

UNDP REGIONAL HUMAN DEVELOPMENT REPORT

Progress at Risk: Inequalities and Human Development in Europe and Central Asia¹

Draft FOR COMMENTS (2 February 2016)

Abstract: Many of the developing and transition economies of Europe, Turkey, and Central Asia have enjoyed relatively high levels of socio-economic equalities. Since 2000 income inequalities have generally been low or falling, which has helped to reduce poverty and allowed the middle class to stage a comeback. Relatively comprehensive pre-1990 social protection systems and high levels of gender equality have ensured that the benefits of economic growth have been fairly evenly spread. However, the expansion of informal, vulnerable, and precarious employment is combining with growing gaps in social protection systems and (in the region's less wealthy countries) new pressures on household food and energy security to put these accomplishments at risk. This is particularly the case for those countries in the Commonwealth of Independent States that have made some of the best progress in reducing inequalities—and which now face growing socio-economic pressures. This report examines the human development aspects of these challenges, within the context of the Sustainable Development Goals and the promise of the global sustainable development agenda 2030 to “leave no one behind”.

Table of contents

Subject	Page
Executive summary	2
Chapter 1—Measuring income and non-income inequalities	5
Chapter 2—Inequalities, employment, and social protection	26
Chapter 3—The economic dimensions of gender inequalities	57
Chapter 4—Inequalities, health, and HIV/AIDS	77
Chapter 5—Natural Capital, Inequalities, and Sustainable Human Development	86
Chapter 6—Inequalities and inclusive governance	97
References	134

¹ This paper does not necessarily reflect the views of the United Nations Development Programme, the United Nations, or its Member States.

Executive summary

- **Significant reductions in income inequalities have been reported in much of the region²** since the turn of the millennium—particularly Belarus, Kazakhstan, Moldova, and Ukraine, and possibly also Albania, Kosovo,³ and the Kyrgyz Republic. By contrast, income inequalities seem to have increased in Georgia, Turkey, and possibly the former Yugoslav Republic of Macedonia (fYRoM).
- **Low or falling income inequalities have helped economic growth reduce poverty**—particularly in this first group of countries. In Georgia and fYRoM, by contrast, high or rising levels of income inequality have slowed or frustrated progress in poverty reduction. This underscores how—in addition to being desirable in and of themselves—low or falling inequalities are central to prospects for poverty reduction, inclusive growth, and sustainable development in the region.
- **The numbers of people in the region living in poverty fell from at least 46 million in 2001 to about 5 million in 2013.** The numbers of people living in extreme poverty dropped below 1 million during this time. Likewise, the numbers of people vulnerable to poverty dropped from about 115 million in 2003 to some 70 million in 2013. By contrast, the size of the middle class grew from about 33 million in 2001 to 90 million in 2013. The numbers of relatively “wealthy” individuals (living on more than PPP\$50/day) had risen to some 32 million in 2013—most of whom were living in Turkey and Kazakhstan.
- **The region’s middle classes have made a comeback** since the turn of the millennium, following both absolute and relative declines during the 1990s. In much of the region, middle classes have grown as the shares of national income claimed by wealthy households have declined. As of 2013, at least 80 million people in the region had achieved living standards that are broadly consistent with the bounds of the “global middle class”.
- **Progress in reducing income inequalities is now being put to the test** in much of the region. The combination of low commodity prices, falling remittances, and slow or negative growth on key European and Russian export markets is putting pressures on vulnerable household incomes that have not been seen since the turn of the millennium. This poses new challenges as the implementation of the global sustainable development agenda 2030 begins in the region—particularly for labour markets and social protection systems, but also in light of the growing pressures on natural capital and ecosystems in some of the region’s less wealthy countries.
- **Labour market inequalities and exclusion lie at the heart of the region’s inequality challenges.** This is the case both in terms of labour markets *per se*, and because access to social protection is often linked to formal labour market participation. People without decent jobs face much higher risks of poverty, vulnerability, and exclusion from social services and social protection. The share of workers in vulnerable in Albania, Azerbaijan, Georgia, the Kyrgyz Republic, and Tajikistan is estimated at around 50%.
- **Employment does not necessarily offer much protection against poverty and vulnerability,** because informal, precarious, migratory, and vulnerable employment is widespread throughout the region. Women, young workers, migrants, the long-term unemployed, people with disabilities, and others with unequal labour market positions are particularly vulnerable. While trends are improving in some countries and for some groups, in others, labour market inequalities are increasing.

² Unless otherwise noted, reference in this publication is to Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Kazakhstan, Kosovo (as per UNSCR 1244 (1999)), the Kyrgyz Republic, the Former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia, Tajikistan, Turkey, Turkmenistan, Ukraine, and Uzbekistan.

³ All references to Kosovo in this publication are within the framework of UNSCR 1244 (1999).

- **The region faces important challenges in better measuring progress in reducing inequalities** and promoting sustainable development. This is apparent in the data on income inequalities, which tend to report on disparities in consumption spending rather than income. It is apparent in the “employment”/“unemployment” statistical dichotomy, and in the infrequency with which publicly available labour-market data are disaggregated by age, gender, ethnicity, and other criteria. And it is apparent in the paucity of indicators to measure the depletion of the region’s natural capital and environmental sustainability.
- **Long-term efforts to formalize employment are crucial.** Three directions are particularly important: (i) efforts to boost the institutional capacity of the institutions charged with labour market regulation, in order to better enforce legal protections for workers’ rights in the formal sector; (ii) the abolition of those labour market regulations that cannot be credibly enforced by state agencies and drive employment into the informal sector; and (iii) increased investment in active labour market policies, vocational education, and other measures to boost worker productivity.
- **Policy linkages between labour markets and social protection need to be strengthened.** While poorly aligned social policies can reduce incentives for labour market participation and hiring, this is not a reason for reducing social protection spending and coverage. Instead, wherever possible, the taxation of labour to fund social benefits needs to be reduced in favour of other funding sources. These may include: (i) higher taxes on environmentally unsustainable activities; (ii) reductions in budget subsidies that accrue to the wealthy; (iii) more aggressive measures to reduce the diversion of budget revenues to tax havens; and (iv) more robust direction of budgetary procurement and contracting resources to companies (e.g., social enterprises) that explicitly promote social inclusion.
- **Social protection is also about social services and the care economy.** Increased investments in social service provision—particularly terms of care for children, the elderly, and persons with disabilities—can boost participation in labour markets and vocational training programmes, particularly for women. In Turkey, for example, a decision to bring state budget spending on social care services up to OECD levels would generate an estimated 719,000 social care jobs—more than 2.5 times the total number of jobs that would be created by devoting the same amount of budget funds to construction/infrastructure projects. An estimated 84% of the workers hired into these social care jobs would have permanent contracts of unlimited duration (versus 25% in construction); 85% would have social security coverage (compared to 30% in construction).
- **While the region compares favourably to many other developing countries in terms of gender equality, it also lags behind global best practices in many areas.** Moreover, pre-1990s progress in gender equality that had been attained in many countries—many of which featured relative equality between men and women—has come under growing threat.
- **Gender-based inequalities tend to intersect with, and magnify the impact of, other forms and dimensions of inequalities,** based on class, race, age, ethnicity, disability, occupation and income. Unequal labour market outcomes in particular can have major implications for broader gender inequalities and the exclusion of women. Women’s unequal access to social capital or their inferior position in the networks that constitute social capital (which are more marked in some countries in the region than in others) is both a cause and a manifestation of inequality.
- **Adjustable net savings, the ecological footprint, and the sustainable human development index suggest that the depletion of natural capital, and environmental sustainability concerns more broadly, are relatively pronounced in the region’s lower-middle income countries—**which are concentrated in the Caspian Basin. In addition to being the site of one of the world’s largest man-made ecological disasters (the Aral Sea tragedy), development models in many of these countries are based on the extraction and processing of non-renewable fossil fuels, minerals, and non-ferrous metals. In

some of these countries, this is accompanied by significant household food and energy insecurities. This points to a certain geographic inequity—environmental risks to sustainable development tend to be concentrated in the eastern parts of the region.

- ***Governance reforms must be at the heart of policy and programmatic responses to these challenges.*** Efforts to improve labour market performance, strengthen social protection systems, and better address the region’s HIV/AIDS challenges require investments in the institutional capacity of labour inspectorates, public employment and public health services, the local authorities, and NGOs. Reductions in gender-based and other forms of discrimination require investments in institutions that protect human rights, as well as judicial reforms and access to justice. Better quality and more extensive and timely data on social exclusion and environmental sustainability require investments in the institutional capacity of national statistical institutions—particularly in light of the reporting obligations associated with Agenda 2030 and the SDGs. Improvements in all of these areas require investments in public administrations and civil services, at both the central and local government levels.

Key messages

- **Significant reductions in income inequalities have been reported in much of the region** since the turn of the millennium—particularly Belarus, Kazakhstan, Moldova, and Ukraine, and possibly also Albania, Kosovo,⁵ and the Kyrgyz Republic. By contrast, income inequalities seem to have increased in Georgia, Turkey, and possibly the former Yugoslav Republic of Macedonia (fYRoM).
- **Low or falling income inequalities have helped economic growth reduce poverty**—particularly in this first group of countries. In Georgia and fYRoM, by contrast, high or rising levels of income inequality have slowed or frustrated progress in poverty reduction. This underscores how—in addition to being desirable in and of themselves—low or falling inequalities are central to prospects for poverty reduction, inclusive growth, and sustainable development in the region.
- **The numbers of people in the region living in poverty fell from at least 46 million in 2001 to about 5 million in 2013.** The numbers of people living in extreme poverty dropped below 1 million during this time. Likewise, the numbers of people vulnerable to poverty dropped from about 115 million in 2003 to some 70 million in 2013. By contrast, the size of the middle class grew from about 33 million in 2001 to 90 million in 2013. The numbers of relatively “wealthy” individuals (living on more than PPP\$50/day) had risen to some 32 million in 2013—most of whom were living in Turkey and Kazakhstan.
- **The region’s middle classes have made a comeback** since the turn of the millennium, following both absolute and relative declines during the 1990s. In much of the region, middle classes have grown as the shares of national income claimed by wealthy households have declined. As of 2013, at least 80 million people in the region had achieved living standards that are broadly consistent with the bounds of the “global middle class”.
- **Progress in reducing income inequalities is now being put to the test** in much of the region. The combination of low commodity prices, falling remittances, and slow or negative growth on key European and Russian export markets is putting pressures on vulnerable household incomes that have not been seen since the turn of the millennium. This poses new challenges as the implementation of the global sustainable development agenda 2030 begins in the region.

Introduction

Quantitative data concerning inequalities can be divided into three classes: (1) income inequalities; (2) non-income inequalities; and (3) subjective perceptions of inequalities (in the form of survey data gathered via representative samples). This chapter focuses on (1) and elements of (2)—particularly as concerns inequalities in the distribution of wealth, but also in terms of inequalities in access to basic services. (Many other aspects of non-income inequalities are taken up in the subsequent chapters—particularly as concerns labour markets, gender, health, and social protection). By contrast, subjective perceptions of inequalities are not a major focus of this chapter, or report—although, for reasons explained below, they almost certainly merit additional research and analysis.

Analyses concerning inequalities and programming to respond to them are often hindered by the paucity of quantitative data—particularly once these discussions go beyond income inequalities, and particularly in the context the transition and developing economies of Europe and Central Asia. Despite this,

⁴ Please send comments on this chapter to Elena Danilova-Cross (elena.danilova-cross@undp.org) and Ben Slay (ben.slay@undp.org).

⁵ All references to Kosovo in this publication are within the framework of UNSCR 1244 (1999).

even in the region's less wealthy countries, policy makers are increasingly focusing on inequalities, exclusion, and vulnerability, rather than on extreme income poverty.

This growing interest is accompanied by an emphasis within the Sustainable Development Goals (SDGs), which underpin the global Agenda 2030 for sustainable development on inequalities, both in terms of SDGs 10 ("reduce inequality within and among countries") and 5 ("achieve gender equality and empower all women and girls"), and in terms of numerous other SDG targets and (prospective) indicators. It is also matched by a renewed commitment on the part of the UN system to support national efforts to improve the quality, quantity, and availability of sustainable development data—including data pertaining to inequalities. The 2014 publication of *A World That Counts* report by the UN Secretary General's Independent Expert Advisory Group on a Data Revolution for Sustainable Development called for a "data revolution" in order to support the SDG indicators that will be used to measure and monitor to sustainable development.

Income inequality

Any assessment of the data on income inequality in the developing and transition economies of Europe, Turkey, and Central Asia must begin by calling attention to tensions between multiple and sometimes confusing data presented for the same country(s) on the one hand, versus the absence of publicly available, comparable data for other countries in the region on the other. Further complications result from the fact that the most common international data bases that show income distribution data for the countries of the region—such as POVCALNET or SWIID—often present data that differ from what can be found on the public websites of the national statistical offices in the region.

Table 1—Gini coefficients for income distribution available on national statistical office web sites

Country		Year									
		2002	2005	2007	2008	2009	2010	2011	2012	2013	2014
Albania		No data									
Armenia	I	0.53	0.40	0.37	0.37	0.34	0.36	0.36	0.37	0.37	0.37
Azerbaijan		No data									
Belarus	I		0.26	0.27	0.27	0.27	0.27	0.28	0.29	0.28	0.28
BiH	I	-	-	0.33	-	-	-	-	-	-	-
Georgia	C			0.41	0.41	0.42	0.43	0.42	0.41	0.4	0.4
	I			0.46	0.45	0.46	0.46	0.46	0.43	0.42	0.41
Kazakhstan	I	0.33	0.30	0.31	0.29	0.27	0.28	0.29	0.28	0.28	0.28
Kosovo	C	-	-	-	-	0.30	0.29	0.28	-	-	-
Kyrgyz Republic	C			0.32	0.27	0.25	0.25	0.25	0.23	0.22	0.22
	I			0.42	0.36	0.37	0.37	0.38	0.42	0.46	0.43
fYRoM	I	-	-	-	-	-	0.41	0.39	0.39	0.37	-
Moldova	C			0.33	0.32	0.30	0.30	0.29	0.27	0.27	0.25
	I	-	-	0.37	0.37	0.37	0.35	0.34	0.34	0.33	0.32
Montenegro	C	-	-	0.26	0.25	0.26	0.24	0.26	0.27	0.26	-
Serbia	I	-	-	-	-	-	-	-	0.38	0.38	-
Tajikistan	C	-	-	-	-	-	-	-	-	-	0.29
Turkey	I	-	-	0.41	0.41	0.42	0.40	0.40	0.40	0.40	-
Turkmenistan		No data									
Ukraine	I		0.30	0.25	0.26	0.26	0.25	0.23	0.24	0.23	0.23
Uzbekistan	C						0.3			0.29	

Gini coefficients. Although it is not listed as prospective SDG indicator, the Gini coefficient remains the most commonly used (and most available) indicator to measure income inequality in the region—as reported by national statistical offices (based on household budget survey data). However, as the data in Table 1 show, while Armenia, Belarus, Bosnia and Herzegovina (BiH), Kazakhstan, the former Yugoslav Republic of Macedonia (fYRoM), Serbia, Turkey, and Ukraine report Ginis measured in terms of income *per se*, Kosovo, Montenegro, Tajikistan, and Uzbekistan report Ginis measured in terms of consumption spending—while Georgia, the Kyrgyz Republic, and Moldova report both income- and consumption-based Ginis for income distribution. As the data for the Kyrgyz Republic show, differences in these series can be quite dramatic—suggesting very different conclusions about the extent of income inequality in a given country. An even greater concern is the fact that these data seem to be publicly available to very limited degrees (or not at all) in Albania, Azerbaijan, Bosnia and Herzegovina, Tajikistan, Turkmenistan, and Uzbekistan. That is: judging from publicly available national sources, only Armenia, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Montenegro, Turkey, and Ukraine report significant time series data on income inequalities.

