



# Unemployment Registration and Benefits in ECA Countries

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## Key Messages<sup>1</sup>

- **Public Employment Services (PES) in several Europe and Central Asia (ECA) countries are severely limited by underfunded labor market programs, understaffing, and fragmented networks of employment offices.**
- **Cash benefits and other entitlements like health insurance often act as incentives to job seekers to register with PES. However, such benefits can and often do encourage unemployment registration by economically inactive individuals.**
- **Registered unemployment exceeds survey-based unemployment rates in about half of ECA countries (mostly Central Europe and Western Balkans). Registered unemployment is much lower than survey-based unemployment in the Baltic States and CIS countries, primarily due to low access to unemployment benefits and active labor market programs (ALMPs).**
- **The numbers of unemployment assistance beneficiaries vary significantly across ECA. In 2009, for example, 85% of the registered unemployed in Russia received benefits but, in eight ECA countries, less than 10% of the registered unemployed received such assistance.**

## Public Employment Services in ECA

Public employment services (PES) emerged in the early 1990s in most of the transition countries in ECA, in response to massive labor market adjustments in the economy associated with restructuring and privatization of state - owned enterprises. Typically, PES are

responsible for all aspects of employment services and programs - registering the unemployed, paying unemployment benefits, providing guidance and counseling to job seekers, and coming up with ALMPs like training, wage subsidies or public works.

However, PES in most ECA countries are severely challenged by a lack of funds, understaffing, fragmented networks of employment offices, limited labor market information, and the limited menus and scope of their employment services and ALMPs.

## Registration of the Unemployed

Unemployed people in ECA countries register themselves with employment service offices for various reasons: to secure new jobs, participate in and benefit from ALMPs, and receive unemployment benefits and other entitlements - such as, maintaining eligibility for health insurance benefits (even for those who are de facto inactive or informally employed).

Registered unemployment rates exceed survey-based unemployment rates in about half of ECA countries (see Figure 1), mostly in Central Europe and the Western Balkans, possibly because many economically inactive or informally employed individuals register themselves as well. In Croatia, for example, the number of registered unemployed in 2009 was 65% higher than the number of survey-based active job seekers. There are several reasons for this phenomenon. First, unemployed people who wish to retain eligibility for state-provided health insurance benefits (in case they are not insured through their employed family members) often register themselves at PES offices. In FYR Macedonia, for example, around 25% of total registered job seekers are individuals who register themselves only to receive free health insurance and not necessarily look for new jobs. Second, in most ECA countries, unemployed persons of working age who are eligible for “income-conditioned” social assistance (whereby benefits are paid only if household income falls below a certain threshold) are usually required to register at the PES for this support. Employed individuals who are

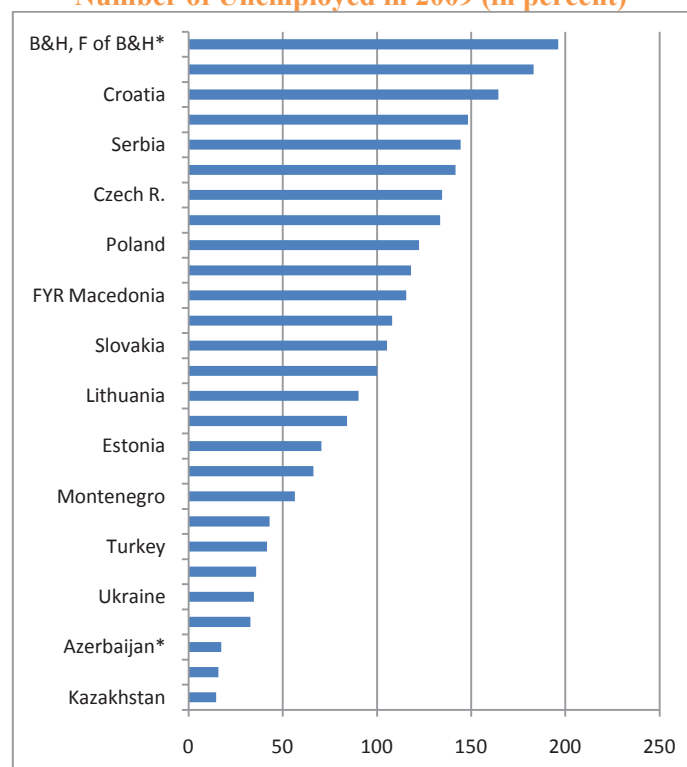
<sup>1</sup> This Knowledge Brief is based on the report: A. Kuddo, “Labor Market Monitoring in Eastern Europe and Central Asia Countries: Recent Trends (Round Three)”, 2010, World Bank.

