

Employment and Social Policy – Role and Functions of the State Employment Service of Ukraine:

Proposals of the Ministry of Social Policy to the Prime Minister’s Working Group

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2016

The publication of this study has been made possible through a grant from the Jobs Umbrella Trust Fund, which is supported by the Department for International Development/UK AID, and the Governments of Norway, Germany, Austria, the Austrian Development Agency, and the Swedish International Development Cooperation Agency.

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Summary of proposed measures

The World Bank team suggests to classify under four policy areas the measures proposed by the MSP: 1) increasing labor demand; 2) increasing and improving labor supply; 3) facilitating labor matching; and 4) structure and functioning of the SES.

Policy area I: Increasing labor demand

The proposal acknowledges that job creation is a multi-sectorial topic that needs sound macroeconomic policies, fostering trade and investments. While the proposal does not discuss how these multi-sectorial policies should be designed or implemented in Ukraine, it suggests to tackle the multi-sectorial aspect of job creation by **extending the mandate of the MSP to coordinate employment policies among other ministries and government agencies.**

Policy area II: Increasing labor supply

The proposal features two approaches to supply an increased and skilled workforce: 1) incentivizing work; and 2) providing training to upgrade the skills of the workforce.

The proposal suggests to increase the number of people participating in the labor market by providing incentives to work. In particular, **the proposal recommends to change the criteria of adequate work,** which are the minimum working conditions a jobseeker should be required to accept a job. Based on Germany's practice, the Unemployment Fund would compensate financially a jobseeker who accepts a job that is below wage expectations (based on qualifications and experience) or that is beyond pre-defined travel time.

To incentivize the hiring of vulnerable individuals in particular, the proposal also introduces financial benefits (tax cuts) for firms that employ a substantial share of this group. Vulnerable individuals are defined as single parents, youth, internally displaced people, former combatants, and others. The proposal includes tax cuts if vulnerable employees represent at least 50 percent of staff.

In the area of skills development, the proposal recommends to 1) expand vocational training using distance or dual learning, 2) to involve employers more in training program, and 3) to better respond to local needs by creating regional centers of career development to improve the relevance of vocational training for labor-market needs. Those centers would provide career guidance and develop training in cooperation with employers and vocational institutions.

Policy area III: Facilitating labor matching and reforming the SES

The proposal puts as a key objective focusing the SES on its end users: jobseekers and firms, but there is need to carefully review the skills of current SES staff. The SES would provide better services by increasing the number of staff working directly with employers and jobseekers and adjusting the number of staff across local offices of the SES according to the demand.¹ There is need to carefully review the skills of SES staff to assess to what extent they can be redirected from administrative tasks to counselling.

The proposal recommends to tailor the set of employment services given to each registered jobseeker based on their profile, an area of support of the World Bank technical assistance. Profiling would use the characteristics and associated probability to stay in long term unemployment, to target support for job search and training to those who need it most. The SES would also incentivize jobseekers registration – with the objective to increase the number of users by 50 percent – by proposing a larger range of services and introducing tools for jobseekers to provide feedback.

Improving the SES aims to attract users – jobseekers and employers, in order to increase the SES's ability to perform its role in matching jobseekers and employers. Currently it is estimated that the SES

¹ This staff increase would be possible with the reduction of the number of administrative employees of the SES.

only attracts between a fifth and a quarter of the unemployed. Improving user experience would incentivize employers to post job vacancies in the SES portal and jobseekers to register to the SES to receive services.

Policy area IV: Structure, functioning and evaluation of the SES

The proposal includes measures related to the evaluation of the SES, decentralization, and cost-saving. In addition, the proposal mentions the reform of unemployment benefits to spend its resources more efficiently and save UAH 1.5 billion to the Unemployment Insurance Funds.

Comments on proposed measures

The broad objectives of the proposed measures align with policy recommendations and ongoing technical assistance provided by the World Bank. Proposals to improve the macroeconomic environment to support job creation –policy area I– fit World Bank’s recent recommendations. The MSP and the SES plays a key role both for developing the skills of the population (policy area II) and, even more, for facilitating job matching (policy area III); two areas which are addressed by the World Bank’s technical assistance to the MSP and the SES.

Policy area I: The role of the MSP in increasing labor demand

The World Bank team agrees with the lessons of international experience highlighted in the proposal with respect to job creation: 1) Facilitating domestic and foreign investments and trade; and 2) Enhancing competitiveness to support exports (slide 3 of the proposal). The World Bank’s report “Skills for a Modern Ukraine” and the policy note on labor shared with the Government of Ukraine in May 2016 stress the importance of policies for job creation.² A macroeconomic environment that is conducive to investments and trade would foster job creation. The proposals could, however, provide more details on how to foster investment and trade.