A second perspective is offered by the Gini coefficients for income distribution available in the World Bank’s POVCALNET data base, which are shown in Table 2 below. These data, which are all consumption-based, indicate that reasonably complete and current time series are only available for Armenia, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Montenegro, Turkey, Ukraine, and possibly Kosovo.

A comparison of the data in Tables 1 and 2 suggest that, in terms of income inequalities as measured by the Gini coefficient, the countries of the region can be placed in four groups:

- 1) Countries in which the available data on balance point to low or falling income inequality. This group includes Belarus, Kazakhstan, Moldova, and Ukraine. Although the data are shakier, Kosovo and possibly Albania could be placed in this group as well.
- 2) Countries in which the available data on balance point to high or rising income inequality. This group includes Georgia and Turkey, and possibly the former Yugoslav Republic of Macedonia (although the data are shakier).
- 3) Countries for which data are available, but do not lend themselves to a clear judgement in this respect. This group includes Armenia, the Kyrgyz Republic, and Montenegro.
- 4) Countries for which the availability of national and international data (combined) is not sufficient for such an assessment. This group includes Azerbaijan, Bosnia and Herzegovina, Serbia, Tajikistan, Turkmenistan, and Uzbekistan.

Table 2—Gini coefficients for income distribution from the POVCALNET database

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Albania	0.32	-	-	0.31	-	-	0.30	-	-	-	0.29	-
Armenia	0.35	0.33	0.38	0.36	0.32	0.30	0.31	0.30	0.31	0.31	0.30	0.32
Azerbaijan	0.17	0.19	0.16	0.17	-	-	-	-	-	-	-	-
Belarus	0.30	0.30	0.27	0.28	0.28	0.29	0.27	0.28	0.28	0.26	0.26	
BiH	-	-	0.34	-	-	0.33	-	-	-	-	-	-
Georgia	0.40	0.40	0.40	0.40	0.40	0.41	0.41	0.42	0.42	0.42	0.41	0.40
Kazakhstan	0.34	0.33	0.31	0.30	0.30	0.29	0.29	0.29	0.29	0.27	0.27	0.26
Kosovo	-	0.29	-	0.31	0.30	-	-	0.32	0.33	0.28	0.29	0.27

Kyrgyz Rep.	0.30	0.29	0.35	0.38	0.38	0.33	0.32	0.30	0.30	0.28	0.27	-
fYRoM	0.39	0.39	0.39	0.39	0.43	-	0.44	-	-	-	-	-
Moldova	0.36	0.35	0.35	0.36	0.35	0.34	0.35	0.33	0.32	0.31	0.29	0.29
Montenegro	-	-	-	0.30	0.29	0.31	0.30	0.30	0.29	0.31	0.32	0.33
Serbia	0.33	0.33	0.33	0.33	0.30	0.29	0.28	0.29	0.30	-	-	-
Tajikistan		0.33	0.33*	-	-	0.32	-	-	-	-	-	-
Turkey	0.41	0.42	0.41	0.42	0.40	0.38	0.38	0.39	0.39	0.40	0.40	0.00
Turkmenistan	-	-	-	-	-	-	-	-	-	-	-	-
Ukraine	0.29	0.29	0.29	0.29	0.30	0.29	0.27	0.25	0.25	0.25	0.25	0.25
Uzbekistan**	0.33	0.35	-	-	-	-	-	-	-	-	-	-

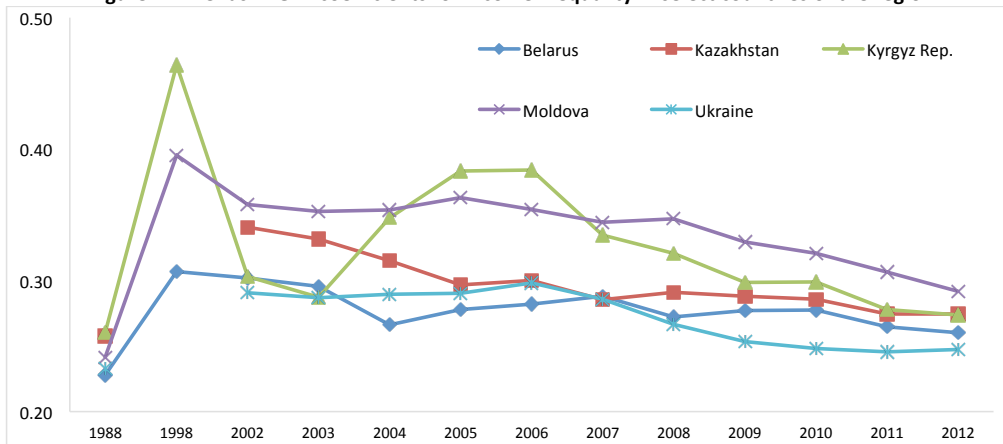
* Average of two different values.

**Based on econometric analysis.

These differences notwithstanding, a common pattern across the region can be seen when the income distribution data are considered over a longer period of time—particularly for those transition economies (not counting Turkey) for which longer time series are available. That is, income inequalities jumped sharply during the 1990s with the “transition recession”, as real incomes fell for the vast majorities of households, labour markets loosened, and social protection systems began to encounter increasing strains. The onset of “recovery growth” in the new millennium then saw reductions in income inequalities, as the income growth that was recorded for middle-class and low-income families apparently exceeded that reported for wealthy households. Moreover, despite the impact of the global financial crisis of 2008-2009 and the Eurozone crisis of 2010-2012—both of which slowed growth in the region substantially—income inequality does not appear to have deteriorated (Figure 1).

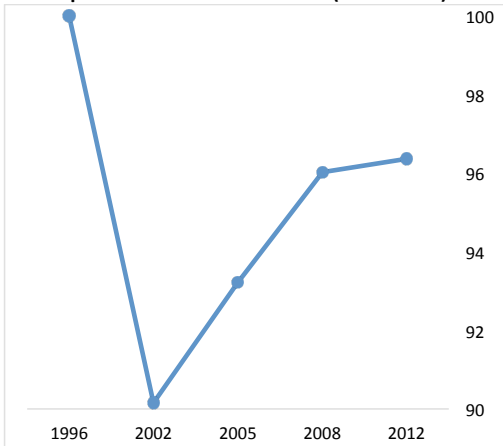
Thus, for those countries for which longer time series are available, the data indicate that income inequalities have generally returned to “pre-transition levels”. A similar pattern is apparent (over a shorter time span) is apparent for Albania and Kosovo as well. Obvious exceptions to this pattern include Turkey (which is not a transition economy, and whose development since 1990 has followed a different logic) and Georgia—which reports similarly (to Turkey) high levels of income inequality.

Figure 1—Trends in Gini coefficients for income inequality in select countries of the region



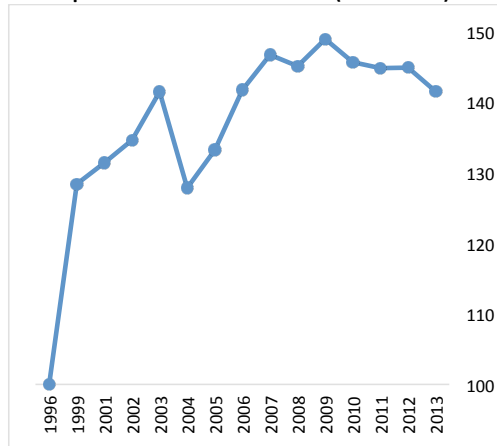
POVCALNET data.

Figure 2—Albania: Ratio of income of poorest two quintiles to national income (1996 = 100)



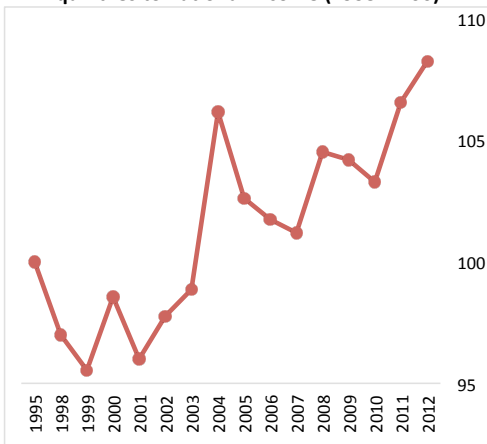
UNDP calculations, based on POVCALNET data.

Figure 3—Armenia: Ratio of income of poorest two quintiles to national income (1996 = 100)



Other measures of income inequality. SDG target 10.1 calls for “income growth of the bottom 40% of the population at a rate higher than the national average”. As the below figures show, most countries in the region perform well against this “bottom 40” indicator. A number (Armenia, Kazakhstan, the Kyrgyz Republic, Moldova, Ukraine) score quite well; others (Albania, Georgia, Montenegro) less so.

Figure 4—Belarus: Ratio of income of poorest two quintiles to national income (1995 = 100)



UNDP calculations, based on POVCALNET data.

Figure 5—Georgia: Ratio of income of poorest two quintiles to national income (1998 = 100)

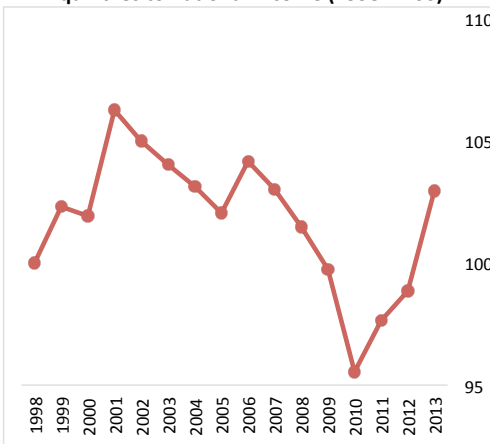
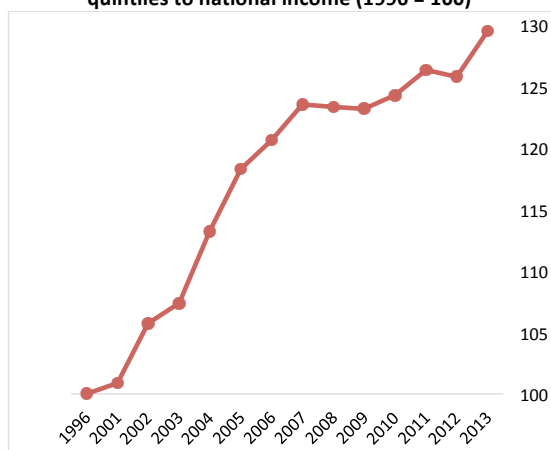
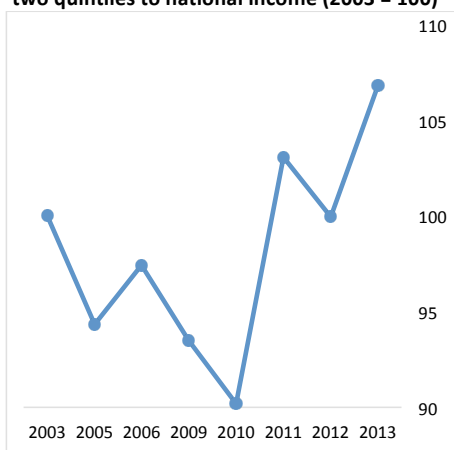


Figure 6—Kazakhstan: Ratio of income of poorest two quintiles to national income (1996 = 100)



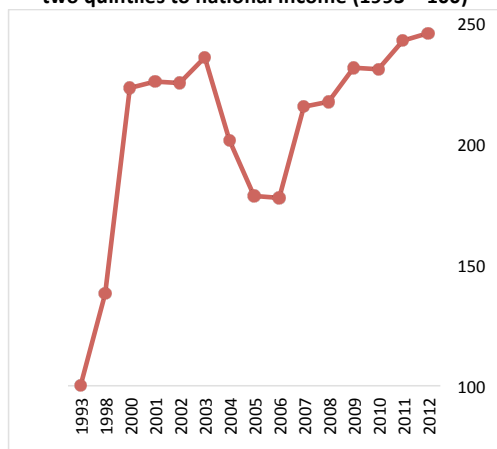
UNDP calculations, based on POVCALNET data.

Figure 7—Kosovo: Ratio of income of poorest two quintiles to national income (2003 = 100)



Other indicators (e.g., Palma ratios, or other ratios of the richest deciles to the poorest) of income inequality may be calculated on the basis of the quintile/decile income distribution data available on some national statistical office websites or POVCALNET. However, they do not show dramatically different pictures from what has been presented above.

Figure 8—Kyrgyz Rep.: Ratio of income of poorest two quintiles to national income (1993 = 100)



UNDP calculations, based on POVCALNET data.

Figure 9—Moldova: Ratio of income of poorest two quintiles to national income (1999 = 100)

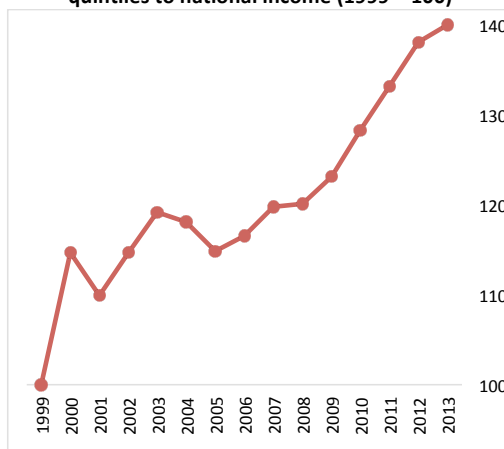
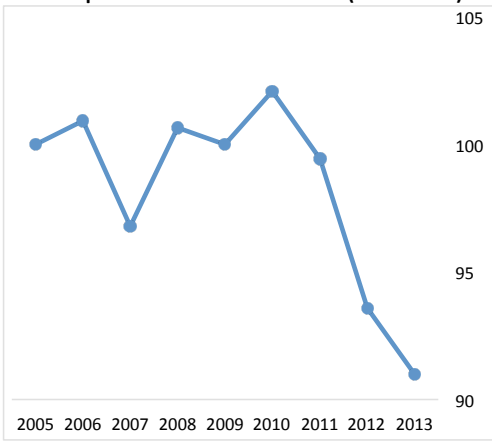
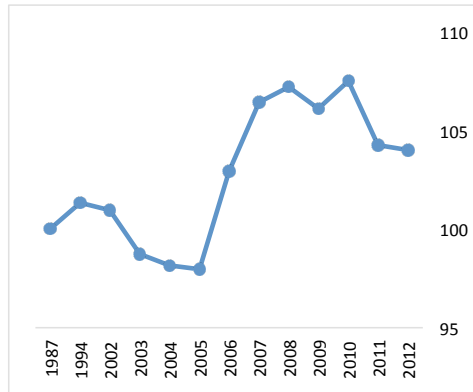


Figure 10—Montenegro: Ratio of income of poorest two quintiles to national income (2005 = 100)



UNDP calculations, based on POVCALNET data.