## ECA Knowledge Brief

looking for other jobs can also register as job seekers but they have only limited access to employment services. However, the mandatory requirement of showing “unemployed status” for obtaining social welfare payments and benefits is also causing the registration of persons who are not active job seekers and do not classify as unemployed.

In other countries, particularly in the Baltic States and CIS countries, registered unemployment is much lower than survey-based unemployment, predominantly due to low access to unemployment benefits and ALMPs. For example, in Kazakhstan only 15% of the total number of unemployed registered with PES in 2009, and in Armenia only 16% of the unemployed registered with PES in 2008. In this group of countries, expenditures on labor market programs are especially low - as a rule, not exceeding 0.1% of GDP annually. Also, relatively few job seekers benefit from the passive (providing unemployment benefits) and active (providing training, wage subsidies, etc.) labor market programs.

**Figure 1: Ratio of Registered Unemployed to the Total Number of Unemployed in 2009 (in percent)**



\*2008

**Note:** B&H: Bosnia and Herzegovina; F: Federation; R: Republika.

**Source:** A. Kuddo, “Labor Market Monitoring in Eastern Europe and Central Asia Countries: Recent Trends (Round Three)”, 2010, World Bank.

### Benefits Available to the Registered Unemployed

Policy measures designed to activate the unemployed and help them become gainfully employed use a combination

of “rights and obligations” that emphasize obligations on the part of the unemployed to seek and accept work, and economic incentives/sanctions provided/imposed by the authorities to encourage the unemployed to register and look for work. Cash benefits and other entitlements are an important incentive for job seekers to register as unemployed.

Employment promotion legislation in ECA countries allows for at least 20 different types of benefits to be provided to unemployed people (Table 1). Some countries, primarily in the Balkan region, try to entice unemployed individuals (even those who are not actively looking for work) with incentives to register at PES. Other countries, like Turkey for example, do not provide enough incentives for the unemployed to register. It is important for employment services to get this balance right so that actual job seekers ‘self-select’ themselves into registration.

Some types of benefits provided to unemployed people in ECA countries act directly to stimulate registration, active job search and rapid placement in jobs. In most CIS countries, for example, the duration of severance pay provided by employers is conditional to finding a new job and/or registration at the employment service within a certain period of time, typically in 10 days after contract termination. In Russia, for example, severance pay is usually equal to the employee’s average monthly wages. However, the unemployed individual’s monthly wages are preserved until the person finds a job, but not for more than two to three months from the date of dismissal, provided the individual applies for registration within two weeks of dismissal. Rapid registration at the PES also allows the employment agencies to immediately offer unemployed persons available vacancies, job counseling and job search assistance, thus shortening the transition from one job to another.

In the Czech Republic, in order to stimulate attachment to jobs, registered job seekers are given the right to have extra earnings even if they draw unemployment support, although the earnings may not exceed half the official minimum wage and the work should not take up more than 20 hours a week. In Slovakia, an employed or self-employed individual can apply for an allowance for commuting to work (payment of monthly travel expenses for commuting from place of residence to place of employment provided in the employment contract or implementation of self-employment). The allowance for commuting is provided to job seekers who have been registered with the employment agencies for at least three months and have found a job. Refunds for relocation costs (mobility grants) are provided in several ECA countries if the new places of work were referred to and agreed upon by the PES.

