</td>
<td>.15***</td>
<td>.11***</td>
<td>.09***</td>
<td>.17***</td>
<td>.19***</td>
<td>.16***</td>
<td>.15***</td>
<td>.14***</td>
<td>.18***</td>
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<tr>
<td>Age 30-34</td>
<td>.18***</td>
<td>.18***</td>
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<td>.21***</td>
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<td>.23***</td>
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<td>Age 35-39</td>
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<td>.16***</td>
<td>.18***</td>
<td>.26***</td>
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<td>.13***</td>
<td>.25***</td>
<td>.16***</td>
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<td>Age 55-59</td>
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<td>.31***</td>
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<td>.16***</td>
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<td>Age 60-64</td>
<td>.25***</td>
<td>.08***</td>
<td>.08***</td>
<td>.34***</td>
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<td>.11***</td>
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<td>.07**</td>
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<td>.19***</td>
<td>.18***</td>
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<td>.15***</td>
<td>.43***</td>
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<td>.22***</td>
<td>.33***</td>
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<td>Ter. ed.</td>
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<td>.25***</td>
<td>.23***</td>
<td>.26***</td>
<td>.29***</td>
<td>.24***</td>
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Source: Authors’ calculations, based on Household Survey Data (2008-2011).
### Table 12: Summary of country model estimates – men

**Probit regressions of labor force participation, reporting marginal effects**

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Source: Authors’ calculations, based on Household Survey Data (2008-2011).
Table 13: Summary of country model estimates – women

Probit regressions, predicting labor force participation, reporting marginal effects

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<td>19</td>
<td>17</td>
<td>13</td>
<td>6</td>
<td>22</td>
<td>36</td>
<td>3</td>
<td>152</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations, based on Household Survey Data (2008-2011).
Notes:

A See Annex 1 for a detailed description of the surveys used. B In Moldova, no data on education was available. Instead, a combination of regions and urban vs. rural settlements was used to calculate unemployment rates among specific demographic groups. In Ukraine, no data on regions was available. Instead, a combination of urban vs. rural settlements and education levels was used to calculate unemployment rates among specific demographic groups. C Tables 11-13 provide a summary of country-model marginal effects that were significant at the 1 percent, 5 percent or 10 percent level (indicated with ***, ** or *, respectively). Effects that were not significant are marked as missing (.). ‘NI’ stands for ‘Not included’. D Estimates are reported for country models which exclude any indicators on the subject’s past employment. Models include individuals within the age category 20-64. E Models include regional fixed effects in all countries where ‘Yes’ is reported in the row titled ‘Regions’.

Variable names:

Prim. ed. = Primary / incomplete secondary education; Sec. ed. = Complete secondary education; Ter. ed. = Tertiary education; Education levels are compared to the base category of not having completed primary education. Head = Head of Household (compared to not being the head of the household); Child-age 0-6 = Youngest child 0-6; Child-age 7-17 = Youngest child 7-17; These two groups of households are compared to households without any children. Pensioners = Household has one or more pensioners (compared to households without pensioners); Hh. Empl. = Household has at least one individual in employment apart from the subject for which labor force participation is being predicted (as opposed to nobody else being employed in the household); URE = Regional unemployment rate for relevant education level (that is, the unemployment rate in the region where the subject lives, but only among those with the same education level); Ethnic Maj. = Subject belongs to the ethnic majority as opposed to an ethnic minority; Migrants = Household has one or more migrants abroad (compared to households without any migrants abroad); Unempl. benefits = Subject receives unemployment benefits (compared to subjects that do not receive unemployment benefits); Soc. A. = Household receives social assistance (compared to households that do not receive social assistance); Obs. (thousands) = the number of observations included in the model, in thousands.
ANNEX 3: POPULATION PYRAMIDS

## ANNEX 4: ETHNICITY

### Table 14: Decomposition of ethnic minority groups by country (percent of total population)

<table>
<thead>
<tr>
<th></th>
<th>ALB</th>
<th>ARM</th>
<th>AZE</th>
<th>MKD</th>
<th>GEO</th>
<th>KSV</th>
<th>KGZ</th>
<th>MDA</th>
<th>TJK</th>
<th>UKR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethnic majority</td>
<td>95</td>
<td>98</td>
<td>91</td>
<td>64</td>
<td>84</td>
<td>92</td>
<td>65</td>
<td>78</td>
<td>80</td>
<td>78</td>
</tr>
<tr>
<td>Largest ethnic minority</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>25</td>
<td>7</td>
<td>.</td>
<td>14</td>
<td>8</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>1</td>
<td>7</td>
<td>11</td>
<td>9</td>
<td>8</td>
<td>21</td>
<td>14</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Ethnic origin of largest minority</td>
<td>Greek</td>
<td>Kurd</td>
<td>Dagestani</td>
<td>Albanian</td>
<td>Azeri</td>
<td>Albanian</td>
<td>Uzbek</td>
<td>Ukranian</td>
<td>Uzbek</td>
<td>Russian</td>
</tr>
<tr>
<td>Comments</td>
<td>Roma likely to be a larger group than reported in official estimates</td>
<td>Ethnic Armenian: 6%</td>
<td>Ethnic Russian: 13%</td>
<td>Ethnic Russian: 6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CIA World Factbook: Latest available estimates.
ANNEX 5: CONDITIONAL EFFECTS ON LABOR FORCE PARTICIPATION

Conditional effects, in percentage points, of living in a certain region on one’s chance of participating in the labor force, as compared to living in the reference region.

ALBANIA

Source: Authors’ calculations, based on LFS (2008).

ARMENIA

Source: Authors’ calculations, based on ILCS (2008).
AZERBAIJAN

Source: Authors’ calculations, based on LSMS (2008).

MACEDONIA

Source: Authors’ calculations, based on LFS (2006).
GEORGIA

Source: Authors’ calculations, based on HBS (2009).

KOSOVO

Source: Authors’ calculations, based on LFS (2008).
THE KYRGYZ REPUBLIC

Source: Authors’ calculations, based on HBS (2010).

TAJIKISTAN

Source: Authors’ calculations, based on TLSS (2009). Reference region: Dushanbe.