Figure 11—Turkey: Ratio of income of poorest two quintiles to national income (1987 = 100)



Poverty, inequality, and inclusive growth

Most of the countries of the region enjoyed strong economic growth during the first decade of the new millennium. While the global financial crisis pushed many of these economies into recession, as a rule they experienced a recovery during 2010-2013. This economic growth clearly helped reduce income poverty in the region: the most recent World Bank internationally comparable data (based on 2011 global purchasing-power-parity exchange rates) indicate that poverty rates (measured at the PPP\$3.10/day threshold) have fallen in most countries. In this sense, growth in the region has been “pro-poor”. Moreover, in a number of economies—such as Albania, Belarus, Kazakhstan, Kosovo, the Kyrgyz Republic, Moldova, and Ukraine (Figures 13-19)—declining poverty rates have been accompanied by low falling Gini coefficients for income inequality. In countries such as Belarus and Ukraine, these continuing declines in poverty and inequality occurred in spite of slow economic growth, currency crises, and other macroeconomic challenges.

Figure 12—Ukraine: Ratio of income of poorest two quintiles to national income (1995 = 100)

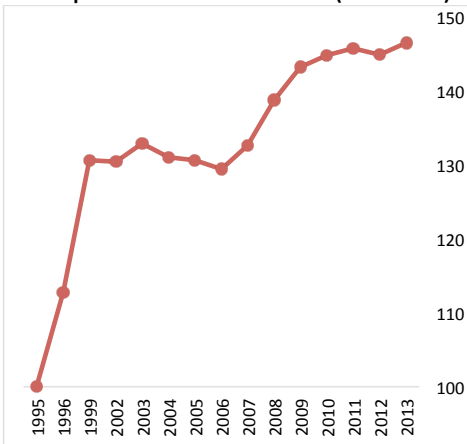
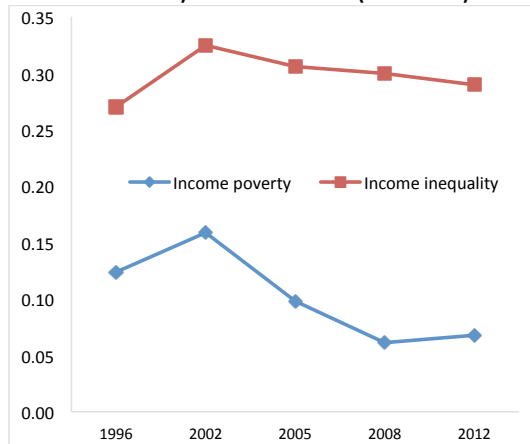


Figure 13—Income poverty and inequality (Gini coefficient) trends in Albania (1996-2012)

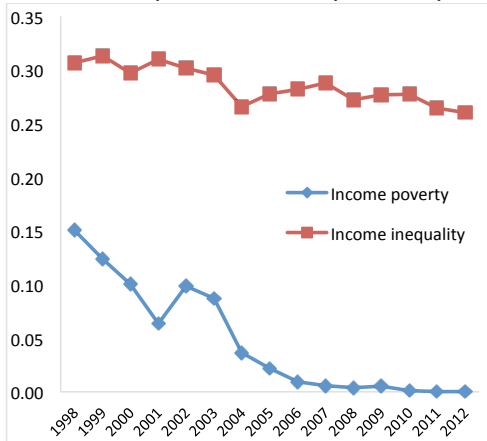


UNDP calculations, based on POVCALNET data.

POVCALNET data. Note—poverty rate percentages are:

- Relative to the PPP\$3.10/day threshold; and
- As a rule greater than 1 (i.e., a .50 value implies a poverty rate of 50%, not 0.5%).

Figure 14—Income poverty and inequality (Gini coefficient) trends in Belarus (1998-2012)



POVCALNET data. Note—poverty rate percentages are:

- Relative to the PPP\$3.10/day threshold; and
- As a rule greater than 1 (i.e., a .50 value implies a poverty rate of 50%, not 0.5%).

Figure 15—Income poverty and inequality (Gini coefficient) trends in Kazakhstan (1996-2013)

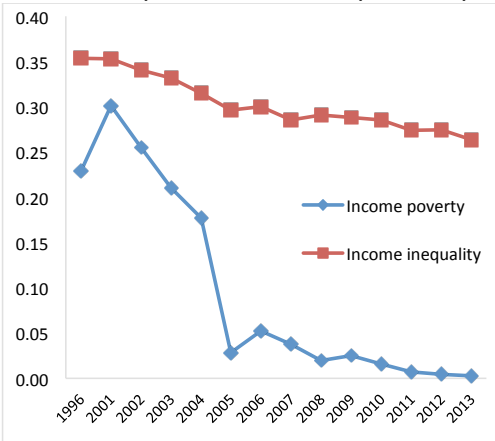
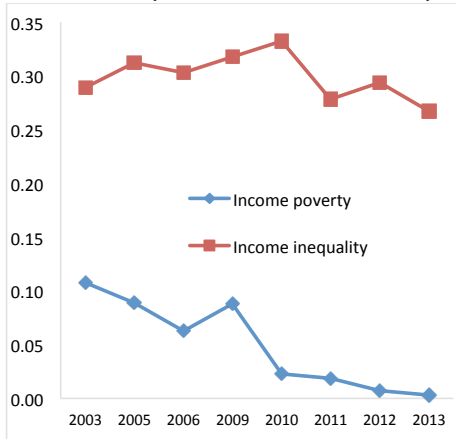


Figure 16—Income poverty and inequality (Gini coefficient) trends in Kosovo 2003-2013



POVCALNET data. Note—poverty rate percentages are:

- Relative to the PPP\$3.10/day threshold; and
- As a rule greater than 1 (i.e., a .50 value implies a poverty rate of 50%, not 0.5%).

Figure 17—Income poverty and inequality (Gini coefficient) trends in the Kyrgyz Rep. (1993-2012)

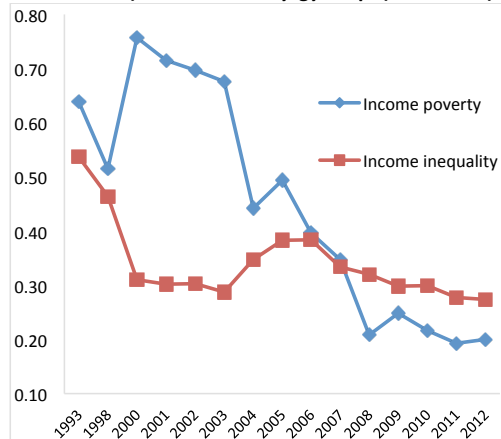


Figure 18—Income poverty and inequality (Gini coefficient) trends in Moldova 1997-2013)

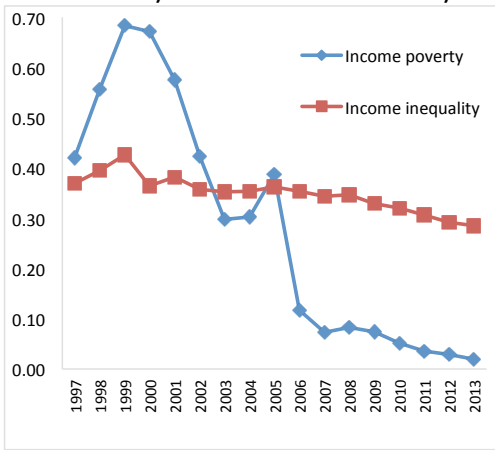
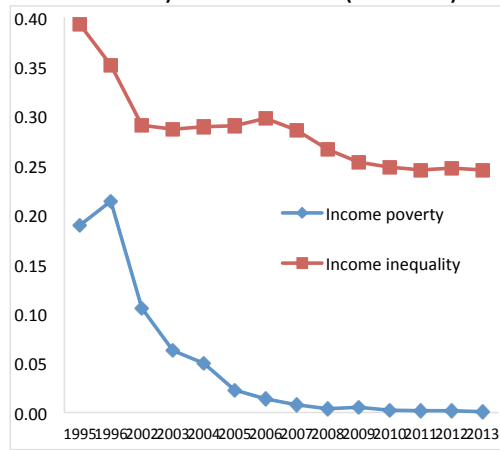


Figure 19—Income poverty and inequality (Gini coefficient) trends in Ukraine (1995-2013)



POVCALNET data. Note—poverty rate percentages are:

- Relative to the PPP\$3.10/day threshold; and
- As a rule greater than 1 (i.e., a .50 value implies a poverty rate of 50%, not 0.5%).

Figure 20—Income poverty and inequality (Gini coefficient) trends in fYRoM 1998-2008)

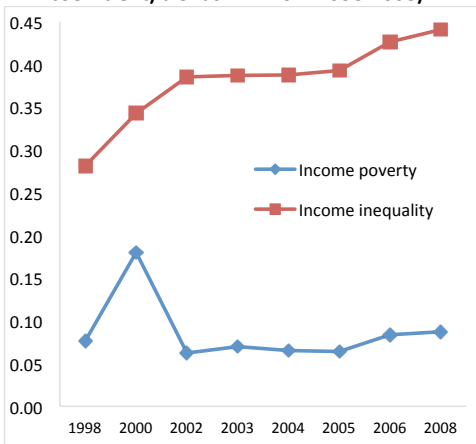
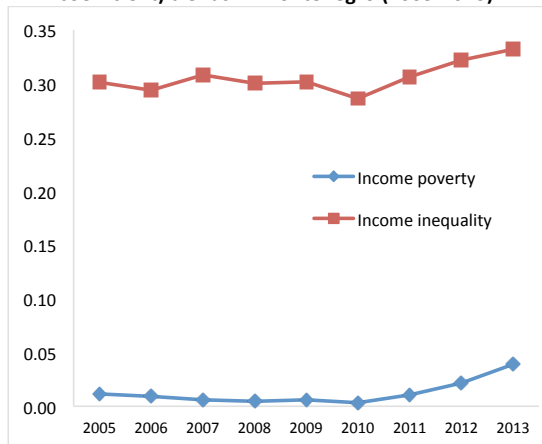


Figure 21—Income poverty and inequality (Gini coefficient) trends in Montenegro (2005-2013)



POVCALNET data. Note—poverty rate percentages are:

- Relative to the PPP\$3.10/day threshold; and
- As a rule greater than 1 (i.e., a .50 value implies a poverty rate of 50%, not 0.5%).

By contrast, in countries like the former Yugoslav Republic of Macedonia and Montenegro (Figures 20-21), prospects for further poverty reduction seem to have been frustrated by relatively high or rising levels of income inequality. These trends confirm that, in addition to being “pro-poor”, economic growth in the region has also been “inclusive”—in the sense of reducing income inequalities as well as poverty. The experience of countries like Belarus and Ukraine also suggest that slow economic growth need not mean more poverty and inequality.

Non-income inequality measures

The *Multiple Indicator Cluster Surveys* (MICS) tool designed by UNICEF, to assess the well-being of women and children, has been used in more than 100 countries over the past twenty years, in five rounds. Most of the countries of the region have been covered. The MICS database contains data for a large number of indicators that have been disaggregated by gender, age, education level, ethnicity, and other vulnerability criteria.

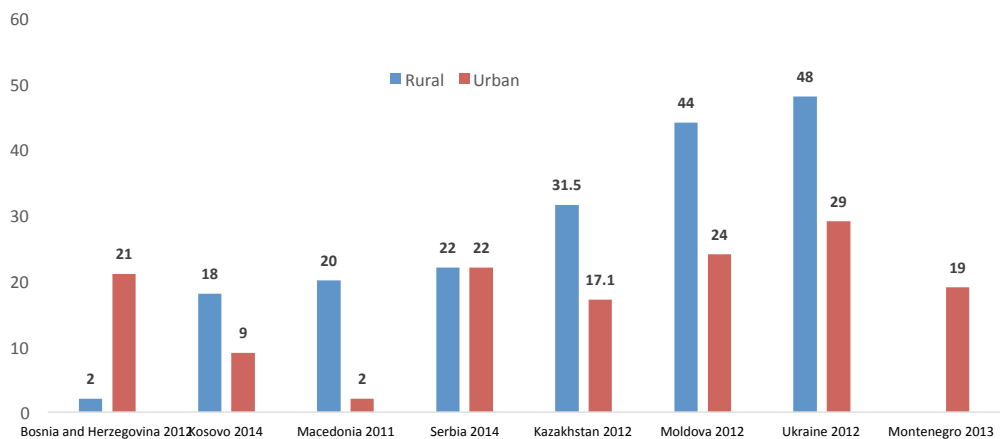
For purposes of this report, the MICS database was examined for the countries of the region in terms of data corresponding to 12 proposed SDG indicators (Table 3).

Proposed SDG indicator	MICS database
3.1.1 Maternal deaths per 100,000 live births	Data for these indicators were only collected from one round of MICS survey
5.b.1 Proportion of individuals who own a mobile telephone, by sex	
7.1.1 Percentage of population with access to electricity	
1.3.1 Percentage of population covered by social protection floors/systems, disaggregated by sex, and distinguishing children, the unemployed, the elderly, people with disabilities, pregnant women/newborns, work injury victims, the poor and vulnerable	
3.2.1 Under-five mortality rate (deaths per 1,000 live births)	Data for these indicators were collected from 2-3 rounds of MICS survey
3.2.2 Neonatal mortality rate (deaths per 1,000 live births)	
3.7.2 Adolescent birth rate (10-14; 15-19) per 1,000 women in that age group	
4.2.1 Percentage of children under 5 years of age who are developmentally on track in health, learning and psychosocial well-being (disaggregated by sex, location, wealth, and other criteria, where possible).	Data for these indicators were collected from 4 rounds of MICS survey
6.1.1 Percentage of population using safely managed drinking water services	
6.2.1 Percentage of population using safely managed sanitation services	

In terms of proposed SDG indicator 3.7.2 (adolescent birth rates per 1,000 women in the 10-14, 15-19 age groups, disaggregated by rural/urban residence—Figure 22): In general, fertility rates among women 15-19 years in Southeast Europe is lower than in CIS countries. In addition, these figures are almost twice as high in rural areas of the CIS countries as they are in other countries. These high birth rates mean that young women have early child bearing and rearing responsibilities, while they may in fact still be children themselves. Such circumstances can turn limit their ability to fully participate in social, economic, and professional life.

Early childbearing may also increase the risks of infant and child mortality, which corresponds to proposed SDG indicators 3.2.1 (under-five mortality rate, deaths per 1,000 live births) and 3.2.2 (neonatal mortality rate, deaths per 1,000 live births). An important role is often played by maternal education levels: infant mortality rates are often higher among less well educated women. As the data from the available countries, the average infant mortality rate of mothers with primary or incomplete secondary education is 50 (per 1,000 live births), versus 28 for women having secondary, vocational or higher education. Moreover, in almost all countries studied, infant and child mortality rates among the poorest 60% of the population were above those for the wealthiest 40% (Figures 23-24).

Figure 22—Fertility rates among young women 15-19 years (number of births per 1,000 women of the same age) in urban and rural areas



Indicators measuring access to education and indirect indicators covering the SDG indicator Percentage of youth (15-24) not in education, employment or training (NEET), SDG target 8.6.1, it is an indicator of the proportion of eligible children attending secondary school. The data show that coverage is not universal. A significant role in the expansion of enrolment in secondary school is the level of household income. So, for both boys and girls, with an increase in the level of income is an increase in the proportion of eligible children attending secondary school (Figures 25-26). Children in poor families are forced to abandon their education and go to work to help support the household.