**Table 1: Cash Benefits and Other Entitlements Available to the Unemployed in ECA Countries**

1. Additional severance pay for timely registration at PES following layoffs	Most CIS countries
2. Unemployment insurance/assistance benefit	Most countries except Georgia and Kosovo
3. Early retirement	FYR Macedonia, Hungary, Poland, Slovakia
4. Social assistance	Most countries
5. Health insurance	Most countries
6. Pension and disability insurance	Bosnia and Herzegovina, Slovenia, Serbia
7. Earnings from work	The Czech Republic
8. Transport benefit	Bulgaria, Estonia, Slovenia, Azerbaijan, Slovakia, Montenegro
9. Accommodation benefit	Estonia, Slovakia
10. Allowance for commuting to work	Slovakia
11. Refund of relocation costs	Slovenia, Croatia, Moldova, Azerbaijan, Slovakia, Armenia, Montenegro
12. Child supplement to the unemployment benefit	Slovenia, Azerbaijan, Uzbekistan
13. Training stipend/allowance	Most countries
14. Salary/pay for participation in public works	Most countries
15. Sick leave benefit	Kyrgyzstan
16. Maternity leave benefit	Kyrgyzstan
17. One-off financial assistance	Russia, Montenegro, Serbia
18. One-time incentive for employment	Serbia
19. Lump-sum unemployment benefit for self-employment	Croatia, Serbia, Ukraine
20. Funeral benefit for the deceased unemployed person	Latvia, Ukraine, Armenia

**Note:** The list of countries with relevant benefits and other entitlements is not exhaustive.

**Source:** National Employment Promotion Legislation.

Rapid return to work is supported by some other types of benefits. Job seekers in Serbia, who have been receiving unemployment benefits for at least three months and who have open-ended work contracts, are entitled to one-time incentives for employment in the amount of 30% of the total amount of monetary compensation which would have been paid for the time remaining until the expiration of the right to financial compensation. In Croatia, Serbia and Ukraine, a cash compensation (unemployment benefit) for the entire period of eligibility may be paid as a one-time (lump sum) amount to launch self-employment at the request of the unemployed.

Some types of benefits are aimed at supporting the participation of job seekers in active labor market programs to enhance their employability. In several ECA countries, for example, the PES may provide a training stipend/allowance-along with reimbursement for food, accommodation, and travel expenses from place of residence to the education and training venue--for job seekers who are provided education and training for the labor market.

Participants in public works in all ECA countries receive a salary which is typically not less than the minimum wage. In some countries like Lithuania, for example, the PES also pays insurance contributions so that the beneficiaries are socially insured during their participation in public works.

Unemployed people in Russia retain the right to receive unemployment benefits while participating in public works. Some other benefits act as “acquired rights” which are politically hard to remove although they have no particular objective to activate job seekers. In several countries, for example, job seekers of pre-retirement age can maintain their unemployment benefits until they reach pensionable age; their job-search requirements are relaxed as well. However, providing subsidized early-retirement benefits is now increasingly seen as a second-best solution which is maintained only because other policies to absorb older unemployed workers are ineffective.