It is important to acknowledge that while the MSP is the sole authority responsible for the formulation of the State’s employment policies it needs to interact with many ministries to actually shape the jobs agenda.

The proposal does not discuss the impact of earlier measures aiming to incentivize job creation, through lowering labor costs. The tax refunds implemented in 2013 should be evaluated since their impact on labor outcomes would depend on the economic context and the quality of the implementation. In particular, the evaluation could assess the impact on vulnerable groups and low-wage earners.

Policy area II: The role of the MSP and the SES in increasing a skilled workforce

The World Bank team agrees with the objectives to increase employability and skills of the workforce. The proposal is, however, narrow in terms of the policies to be pursued to achieve these objectives. This section outlines additional policies.

With respect to the quantity of labor supply, the World Bank welcomes the attention to incentivizing hiring vulnerable individuals, including internally displaced population, but there is need for more work on incentives and barriers. The World Bank team agrees with the principle to incentivize firms to hire vulnerable people. Vulnerable people – for instance single parents, youth, internally displaced people, and former combatants – face a mix of specific constraints and disincentives that prevent them to get jobs or enter the labor market at all.³ Inclusive access to jobs require adequate work incentives and tailored and integrated employment services to respond to vulnerable people’s needs. In this regard, the World Bank team suggests to

² Del Carpio, X. V., O. Kupets, N. Muller, and A. Olefir. Forthcoming in November 2016. “Skills for a Modern Ukraine.” *Direction in Development—Human Development*. Washington, DC: World Bank.

³ Arias, O. S., C. Sanchez-Paramo, M. E. Davalos, I. Santos, E. R. Tiongson, C. Gruen, N. de Andrade Falcao, G. Saiovici, and C. A. Cancho. 2014. “Back to Work: Growing with Jobs in Europe and Central Asia.” *Europe and Central Asia Reports*. Washington, DC: World Bank.

engage in a deeper discussion on work incentives and barriers that covers more than the criteria for adequate work.

Moving to the quality of the labor supply, they can be improved through developing a skilled and adaptable workforce, rather than trying to forecast labor demand and match it with an estimated supply. On the one hand, forecasting labor demand is an extremely difficult exercise, given that even GDP forecasting is very difficult, and it might mislead policy decisions. On the other hand, a workforce that is equipped with sufficient foundational skills to learn throughout its life can adapt to changing labor demand. Thus, rather than attempting to adjust the relative supply of white-collar versus blue-collar jobs, there is need to invest in quality education, both in general and vocation tracks.

Although Ukraine has achieved high literacy levels and has provided a majority of graduates with solid basic knowledge, a forthcoming World Bank study based on original data collection finds that Ukrainian firms in key sectors report that the lack of adequate skills of job applicants is one of the most important constraints when hiring new staff.⁴ Most surveyed employers also consider that the education system does not produce enough people with practical skills, the right kind or level of skills, or up-to-date knowledge. Firms demand a mix of advanced cognitive skills (like problem solving and communication), and technical skills (such as computing and field-specific knowledge).

To develop technical skills and firm-specific skills in particular, another way to provide relevant training to the workforce is to provide incentives for firms to train their staff on the job. An employment strategy could consider introducing an employer training investment program that assists interested businesses in training their employees. Such as program can be targeted to companies looking to expand, relocate to favorable geographic areas, or are in jeopardy of closing. Make program participation contingent on criteria that address productivity concerns (e.g. having clear job creation/retention goals) and have a fund matching mechanisms to prevent abuse. For off-the-job training, short-term work schemes can retrain participants to be more qualified for occupations available in their local labor market.

The skills that are lacking do not only include technical skills but also socioemotional skills. Besides cognitive and technical skills, firms demand socioemotional skills, such as self-management and resilience.

Improving the relevance of education and training also requires to generate and spread better information on the labor market. This is also important to facilitate matching between workers and jobs, covered in the next section. A labor market information system (LMIS) should contain up-to-date information from job vacancies, such as education and skills required for specific occupations, wage information in the sector, present and future labor market prospects and other relevant dimensions. Labor market information system also supports the anticipation and matching of skills supply and demand, which facilitates fruitful investments in skills formation for students' education and firms' trainings.

Policy area III: The role of the SES in facilitating job matching

The World Bank team welcomes proposed measures in the proposal related improving services – focusing on clients and implementing individual employment programs – and improving coordination between employers, training institutions, and the SES. These measures are also being discussed under the World Bank's Technical Assistance on Labor and Skills.