Figure 23—Child mortality rates (for children under 5 years of age) per 1,000 live births

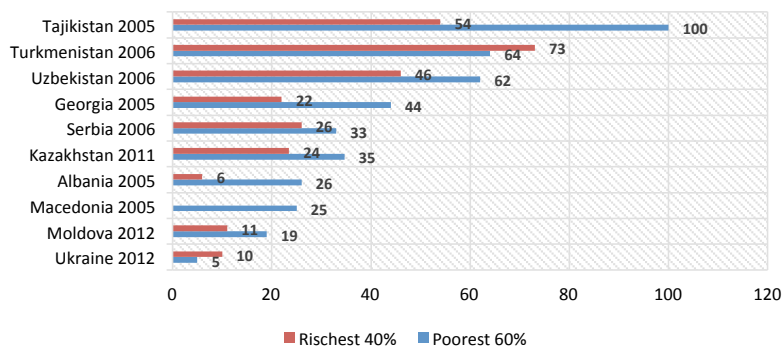


Figure 24—Infant mortality rates per 1,000 live births

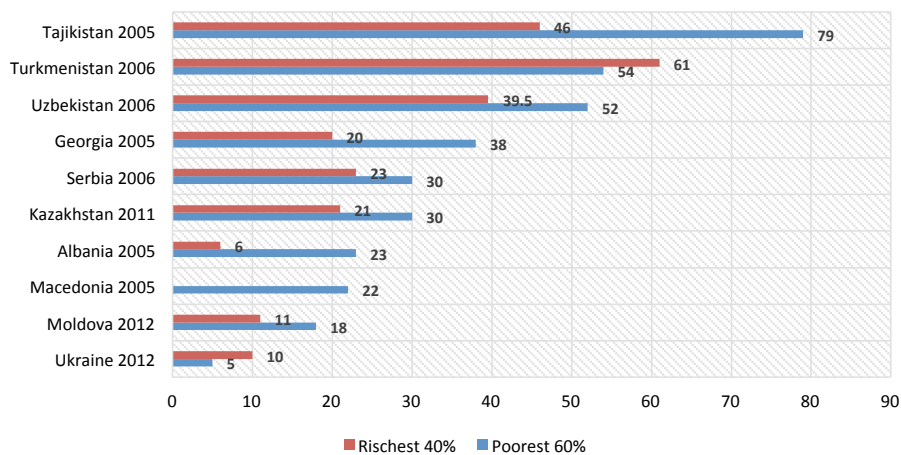


Figure 25—Percentage of children of secondary school age attending secondary school or higher (adjusted net attendance ratio) by wealth index quintiles, male

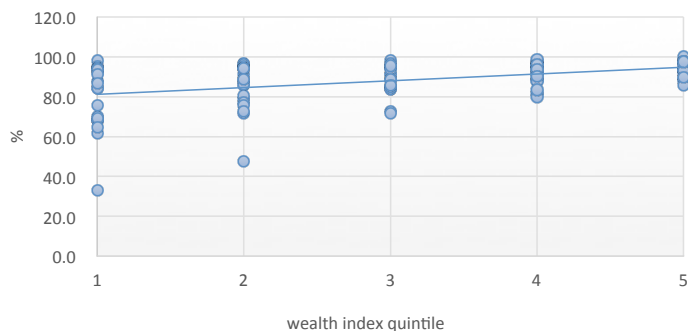
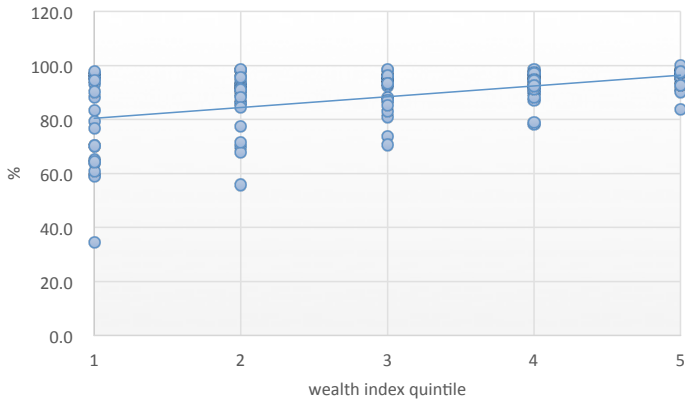


Figure 26—Percentage of children of secondary school age attending secondary school or higher (adjusted net attendance ratio) by wealth index quintiles, female



MICS indicators concerning access to safe drinking water and sanitation services correspond to SDG targets 6.1.1 and 6.2.1. MICS data also show that access to improved sanitation and drinking rises with income levels (Figures 27-28).

Figure 27—Users of improved sanitation facilities (4th, 5th round data) and users of sanitary means of excreta disposal (third-round data), % of population by wealth index quintiles

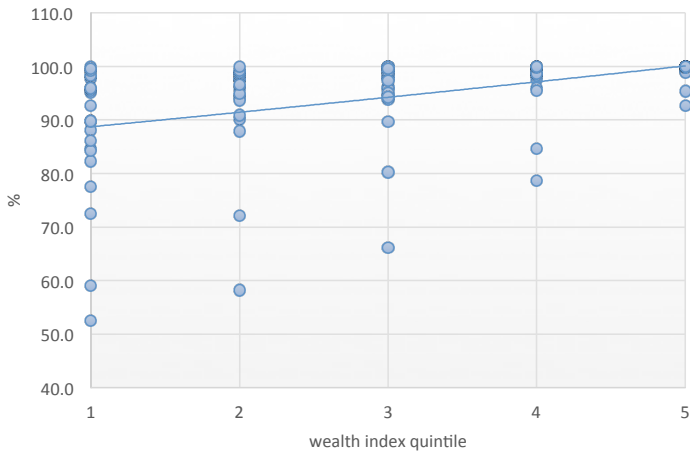
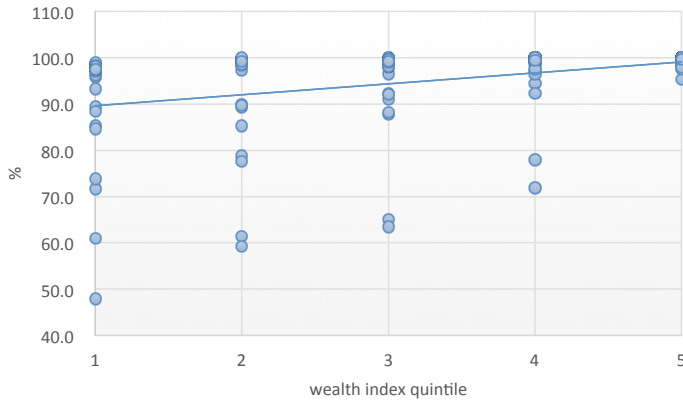


Figure 28—Users of improved water source, % population by wealth index quintiles



Middle classes in the region

Many studies of inequalities naturally focus on the “most unequal”—the richest and the poorest, how many of them there are, what makes them this way, and how different they really are from the rest of us. But analyses of the “tails” of the income distribution are implicitly also concerned with the “middle” of the distribution, since a smaller middle makes for bigger tails (and vice versa). Studies of inequalities can therefore also be studies of the middle class—particularly since concerns about greater inequalities are often accompanied by concerns about middle classes.

Such issues are particularly relevant among the developing and transition economies of Europe, Turkey, and Central Asia. Prior to the 1990s virtually all of the region’s transition economies had “socialist” middle classes, consisting of well educated blue- and white-collar workers, engineers, and other members of the technical, creative, and administrative intelligentsia. While not necessarily commanding incomes or possessing wealth that corresponded to middle-class societies in OECD countries, these middle classes were forces of stability, and progress prior to the advent of transition. They certainly thought of themselves as possessing middle-class status.

Moreover, since the 1990s, many of these countries—as well as Turkey—have experienced significant increases in per-capita income. Their relatively low income inequality levels imply that millions of people in the region’s upper middle-income countries (Albania, Azerbaijan, Belarus, BiH, Kazakhstan, Kosovo, fYRoM, Montenegro, Serbia, Turkey, and Turkmenistan) could today be considered members of the “global middle class”—possibly with aspirations and world views to match.

How large are the region’s middle classes? How are they best defined and measured? Three approaches to answering these questions may be identified:

- **Material well-being**, as reflected in such criteria as per-capita income and wealth/property ownership (e.g., car(s), housing) and the corresponding ability to access certain services (e.g., education, health, travel);
- **Subjective perceptions**, concerning such issues as education, family background, and the associated social implications—based on individual self-identification; and
- **“Neither rich nor poor”**. To be a useful category of social analysis, the middle class (those in the middle of the socio-economic distribution) must be qualitatively and quantitatively different from those in the tails.

Many different approaches to defining and measuring the middle class can be found in the literature (for a subset of these, see Box 1). A key question that must be faced is whether the middle class is to be defined in terms of absolute criteria (e.g., “members of the middle class earn between ‘X’ and ‘Y’ per day/month/year”); or relative criteria (e.g., “if the rich are the top 10% and the poor are the bottom 20%, then the middle class is the middle 70%”).

Box 1—Methodologies for defining and measuring the middle class

- *ILO: Members of the middle class have average daily per capita incomes in the PPP\$4-13 range in developing countries, and above PPP\$13/day in developed countries.*
- *African Development Bank: Members of the middle class have average daily per capita incomes in the PPP\$10-20 range.*
- *OECD: Members of the middle class have average daily per capita incomes in the PPP\$10-100 range.*
- *Atkinson/Brandolini: Members of the middle class have average daily per capita incomes in the range of 75-125% of the median income.*

In this report, we present the results of the application of two such approaches, both of which embody two key elements: (i) they are based on quantitative indicators that are methodologically compatible with the income equality data presented above; and (ii) they reflect both the “material well being” and “neither rich, nor poor” logic described above. These are:

- A relative approach, which defines the:
 - Bottom two deciles of national household income distribution data as “lower-income” (i.e., relatively poorer than the middle class);
 - Middle six income deciles as “middle class”; and
 - Top two income deciles as “upper-income” (i.e., relatively richer than the middle class); and
- An absolute approach, which defines the:
 - Poor as those living below the World Bank’s new global poverty threshold of PPP\$3.10/day (with the extreme poor living below the PPP\$1.90/day threshold);
 - Vulnerable as those living below the PPP\$10/day threshold, but on more than PPP\$3.10/day;
 - Middle class as those living below the PPP\$50/day, but on more than PPP\$10/day; and
 - Upper class as those living on more than PPP\$50/day.

Results of the “relative” approach. Trends in the evolution of the middle classes in the region’s transition economies generally show similar pattern: their share of the national income fell in the 1990s (during transition recessions) and then recovered after the new millennium. In most of these countries, the middle classes’ shares of national income are now at, or above, pre-transition levels.

Virtually all of the variation in middle classes’ shares of national income can be explained by offsetting changes in upper-income classes’ shares of national income. The shares of national income received by the bottom two deciles have remained surprisingly constant over time (at around 8-10% of national income) in most of the region.

In all but two countries in the region (Georgia and Turkey—Figures 29-30), the middle classes’ shares of national income have generally been significantly larger than the upper-income classes’ share. In Georgia and Turkey, by contrast these two shares are roughly constant (at 45-50%). The shares of national income received by the bottom two deciles in these countries have been the smallest in the region (fluctuating around 5%).

Figure 29—Shares of national income received by middle, other classes—Georgia (1996-2013)

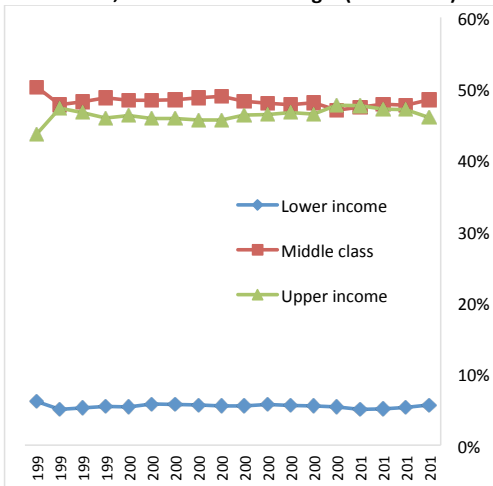
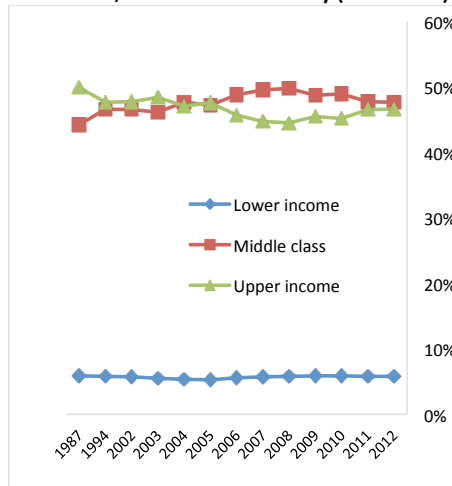


Figure 30—Shares of national income received by middle, other classes—Turkey (1987-2012)



UNDP calculations, based on POVCALNET data. The “middle class” is defined as the middle six deciles (“middle 60%”) of the national income distribution. The other classes are defined in terms of the top and bottom two deciles (upper and lower 20%), respectively.

Figure 31—Shares of national income received by middle, other classes—Belarus (1988-2012)

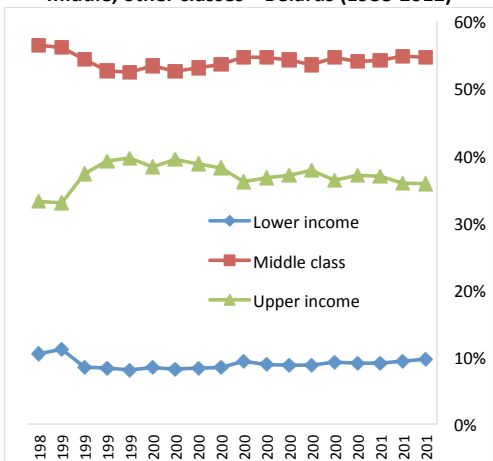
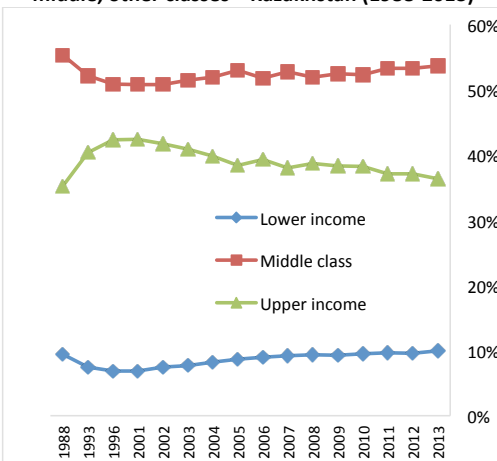


Figure 32—Shares of national income received by middle, other classes—Kazakhstan (1988-2013)



UNDP calculations, based on POVCALNET data. The “middle class” is defined as the middle six deciles (“middle 60%”) of the national income distribution. The other classes are defined in terms of the top and bottom two deciles (upper and lower 20%), respectively.