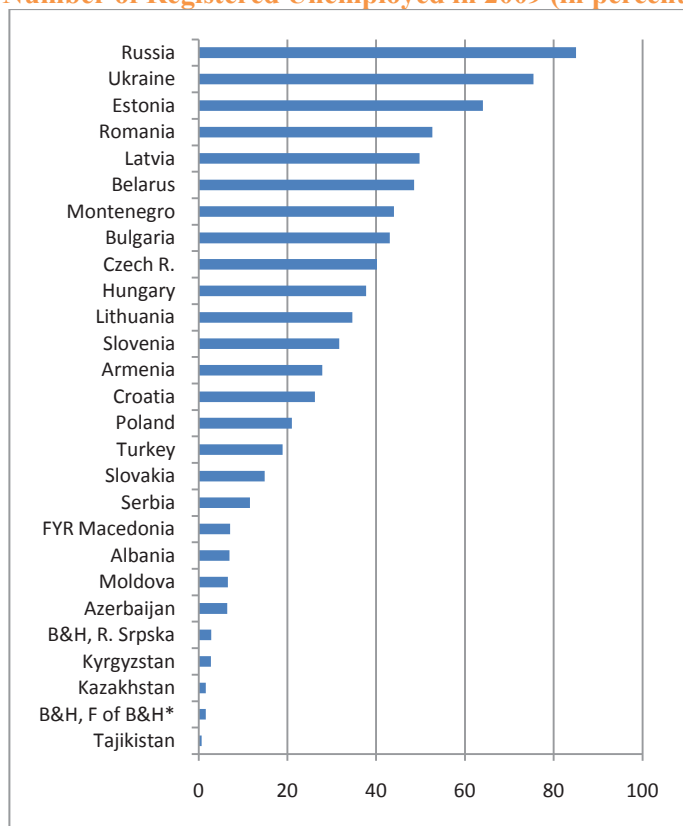
Several countries provide pensions and disability insurance to recipients of unemployment benefits and pay social contributions to the relevant funds so the job tenure will not be interrupted for pension purposes. In Kyrgyzstan, unemployment beneficiaries can apply for sick leave benefits and maternity leave benefits (females) during which job search requirements are relaxed and the benefit payment periods extended.

Unemployment insurance and/or unemployment assistance benefits are paid in most ECA countries, except in Georgia and Kosovo. However, the numbers of unemployment assistance beneficiaries vary significantly across ECA. In 2009, for example, 85% of the registered unemployed in Russia received benefits

but in eight ECA countries less than 10% of registered job seekers received such assistance. For the 26 countries in the ECA region, the overall average percentage of registered unemployed who received benefits in 2009 was around 30% (Figure 2). The low percentage of benefit recipients can be attributed to the fact that among the registered unemployed in ECA are a large number of long-term unemployed people who have exhausted their entitlements and also many first-time job seekers who lack a sufficient insurance record to claim benefits.

Unemployment benefits remain the costliest labor market policy measure. In Serbia in 2009, for example, only one-tenth of the registered unemployed received unemployment benefits but these benefits consumed over 87% of the total expenditure allocated for the national employment agency that year.

**Figure 2: Ratio of Unemployment Beneficiaries to Total Number of Registered Unemployed in 2009 (in percent)**



\*2008

**Note:** B&H: Bosnia and Herzegovina; F: Federation; R: Republika.

**Source:** A. Kuddo, "Labor Market Monitoring in Eastern Europe and Central Asia Countries: Recent Trends (Round Three)", 2010, World Bank.

## Conclusion

Low registration rates in many ECA countries and low numbers of unemployed beneficiaries, especially in many CIS states, indicate that the PES (as well as unemployment benefits and ALMPs) in these countries fail to reach the majority of job seekers.

Using or threatening financial sanctions against the unemployed who do not actively look for work (or refuse to accept reasonable job offers) is likely to have a limited impact in ECA due to the low numbers of unemployed beneficiaries in the region. However, health insurance and social assistance entitlements for the registered unemployed can be utilized for the purpose of activating job seekers, after taking into consideration the limits in the number of PES registered job vacancies and availability of ALMPs.

The right to receive most types of unemployment benefits should be directly linked to the active status of job seekers who are actually looking for jobs. In order to achieve this, eligibility and entitlement rules of some of the benefits should be changed. Currently, in about half of ECA countries, especially in Central Eastern Europe (CEE), the PES are overburdened with serving registered job seekers who are actually not actively looking for jobs. Other countries do provide limited incentives for registration. Finding the right balance is core for countries to be able to support those actively looking for jobs.

## About the Author

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