To increase the number of vacancies posted to the SES, there is need to reform the process to receive vacancies, potentially differentiating between high-skilled and low-skilled vacancies. To encourage employers to post their vacancies, the obligation to sign the 3PN form could be removed and replaced by

⁴ Del Carpio, X. V., O. Kupets, N. Muller, and A. Olefir. Forthcoming in November 2016. "Skills for a Modern Ukraine." *Direction in Development—Human Development*. Washington, DC: World Bank.

customized forms related to the level of skills of workers that firms are looking for: short forms in the case of lower-skilled workers, longer but with relevant categories for higher-skilled workers.

The customization of employment support to jobseekers with the client-profiling tool is key instrument for better response to jobseekers' needs and a more efficient allocation of resources.⁵ A data-based client-profiling tool allows public employment services to deal with large amounts of jobseekers, sort them upon entry, and assign them to a particular set of services. With such tool, jobseekers who register to the public employment service are categorized based on data analyses of their official demographic and socioeconomic data to predict their likelihood of resuming work.⁶ According to the probability of finding a new job the tool affect jobseekers into different sets of services—such as self-services, counseling, training, a combination of services, etc. This kind of tool is commonly used in high-income countries like Australia and the United States, with some variations in the objectives and implementation. In Ukraine, the State Employment Service collects registration data but these are not used for a statistical profiling system.

However, beyond strict reforms in the way the SES performs its functions, improving job matching also depends on the capacity of workers to migrate within the country to get jobs. Improving internal labor mobility would require to remove barriers to internal migration and facilitate access to labor market information. These barriers include administrative procedures that require people to be officially registered at their place of residence. The lack of social benefit portability has a negative impact on individual labor market decisions with negative consequences for economic and social outcomes.⁷

Policy area IV: Structure, functioning, and evaluation of the SES

The World Bank welcomes measures aiming to evaluate the SES and active labor market programs based on employment outcomes. Regarding the “economic efficiency of the active labor market policies”, the World Bank team suggests to include measures of monitoring and evaluation of training programs. Currently the proposal does not link the placement of workers with the programs

To this end, there is indeed to increase capacity within the SES to monitor and evaluate programs and this could be included under the improvement of the labor market information system.

Additional comments

Timing and sequencing

The proposal could be improved by presenting a timeline or at least the sequencing of the reforms and concrete next steps. For instance, while attracting more users to the SES is an important means to serve more users and help them get employed, it may be necessary to first improve services in the SES and ensure that the SES would be ready to serve more users before increasing outreach.

In general, the World Bank team would recommend to consider the following when planning the sequencing: **1) Improve efficiency and service delivery first** requires better information and management at the central level; and **2) Decentralization might be better to postpone once monitoring and evaluation systems are put in place.**

⁵ In the conflict context, the profiling tool can be used to develop specific service packages for Internally Displaced People (IDP)—such as psychological support and job training for sectors in demand in their region of displacement.

⁶ Loxha, A., and M. Morgandi. 2014. Profiling the Unemployed: a Review of OECD Experience and Implications for Emerging Economies. *Social Protection and Labor Discussion Paper 91051*. Washington, DC: World Bank.

⁷ Koettl, J., O. Kupets, A. Olefir, and I. Santos. 2014. “In Search of Opportunities? The Barriers to More Efficient Internal Labor Mobility in Ukraine” *IZA Journal of Labor and Development* 3: 21.

Among a subset of measures discussed in this document, the World Bank team would suggest the following sequencing:

Period	Ministry of Social Policy	State Employment Service
Period 1 (start in the short term)	<ul style="list-style-type: none"> • Revise the criteria of “acceptable job offer” • Define who are vulnerable groups who will be targeted by new measures and implement rules on social companies • Adopt measures to foster labor demand (in cooperation with the Ministry of Economy and others) • Review criteria for the evaluation of training providers 	<ul style="list-style-type: none"> • Review the Labor Market Information System • Review the counselling processes at the SES and staffing • Tailor services for vulnerable jobseekers • Reform services to firms, including the suppression of 3PN form
Period 2 (start in the medium term)	<ul style="list-style-type: none"> • Improve coordination for workforce development (in cooperation with other ministries) 	<ul style="list-style-type: none"> • Increase outreach and jobseekers served (once processes are in place to welcome them) • Increase the number of firms served • Improve coordination between central and local offices

Structure of the proposal

The World Bank team would suggest to structure the presentation around a homogeneous set of objectives. These can be the three objectives stated in slide 2 or the policy areas that the World Bank team suggests and that are mentioned in substance in slide 5 (labor demand, labor supply, job matching, and structure and efficiency of the SES).

It would be helpful to discuss all of the missions of the SES, the areas of reform, and the evaluation criteria following these objectives.