Figure 33—Shares of national income received by middle, other classes—Kosovo (2003-2013)

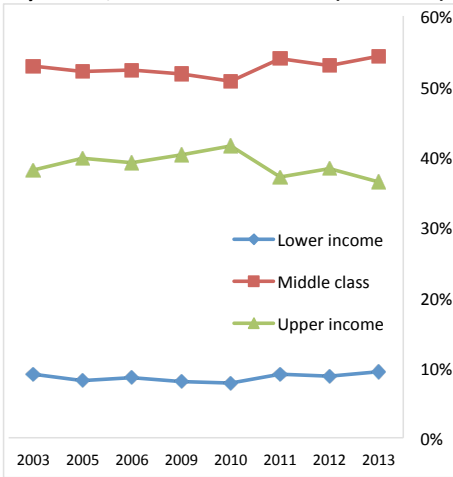
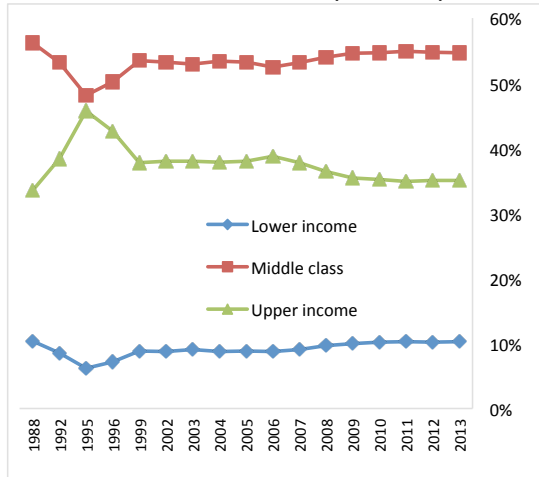
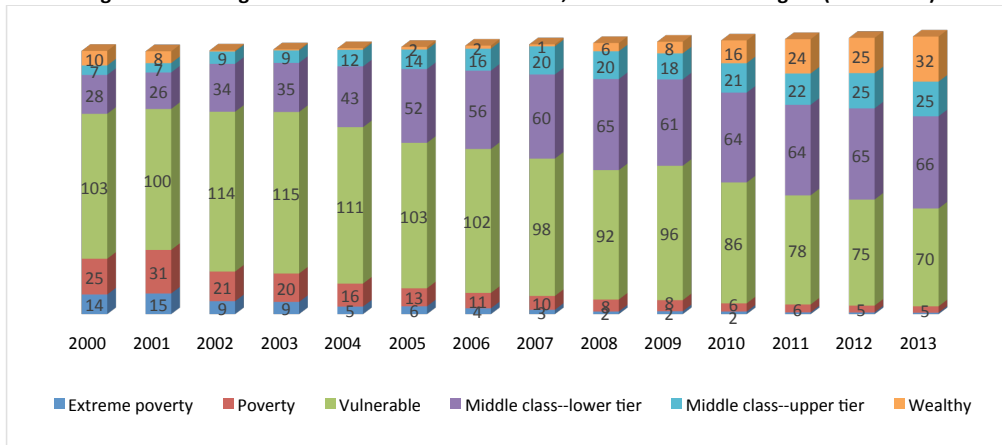


Figure 34—Shares of national income received by middle, other classes—Ukraine (1988-2013)



Economies with the largest middle classes (e.g., Belarus, Kazakhstan, Kosovo, Ukraine—Figures 31-34) also tend to have the largest shares of national income received by the bottom two deciles, and the smallest shares of national income received by the richest 20%.

Figure 35—Changes in absolute numbers of middle, other classes in the region (2000-2013)



UNDP calculations, based on POVCALNET data. Figures are in millions. Turkmenistan and Uzbekistan are not included.

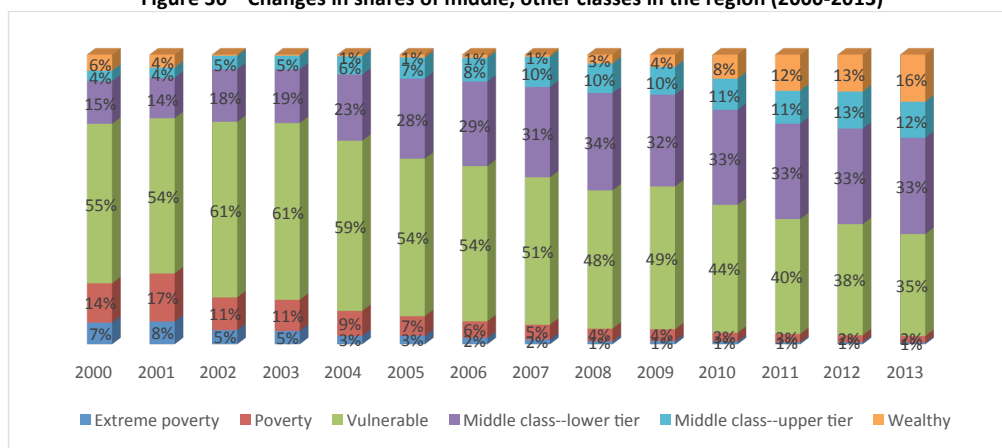
On the whole, the income distribution data do not describe a region whose middle classes have been decimated by transition or development. They instead broadly suggest a return to pre-transition income shares. In light of the region's generally low Gini coefficients, this conclusion should not come as a surprise. Still, it stands in contrast with many of the narratives. It may be that the truly relevant changes are occurring within the deciles (especially the bottom two) rather than across them—or that quantitative data are unable to

accurately capture the truly wrenching social changes that these countries have experienced in the past 25 years. Still, these results provide food for thought.

Results of the “absolute approach”. Compared to the above analysis, this approach has a number of advantages. These include *inter alia*: (i) explicit links to global poverty thresholds—thereby linking absolute and relative poverty (i.e., inequality) measures; (ii) an extension of the previous approach’s three-tiered social stratification, to include also those vulnerable to poverty (i.e., living above the poverty line but not necessarily in the middle class)—and also (if we so chose) those living in extreme poverty (i.e., below the World Bank’s new PPP\$1.90/day threshold), as well as different tiers within the middle class (i.e., those living between PPP\$10/day and PPP\$20/day, versus those living between PPP\$20/day and PPP\$50/day); and (iii) answers to such questions as “how many people in country X have incomes above \$20/day?”

This analysis suggests that, during 2000-2013, the numbers of people in the region living in poverty fell from 46 million in 2001 to about 5 million in 2013 (Figure 35).⁶ (The numbers of people living in extreme poverty, as per the World Bank’s PPP\$1.90/day criterion, dropped below 1 million.) Likewise, the numbers of people vulnerable to poverty (i.e., in the PPP\$3.10/day – PPP\$10/day range) dropped from about 115 million in 2003 to some 70 million in 2013. By contrast, the size of the middle class grew from about 33 million in 2001 to 90 million in 2013. Interesting, after nearly disappearing 2002-2004, the numbers of “wealthy” individuals (living on more than PPP\$50/day) had risen to some 32 million in 2013—most of whom were living in Turkey and Kazakhstan. Adding the 25 million individuals estimated to be living on between PPP\$20/day and PPP\$50/day to this figure suggests that nearly 80 million people in the region have achieved living standards that are broadly consistent with the bounds of the “global middle class”.

Figure 36—Changes in shares of middle, other classes in the region (2000-2013)



UNDP calculations, based on POVCALNET data. Turkmenistan and Uzbekistan are not included.

Consideration of these trends in terms of changes in the relative size of the various classes shows that, whereas more than three quarters of the region was living in poverty or vulnerable to it during 2000-2003, by 2013 this share had dropped to under 40%. While the middle classes were the chief beneficiaries of these improvements in living standards, it is interesting to note that the share of those living on more than PPP\$50/day had risen to 16% in 2013 (from close to zero in 2002-2003).

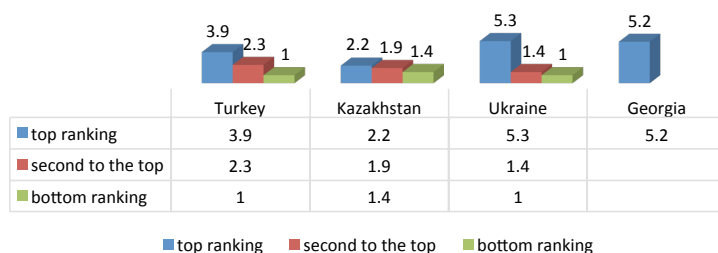
⁶ These data do not include Turkmenistan and Uzbekistan.

In broad brush strokes, these results are quite consistent with those suggested by the “relative” approach to defining the region’s middle classes described above. They also do not describe a region whose middle classes have been decimated by transition or development. An important difference lies in the two approaches’ treatment of the wealthy, however. Whereas the relative approach shows the upper classes’ shares of national income remaining roughly constant or shrinking in most of the region, the absolute approach points to the rapid growth in this group’s share of total income from virtually nothing in 2003 to 16% a decade later. This may be able to explain the widespread concerns about growing inequalities in the region—even if the distribution of total household incomes (as measured in deciles) has not changed so dramatically.

How rich are the region’s rich?

Global household wealth is unequally distributed: there are an estimated 31 million millionaires and more than a thousand billionaires (in US dollar terms) in the world. As one authoritative source notes: “*The bottom half of the global population together possess less than 1% of global wealth. In sharp contrast, the richest 10% own 86% of the world’s wealth, with the top 1% alone accounting for 46% of global assets*” (Credit Suisse Global Wealth Databook, 2013).

Chart 1--The region's billionaires (in billion US\$)



UNDP calculations based on Forbes’ list of real-time billionaires.

A quick browse through Forbes’ most recent billionaires list⁷ shows that only 33 (2%) come from the developing and transition economies of Europe, Turkey, and Central Asia.⁸ Turkey is responsible for 22 of these, followed by Ukraine and Kazakhstan (five each) and Georgia (with one). Five of these are women (four from Turkey, one from Kazakhstan). Interestingly, large differences in wealth are apparent between these billionaires: the richest billionaire in Turkey is some four times richer than the “poorest” billionaire; in Ukraine the gap is five-fold. Wealth is predominantly and accumulated via the natural resources and banking sectors of economy; construction and pharmaceuticals are specific to Turkey. Interestingly, one billionaire in Ukraine makes money in the agricultural sector.

⁷<http://www.forbes.com/billionaires/list/#version:realtime> (last consulted on 16 January 2016). Of course, rich lists are just estimates. They are popular precisely because they’re willing to put a hard dollar number on the personal wealth of the super-rich. Yet in truth, no one really knows what many of the super-rich are worth at any given moment (including the super-rich themselves). Many of them own private companies, which are hard to value until they’re sold. And they often have debts, other accounts, financial obligations and investments that don’t show up to the public.

⁸ Reference is to the programme countries/territories whose development aspirations are supported by UNDP’s Regional Bureau for Europe and CIS. These are: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Kazakhstan, Kosovo (as per UNSCR 1244 (1999)), Kyrgyzstan, the Former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia, Tajikistan, Turkey, Turkmenistan, Ukraine, and Uzbekistan

According to the Global Wealth Report, the numbers of millionaires in the region dropped by some 95% during 2010-2015 (Figure 37). Perhaps more usefully, the Global Wealth Report also estimates Gini coefficients for the distribution of wealth, in the region as well as globally (Table 3). A number of conclusions are suggested by these estimates. First: with the exceptions of Kazakhstan, Turkey, and Ukraine, inequalities in the distribution of wealth generally remained the same or declined during this time. Second, inequalities in wealth in most of the region are generally below world averages. This also can be seen as a legacy from the region's socialist past, when significant private holdings of wealth as such did not exist. (In light of the large share of state property that remains in state hands in much of the region, the role of the state may not be a legacy.)

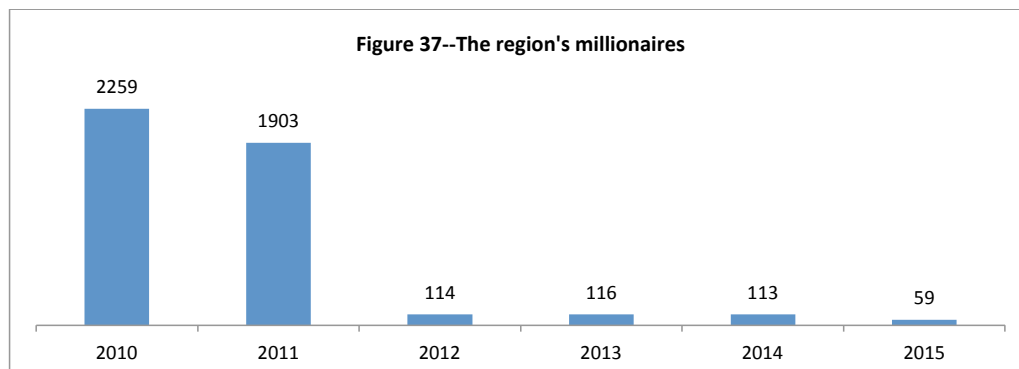


Table 3—Gini coefficients for the distribution of wealth in the region (2010-2015)

	2010	2011	2012	2013	2014	2015
Albania	0.68	0.654	0.657	0.656	0.668	0.658
Armenia	0.668	0.644	0.639	0.639	0.668	0.628
Azerbaijan	0.612	0.595	0.652	0.651	0.646	0.591
Belarus	0.648	0.637	0.624	0.622	0.646	0.65
BiH	0.678	0.665	0.659	0.658	0.663	0.67
Georgia	0.703	0.684	0.79	0.68	0.68	0.666
Kazakhstan	0.658	0.863	0.838	0.867	0.873	0.874
Kyrgyz Republic	0.673	0.659	0.66	0.659	0.646	0.633
fYRoM	0.727	0.694	0.689	0.688	0.69	0.693
Moldova	0.688	0.671	0.648	0.647	0.68	0.674
Montenegro	0.652	0.669	0.635	0.634	0.657	0.658
Serbia	0.645	0.635	0.626	0.625	0.654	0.661
Tajikistan	0.669	0.657	0.638	0.638	0.629	0.624
Turkey	0.704	0.844	0.842	0.837	0.843	0.821
Turkmenistan	-	-	-	0.68	0.667	0.673
Ukraine	0.64	0.889	0.892	0.9	0.919	0.916
Africa	0.849	0.872	0.865	0.846	0.856	0.856
Asia-Pacific	0.869	0.881	0.889	0.887	0.895	0.892
China	0.69	0.697	0.689	0.695	0.719	0.733

Europe	0.799	0.829	0.831	0.83	0.827	0.834
India	0.778	0.804	0.813	0.813	0.814	0.831
Latin America	0.785	0.793	0.797	0.806	0.809	0.809
North America	0.799	0.816	0.842	0.841	0.837	0.842
World	0.881	0.893	0.902	0.905	0.911	0.915

Conclusions

For those who are concerned about the global effects of increasing inequalities, the above analysis of the quantitative data on the distribution of income and wealth in the region suggests a reassuring picture. Many of the developing and transition economies of Europe, Turkey, and Central Asia (with a few exceptions) report low, or declining, levels of income inequality; estimates of the distribution of wealth that are based on internationally comparable methodologies propose the same results. However, such a picture is at odds with many commonly accepted narratives about the region—which tend to reference large and growing inequalities in income, wealth, access to basic services, and other important aspects of human development.

This raises the question: what’s wrong—the data, or the perceptions? To be sure, the quality of the data on income and wealth inequalities in the region is not beyond reproach. For example, that the household budget survey data from which the income inequality indicators that populate both national and international data bases are drawn are widely recognized as missing both the very poor (who typically slip between the cracks of national surveying activities) and at least a portion of the incomes of the very rich. It is telling, for example, that the POVCALNET database reports that virtually no one in the region earns more than PPP\$100/day—millionaires and billionaires (as reported by Forbes) notwithstanding. Part of this may be due to the reliance on consumption-based surveys that underpin internationally comparable databases like POVCALNET. Such surveys do not reflect incomes earned but not spent on consumption—which, in the case of wealthy households (with high average propensities to save)—may further understate the shares of national incomes distributed to wealthy households. All this underscores the need for more investment in national statistical offices’ capacity to conduct regular household budget surveys that accurately capture (according to internationally comparable methodologies) the entirety of household incomes—including those shares that are not consumed.

Still, these data should not be dismissed out of hand. Declines in income inequalities in many Latin American countries during the past decade have been well documented; there’s no reason that other developing regions can not report similar tendencies. Perhaps more serious questions concern whether those economies in the region that seem to have made the most progress in reducing income inequalities—Albania, Belarus, Kazakhstan, Kosovo, Moldova, Ukraine—will be able to maintain these accomplishments in the face of the socio-economic tensions that are now present in the region.

Key messages

- **Labour market inequalities and exclusion lie at the heart of the region's¹⁰ inequality challenges.** This is the case both in terms of labour markets *per se*, and because access to social protection is often linked to formal labour market participation. People without decent jobs face much higher risks of poverty, vulnerability, and exclusion from social services and social protection.
- **While labour market inequalities exist in many dimensions,** they are particularly important when it comes to access to formal employment. Because informal, precarious, migratory, and vulnerable employment is widespread throughout the region, employment does not necessarily offer much protection against poverty and vulnerability. Women, young workers, migrants, the long-term unemployed, people with disabilities, and others with unequal labour market positions are particularly vulnerable to broader risks of poverty and exclusion. While trends are improving in some countries and for some groups, in others, labour market inequalities are increasing.
- **Many commonly used labour market indicators offer only limited insights into labour market performance** and equalities. This is apparent in the “employment”/“unemployment” statistical dichotomy, and in the infrequency with which publicly available labour-market data are disaggregated by gender, ethnicity, and other vulnerability criteria. Different labour market statuses—inactivity, unemployment, underemployment, informal employment, formal employment, migrant work, etc.—should be understood as representing points along multi-dimensional continua of labour market positions, with much overlap and fluidity between the categories. Inequalities among the employed can be as great, or greater, than those between the employed and unemployed.
- **Long-term efforts to formalize employment are crucial.** Three directions are particularly important: (i) efforts to boost the institutional capacity of the institutions charged with labour market regulation, in order to better enforce legal protections for workers' rights in the formal sector; (ii) the abolition of those labour market regulations that can not be credibly enforced by state agencies and drive employment into the informal sector; and (iii) increased investment in active labour market policies, vocational education, and other measures to boost worker productivity.
- **Policy linkages between labour markets and social protection need to be strengthened.** While poorly aligned social policies can reduce incentives for labour market participation and hiring, this is not a reason for reducing social protection spending and coverage. Instead, wherever possible, the taxation of labour to fund social benefits needs to be reduced in favour of other funding sources. These may include: (i) higher taxes on environmentally unsustainable activities; (ii) reductions in budget subsidies that accrue to the wealthy; (iii) more aggressive measures to reduce the diversion of budget revenues to tax havens; and (iv) more robust direction of budgetary procurement and contracting resources to companies (e.g., social enterprises) that explicitly promote social inclusion. The region's prevailing demographic trends indicate that needs to find non-labour sources of budget revenues will sharpen in the future.
- **Social protection is also about social services and the care economy.** Increased investments in social service provision—particularly terms of care for children, the elderly, and persons with disabilities—can boost participation in labour markets and vocational training programmes, particularly for women. In Turkey, for example, a decision to bring state budget spending on social care services up to OECD

⁹ Please send comments on this chapter to Sheila Marnie (sheila.marnie@undp.org) and Ben Slay (ben.slay@undp.org).

¹⁰ Unless otherwise noted, reference in this publication is to Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Kazakhstan, Kosovo (as per UNSCR 1244 (1999)), the Kyrgyz Republic, the Former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia, Tajikistan, Turkey, Turkmenistan, Ukraine, and Uzbekistan.

levels would generate an estimated 719,000 social care jobs—more than 2.5 times the total number of jobs that would be created by devoting the same amount of budget funds to construction/infrastructure projects. An estimated 84% of the workers hired into these social care jobs would have permanent contracts of unlimited duration (versus 25% in construction); 85% would have social security coverage (compared to 30% in construction).

- ***In many countries, gaps between de jure social protection guarantees and de facto access to social benefits and services are significant and growing.*** Addressing these gaps balancing centralized social protection and employment schemes with more scope for locally provided, more flexible and individual-focused modalities of inclusion.
- ***Many of those excluded from the labour market are not reached by traditional active-labour market programmes.*** This is due in part to weaknesses in outreach to vulnerable communities (e.g., ethnic minorities, low-skilled workers in rural communities), but also to chronic under-funding.

Overview

Labour market inequalities concern not only differences between those who are employed and those who are not, but also among those who are employed. In most countries of the region, those who are in precarious, informal, low wage, low productivity jobs can easily suffer the same (or worse) risks of poverty and exclusion as those who are without jobs. Inequalities among the employed can be as great, or greater, than those between the employed and unemployed.

However, these disparities are not easy to unravel using standard labour market indicators and data. While these may help ensure international comparability, they often fail to capture critical dimensions of labour market and broader social inequalities. As such, they may provide a poor basis for policy design and implementation. Low labour force participation rates and (in some countries) high unemployment figures underscore problems of labour market exclusion for significant sections of the working age population. But even within the employed population there are clearly inequalities affecting individual and household welfare, as evidenced by the data on the “working poor”, and on informal and vulnerable employment. Many of those at the bottom of the income scale cannot afford to be “idle”; they may have little choice but to engage in low quality or vulnerable employment. Given the restrictive criteria for defining the unemployed, and the low level and limited duration of support for registered unemployed, many workers without jobs do not register. They either withdraw from the labour force, accept low-quality jobs, or join the army of labour migrants.

It is difficult to characterize or generalize about these inequalities within the employed population. The ILO’s “decent work” paradigm—as opposed to precarious, vulnerable, or informal sector work—can certainly help. But quantifying the share of the workforce enjoying decent work is extremely complex. Some authors refer to dual labour markets, between those in formal and those in informal employment; or between those in decent jobs and those in non-decent jobs. But even here, reality is often more complex than dichotomous, black-and-white characterizations. For example, public sector employees may have more job security and better access to social protection—but their wages may be so low as to make them part of the “working poor”. Informal sector workers may not enjoy labour rights or social protection, but they may be able generate incomes that are sufficient to keep themselves, and their families, out of poverty. Moreover, even workers who are formally employed may receive significant shares of their wages in the form of unregistered (and therefore untaxed) cash under the table.

Unequal employment opportunities have also led to large internal and external migration flows—many of which exhibit high degrees of irregularity/informality. While these movements can raise income and development opportunities for migrants and their families, they are also associated with many risks and insecurities. They may also contribute to new forms of inequalities, most notably between those households with migrant members and access to remittances, and those without.

UNDP's 2011 Regional Human Development Report showed that, while joblessness heightens the risk of economic exclusion, but it also tends to be associated with other forms of deprivation which together heighten individual risks of exclusion. Exclusion from employment opportunities were found to be a major driver of exclusion from economic life, which in turn contributed to exclusion from social and political processes.¹¹

Drivers of labour market exclusion include the capital- and resource- (as opposed to labour-) intensive economic growth patterns which have taken root. These often result in the paucity of decent, formal, private sector jobs. This can be attributed to a lack of structural reforms to strengthen institutional capacity in both the private and state sectors. But it also reflects the low priorities often ascribed to employment goals, reflecting the (often mistaken) belief that economic growth would automatically lead to more and better jobs. But while it is now widely understood that this link is not automatic, governments have been slow to put in place the institutional frameworks needed to design and implement comprehensive national employment policies. The success of efforts to address the considerable skills mismatches that stand behind many cases of labour market exclusion (particularly for young workers) has not been especially noteworthy.

Helping economic growth to boost decent job opportunities requires holistic, whole-of-government approaches—particularly in terms of the links between employment and social protection policies. Most countries in the region inherited social protection systems that were designed to complement full or near-to-full employment situations. In circumstances of entrenched joblessness, however, proposals to compensate for the lack of formal employment opportunities by providing minimum income floors have often encountered opposition, in the form of concerns about excessive fiscal burdens and disincentives for labour market participation. Many workers have therefore had to seek informal employment—thereby losing access to social insurance (e.g., health and pension insurance) as well as other benefits (e.g., maternity leave) and protections nominally guaranteed by law.

Efforts to promote decent jobs and strengthen social protection in the region must therefore focus on addressing drivers of informality. Three directions seem particularly important in this respect:

- **Efforts to boost the institutional capacity of the institutions charged with labour market regulation**, in order to better enforce legal protections for workers' rights in the formal sector. In too many cases, inspections that identify violations of commercial, labour, migration, or social protection legislation are dealt with through payment of bribes—which are seen as necessary to provide a living wage for the (not always fully trained) civil servants working in these inspectorates. Civil service and public administration reforms to raise public-sector salaries and reduce other drivers of corruption and malfeasance that distort labour market regulation.
- **The reconsideration of taxes and regulations that can not be credibly collected or enforced** by state agencies and drive employment into the informal sector. Regulations and taxes that place inordinate burdens on SMEs, or migrants and other vulnerable workers, need to be reconsidered or abolished.
- **Increased investment in active labour market policies**, vocational education, and other measures to boost worker productivity.

Labour market inequalities

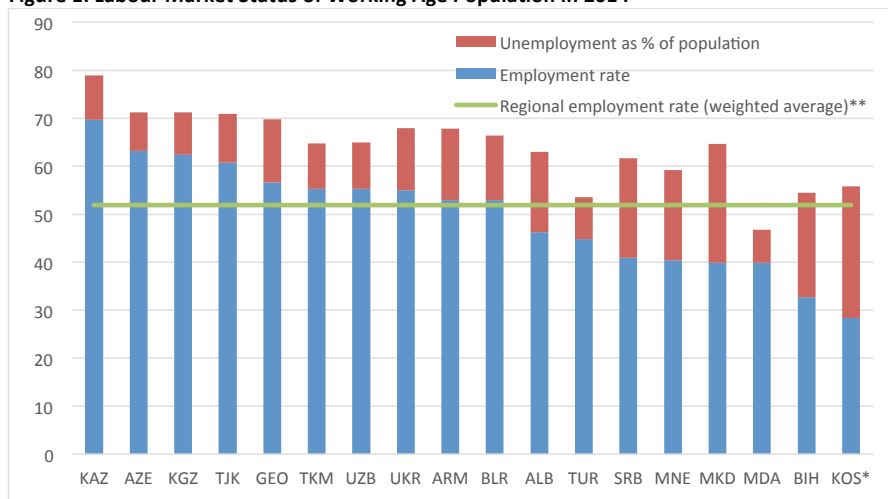
¹¹ See for example RHDR 2011, pp18-19.

Inequalities in employment outcomes and opportunities are in practice difficult to separate. Both are reflected in low employment rates, as well as in high rates of long term unemployment, as well as informal, vulnerable, and migratory employment.

Labour force participation rates in the region vary from relatively high (70-80% of the working age population) to below 50% in others (

Figure), while the average regional unemployment rates of those who are participating in the labour force was 9.6 percent in 2014.¹² Employment and participation rates tend to be particularly low in the Western Balkans, and much higher in Central Asia. And whereas employment rates declined in much of the region after the early 1990s, they have generally returned to “pre-transition” levels in Central Asia and the Caucasus.

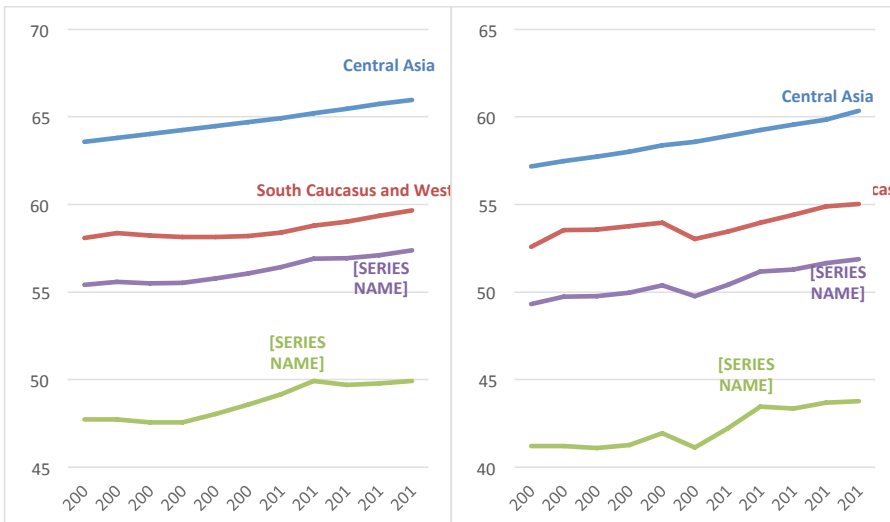
Figure 1. Labour Market Status of Working Age Population in 2014



Source: ILO, 2015, KILM 9th ed. * 2012 figure; ** not including Kosovo under UNSCR 1244.

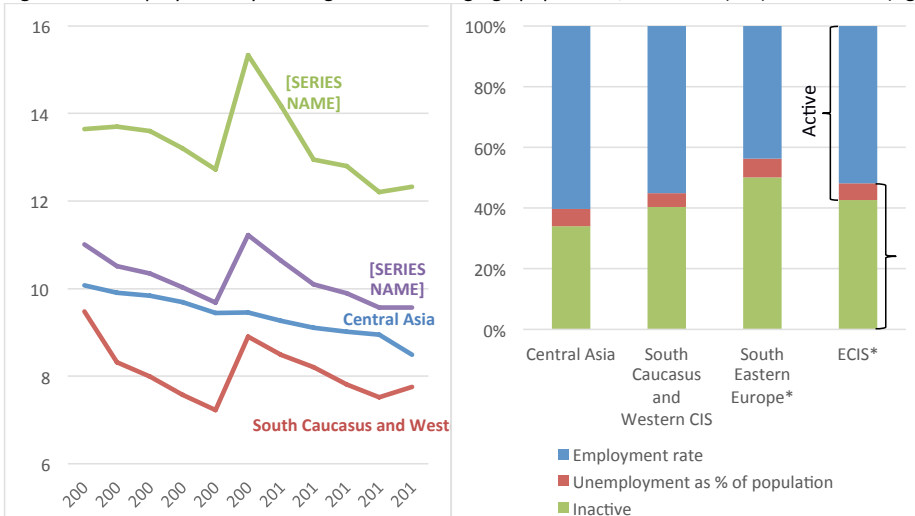
Figure 2. Labour force participation (left) and employment rate (right), working age

¹² ILO, 2015, World Employment and Social Outlook. Figure for 2014.



Source: *Calculations based on ILO, 2015, KILM 9th ed.* * except for 2012 and 2013, averages do not include Kosovo under UNSCR 1244.

Figure 1. Unemployment by sub-region for working-age population, over time (left) and in 2014 (right)

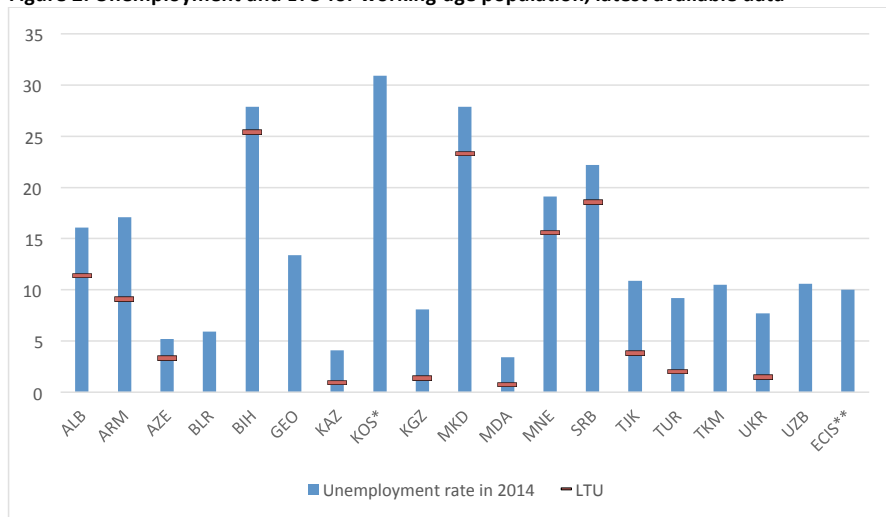


Left: Regional and sub-regional unemployment rates (weighted averages). Right: Sub-regional breakdown of labour market for working age population, 2014. Source: *Calculations based on ILO, 2015, KILM 9th ed.* * except for 2012 and 2013, averages do not include Kosovo under UNSCR 1244.

In some countries, and in all the Southeast European economies, employment rates are below 50% of the working age population. The economic crisis of 2008-2009 resulted in the loss of many jobs, which is clearly reflected in the unemployment trends (Figure 3). Although in most countries, economic growth recovered relatively quickly, in some countries employment rates have been slower to recover. The impact on youth participation and employment rates has been particularly stark (discussed further below).

Long-term unemployment (LTU) is usually defined as unemployment lasting for over 12 months. Available data indicate high LTU incidence in the Western Balkans, where 70-90% of the unemployed have been searching for employment for longer than 12 months (Figure 4). Considering the overall high unemployment rates in these countries, this makes for a substantial section of the working age population. A study using different data¹³ shows a high incidence of LTU in Azerbaijan, where 50% of the unemployed were found to have been searching for jobs for over 12 months, and 75% were not officially registered. (Of those registered, less than 5% were receiving social benefits.) Long-term unemployment manifests itself more strongly among certain social groups, such as Roma (discussed further below).

Figure 2. Unemployment and LTU for working-age population, latest available data

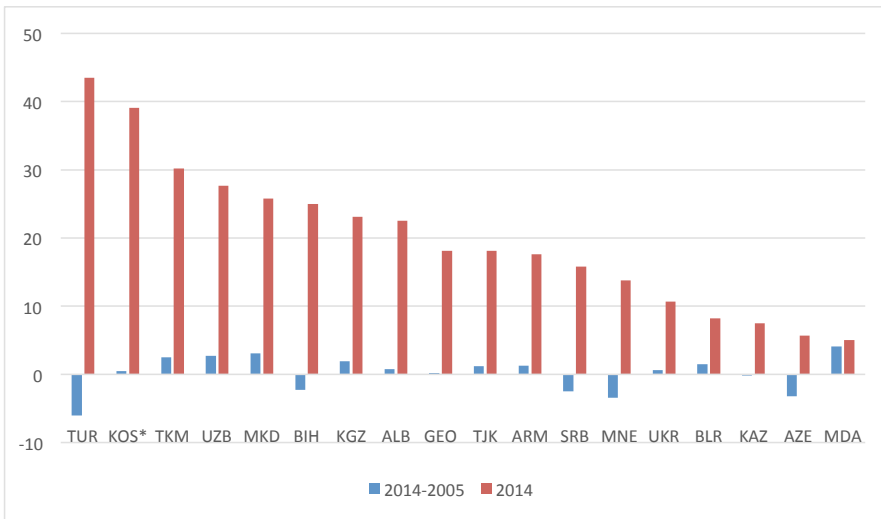


Source: ILO, 2015, KILM 9th. Unemployment data for 2014 * unemployment data for 2012; ** average does not include Kosovo under UNSCR 1244. Latest available LTU data for various years 2009-2014 (see Statistical Annex).

Labour market gender differences are significant throughout the region. These differences are particularly visible in the Caucasus and Central Asia, but also in some Southeast European countries such as Bosnia and Herzegovina and Turkey. Worryingly, in most countries, gender inequalities on the labour market, as measured by the inactivity rate are increasing. Long-term unemployment has particularly strong gender dimensions in Central Asia: in all the countries of this sub-region except for Kazakhstan, gender gaps in labour-force participation rates have been increasing.

Figure 3. Adult labour force participation rate gender gap, male minus female

¹³ UNDP / Martina Lubyova, 2013, Towards Decent Employment through Accelerated Structural Reform in Azerbaijan.



Gender gap in labour force participation for 2014, and change in the gender gap over 2014-2005 period.
Source: Calculations based on ILO, 2015, KILM 9th ed.

Overall, standard labour market indicators point to worrying disparities in employment outcomes, which in turn suggest considerable inequalities in employment opportunities. They also point to significant differences in employment outcomes by sub-region, with Southeast European countries having more troubling indicators than Central Asia, the South Caucasus and Western CIS countries. However, as discussed below, the standard indicators may be unable to fully capture labour market disparities in the region, largely because they do not capture the quality of employment. Central Asia may have higher participation rates and lower unemployment rates than the Southeast European countries, but few would argue that the quality of employment is better, or that there is less vulnerability.

Limitations of standard employment indicators

Such standard labour market indicators as labour force participation, employment, and unemployment rates cannot in themselves capture the full extent of inequalities in the labour market in the region, for several reasons.

First: the employment rate shows the share of the working-age population that is engaged in a productive activity—irrespective of whether this activity corresponds to full time, regular, formal and decent employment. This indicator does not distinguish between those who work “normal” or regular work hours on regular contracts, versus those on shorter and unstable work schedules. Nor does it indicate whether the activity is in the formal or informal sector, and therefore whether the individuals in question have rights to protection, a safe working environment, and to social insurance coverage. This indicator thus gives no indication of the quality of the employment enjoyed by different sections of the workforce, and the extent of under-employment and low quality, low wage employment.¹⁴ A person working a 40-hour week as an employee of a formal sector enterprise will be counted as employed, in the same way as somebody working in a temporary job for 1-2 hours a day, or as a self-employed farmer, working informally on a small plot. To give some examples:

¹⁴ see [ILO's standard definition](#), used to derive employment indicators from Labour Force Surveys.

- Kazakhstan has the highest participation rate in the region (at just under 80% of the working age population), but some 30% of the employed workforce is self-employed, with the majority engaged in small scale low-productivity agricultural activities.¹⁵
- In Azerbaijan (the country with the second highest participation rate in the region), 37% of the workforce (and 44% of the female workforce) is employed in agriculture, which accounts for just over 5% of GDP.¹⁶ This disparity results in low rates of labour productivity, and therefore low agricultural incomes.
- Kyrgyzstan and Tajikistan have high participation rates, but also some of the largest shares of working poor and vulnerable employment (see below), as well as labour migrants in the region—suggesting that the number and quality of employment opportunities are insufficient.

Second: the unemployment rate is usually seen as a measure of the lack of employment opportunities: the proportion of people who do not have a job but are “actively” looking for one. This definition is also problematic, particularly in those countries with low labour force participation rates. As one analyst puts it: “most ‘potentially’ unemployed persons either do not ‘actively’ search for employment, falling in the category of ‘discouraged workers’, or seek out a living in the overcrowded informal economy, in a state often described as ‘disguised unemployment’”.¹⁷ Variations in the eligibility criteria used for registering the nature and duration of unemployed status may also affect incentives for job-seekers to register as unemployed or engage in job search activities (i.e., stay in the labour force)—thereby influencing reported labour-market trends. In some countries these criteria are more restrictive, in order to limit entitlements to unemployment and other benefits; whereas in other countries they are more generous. (In some countries of the region, less than one per cent of the unemployed receive benefits.¹⁸) Seen in this light, the quality of the unemployment rate as an indicator for capturing those affected by lack of employment opportunities is problematic.

Third: assessments of labour market performance in the region are sometimes confused by data quality questions for those indicators that are reported. Differences in reported unemployment rates sometimes reflecting differing methodologies used to collect the underlying data (e.g., labour force surveys versus registration data reported by employment offices). The region’s large circular and irregular migration flows tend to depress reported labour force participation rates, as migrants working abroad may be included in domestic populations (as per national census data) but not counted by labour force surveys as labour force participants or among the employed. While not unique to the transition and developing economies of Europe, Turkey, and Central Asia, these lacunae may further complicate the interpretation of labour market data in the region.

Measures to improve labour market statistics are crucial for more effective policy making. So are efforts to ensure the regularity of published data on employment and/or migration flows, which allow disaggregation by socio-economic (gender, age, rural/urban location, conflict impact) vulnerability criteria. Innovative ways of combining quantitative and qualitative data collection and analytical methods are also required in order to understand the inequalities within the employed, and the barriers facing those not participating in the labour market.

Employment quality and the disadvantaged within the labour force

While the [ILO manual on Decent Work Concepts and Indicators](#) sets out 10 different types of work, these can be generally be treated in terms of: (i) productive work delivering a fair income; (2) safety in the

¹⁵ Экономическая активность населения Казахстана 2010-2014, Kazakhstan State Statistical Committee 2015

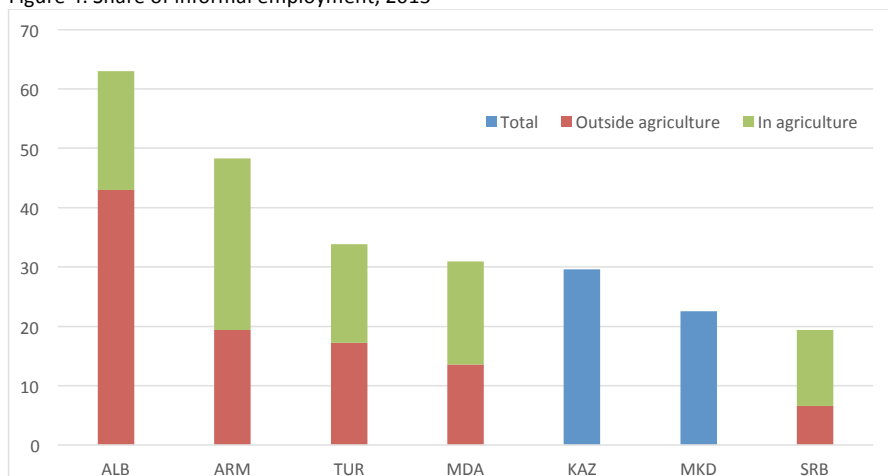
¹⁶ <http://www.worldbank.org/en/news/feature/2015/01/06/jobs-challenge-in-the-south-caucasus-azerbaijan; Lyubova/UNDP>

¹⁷ Ghai, D., 2003, *Decent Work: Concepts and Indicators*. *International Labour Review*, 142(2), 113-145.

¹⁸ ILO, 2014, *World Social Protection Report 2014/15*.

workplace; and (3) access to social protection for workers and their families. Low quality employment can be “precarious” if it entails unfavourable or short-term contracts. Informal employment (much of which is precarious) falls into two main categories: work in informal (unregistered) enterprises, and paid work in the formal sector (registered enterprise) but under informal conditions (without core benefits, workers’ rights, or a written contract). While the former is more common in rural areas (where agricultural work is prominent), the latter is more commonly found in urban areas.

Figure 4. Share of informal employment, 2013



Source: ILOSTAT, 2015, countries with available data.

Precarious and informal employment in the region is particularly prominent in agriculture: in many countries agriculture accounts for more than a third of the employed population (Figure 7). In Ukraine, for example, two-thirds of informal employment take place in agriculture;¹⁹ in Armenia, this share has been reported as close to 100%.²⁰ Such employment often consists of low-productivity agricultural self-employment on small plots. Incomes from such work are highly unstable, due to poor harvests or fluctuating farm gate prices. For these reasons, agriculture is often considered to be a buffer between employment and unemployment or inactivity, or as “hidden unemployment”. For example, following the 2008-2009 financial crisis in Armenia, agriculture was the only sector to report employment growth.²¹ Employment in agriculture therefore often meets the criteria for non-decent work: low and unstable income, and no or insufficient social protection coverage.

On the other hand, formal sector employment is not always “decent”, and can also be associated with low wages and poverty risk. For example, while public sector workers in Kazakhstan may enjoy regular contracts and access to social protection, 2009 household budget survey data indicated that up to 50% of the poor in some regions of the country lived in households that were headed by a public sector employee.²²

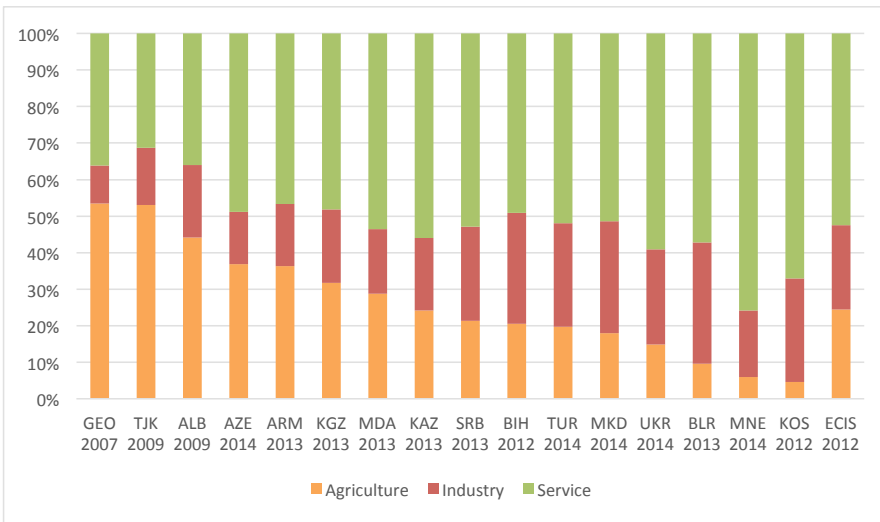
Figure 7. Employment by sector

¹⁹ ILO, 2013, Decent Work Country Profile: Ukraine.

²⁰ ILO, 2011, Decent Work Country Profile: Armenia.

²¹ ILO, 2011, Decent Work Country Profile: Armenia.

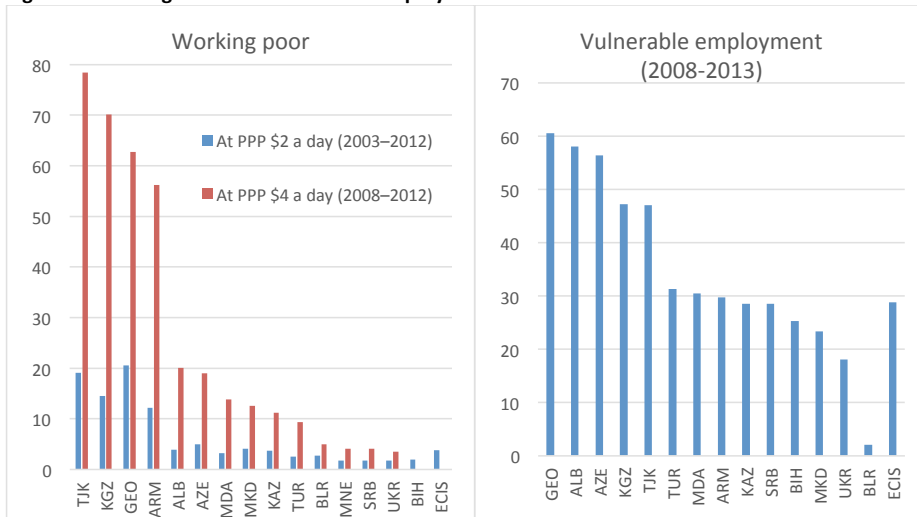
²² ADB/UNDP Poverty Assessment, Astana 2012, p19 (based on household budget survey data for 2009)



Source: ILO, 2015, KILM 9th ed; HDRO, 2015.

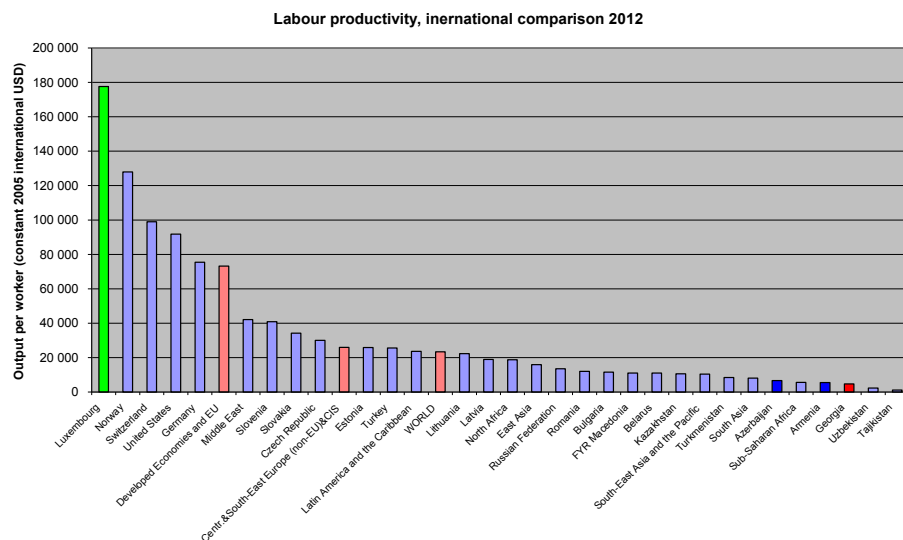
The ILO defines “vulnerable employment” as the share of contributing (non-paid) family workers and own-account (self-employed) workers. The share of the working poor, defined as those who are employed with per-capita incomes below international poverty lines can be another indicator of vulnerable and low quality employment. As shown in Figure 8 (left), over half of the employed in the Southern Caucasus and Central Asia live on incomes below the ILO upper threshold used to measure the share of working poor (i.e., those with per capita incomes below PPP\$4/day). Figure 8 (right) shows the share of the workforce who are self-employed (own-account workers) and contributing family workers.

Figure 8. Working Poor and Vulnerable Employment



Left: Share of working poor at a PPP US\$ 2 and PPP US\$ 4 thresholds, for countries where data is available, latest available year. Sources: HDRO, 2015; ILO, 2015, KILM 9th Ed. Right: Share of vulnerable employment (sum of contributing family workers and own-account workers). Source: HDRO, 2015.

The ILO working poor and vulnerable employment data may imply a reconsideration of the conclusions suggested by the above-mentioned employment and labour force participation data. Whereas workers in Southeast Europe may face greater difficulties in finding a job than workers in the South Caucasus and Central Asia, jobs in Southeast Europe are more likely to be decent, and less likely to be precarious, than in these sub-regions. (It should also be noted that both Belarus and Ukraine perform quite well in terms of these “working poor” and “vulnerable employment” indicators.) The countries with the largest shares of employment in low-productivity agriculture may face the most problems with the quality of employment.



Source: ILO Global Employment Trends 2014

However, alternate measures of labour market vulnerability may produce different results. For example, data produced by the Eurostat-compatible Statistics on Income and Living Conditions (EU-SILC) surveys that have been administered in Serbia and the former Yugoslav Republic of Macedonia have found that those “at risk of poverty or social exclusion” were 28% and 35% of the working population, respectively.²³ While these figures are higher than the shares of working poor reported for these countries in figure 8, they are close to ILO estimates of vulnerable employment.

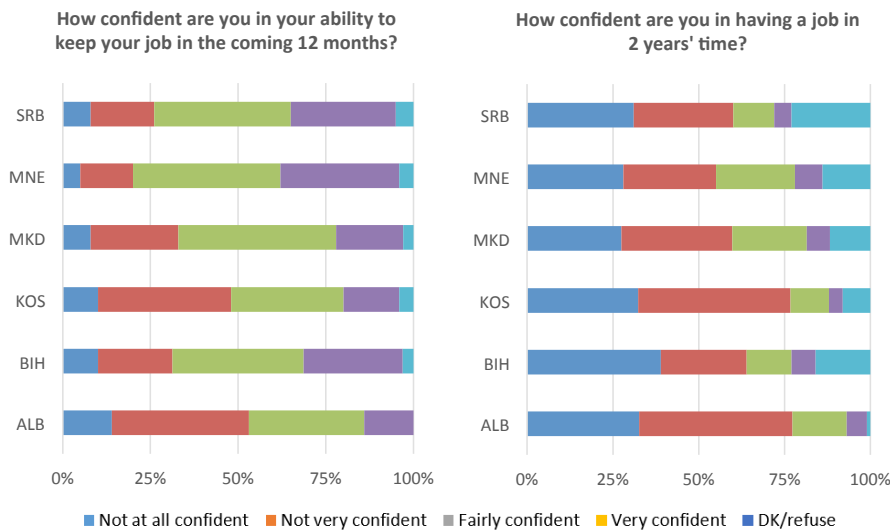
Public opinion surveys that gather information on individual perceptions of their employment status may also provide insights into the quality and precariousness of employment. For example, Caucasus Barometer data²⁴ indicate that fewer people report having a job than what would be suggested by the employment rates generated from national labour force survey data. In Armenia, these figures were 44% (Caucasus Barometer) compared to 53% (labour force survey); in Azerbaijan they were 41% (Caucasus Barometer) compared to 63% (labour force survey); in Georgia they were 40% (Caucasus Barometer) compared

²³ EUROSTAT, figures for 2013.

²⁴ Caucasus Barometer, 2013.

to 56% (labour force survey). These disparities may reflect popular beliefs that informal engagement in agriculture is more a coping mechanism than a form of employment.

Figure 9. Balkan Barometer 2015



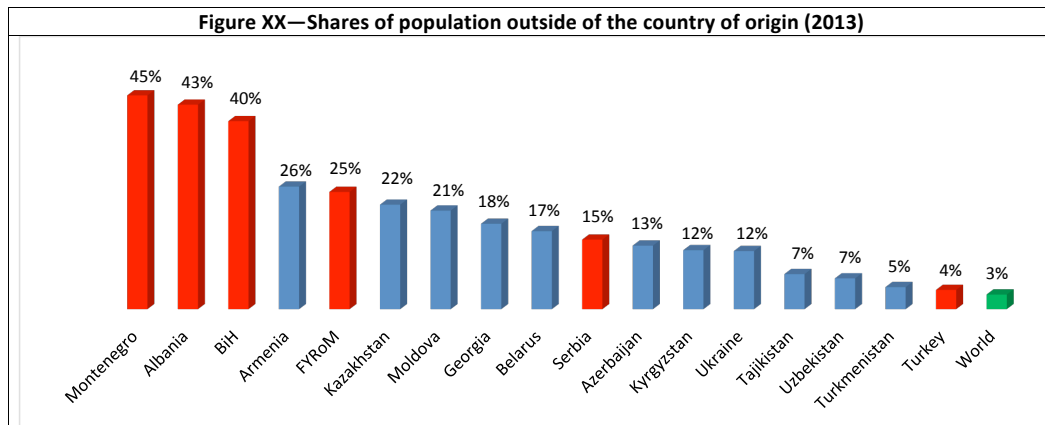
A similar survey in the West Balkans also found some (albeit smaller) disparities between official and self-reported employment rates.²⁵ Many respondents also reported high levels of uncertainty regarding their future employment status (Figure 9 right). This study concluded that the categories of employment, informal employment, unemployment, discouraged worker status, and inactivity should be viewed as points on a continuum rather than as discrete categories. Significant movement between these categories may exist, and the boundaries between them may be very fluid. Still, there can be little doubt that many workers in the region labour in conditions of informal, precarious, and vulnerable employment.

These results are consistent with previous estimates of those vulnerable to falling into poverty, (i.e., those who are located not far above poverty thresholds). Slay *et al* (2015) use poverty thresholds of PPP\$5.40/day and PPP\$10/day and POLCALNET data to show that the vast majority of the population in Tajikistan, Kyrgyzstan, Georgia, Armenia and Moldova has been either poor or vulnerable to income poverty over the last two decades. They also find that, despite improvements in poverty (measured using the PPP\$4.30/day threshold), there has been little progress in reducing the numbers of people vulnerable to poverty (measured using the PPP\$10/day threshold). Approximately 67 million people in the 15 countries examined were found to be living in poverty, or vulnerable to poverty, using the PPP\$4.30/day and the PPP\$5.40/day thresholds, respectively. (Slay *et al*, 2015, pp29-39). Assuming that labour income accounts significant shares of vulnerable household incomes, low quality employment can be assumed to be affecting the vulnerability risk of quite sizeable shares of the population.

Labour migrants

²⁵ World Bank, 2015, Promoting Labor Market Participation and Social Inclusion in Europe and Central Asia's Poorest Countries.

Labour migration is another response to unequal access to employment opportunities in the region. Migration varies in character (formal, informal), nature (seasonal, circular, permanent), and vis-à-vis state borders (internal versus external migration). But for many vulnerable households—especially in rural areas—external migration has become a primary coping strategy in response to the lack of decent work opportunities. Likewise, remittances have become a substitute for social protection systems for migrants' families.²⁶



UNDP calculations, based on UNDESA migration (country of origin) and population data.

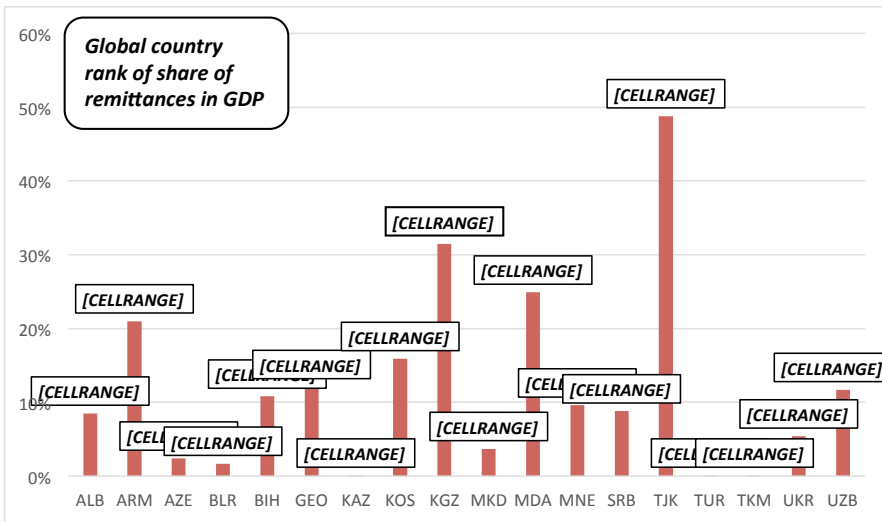
Migration and remittance flows are particularly important in Central Asia: as of mid-2015 citizens from Kyrgyzstan, Tajikistan, and Uzbekistan accounted for around one third of registered foreigners in Russia (despite the absence of common borders) and for nearly three quarters of registered foreigners in Kazakhstan.²⁷ Whereas Russia is the primary destination for migrants from the Caucasus and Central Asia, EU countries are the primary destination for migrants from the Western Balkans—more than 100,000 temporary residence permits are issued annually in EU countries for citizens from the Western Balkans. Migration flows from Ukraine and Moldova are more evenly split. Remittance flows from Russia to these countries are likewise substantial: four CIS countries (Tajikistan, Kyrgyzstan, Moldova, and Armenia) are typically among the world's largest recipients of remittances (relative to GDP); data indicate more than 90% of these flows come from Russia.²⁸

Figure 10. Remittances inflow as share of GDP in 2013

²⁶ International Organization for Migration, 2015, Migration Facts and Trends: South-Eastern Europe, Eastern Europe and Central Asia. As a result of high labour migration, some of the region's economies have become highly reliant on remittance incomes: remittance flows are among the highest in the world - Armenia, Kyrgyzstan, Moldova and Tajikistan are all among top 10 countries for remittances as a proportion of GDP

²⁷ UNDP, 2015, Labour Migration, Remittances, and Human Development in Central Asia.

²⁸ UNDP, 2015. Georgia, Kosovo, and sometimes Uzbekistan are often in the world's top 20 by this indicator.



Source: World Bank staff calculations <http://go.worldbank.org/092X1CHHD0>

These migration and remittance flows can clearly help to reduce poverty. In Kyrgyzstan, for example, household budget survey data indicate that remittances yearly reduce the numbers of people living below the poverty line by 250,000-300,000. One study finds that labour migration is absorbing a third to one half of Kosovo's new labour market entrants every year. Kosovar migrants report that spending time abroad improves their prospects for finding decent employment upon returning home.²⁹ However, these flows also have their drawbacks. For one thing, they are strongly pro-cyclical, meaning that an economic downturn or tighter migration rules in Russia can lead to dramatic declines in remittance flows. Because much of this migration is highly irregular, workers often have no choice but to engage in more precarious forms of migratory employment, without social protection. Migration may also increase disparities between remittance-receiving and other households.³⁰ And because migrants workers rarely contribute to social insurance funds in either countries of origin or destination, migration flows are likely to mean growing future pressures on the financial sustainability of old-age pension systems.

Youth employment

Young people often have particularly unequal labour market status in the region. Only one third of the youth population is employed, and a recent ILO study finds that youth unemployment is expected to increase in the next five years.³¹ Labour force participation rates among the youth are often well below 50%; in some countries, such as Moldova, it is as low as 20% (Figure 11 below). While low participation rates among the youth do not necessarily imply poor labour market performance (many young people may choose to study longer), low youth employment rates in the region are often accompanied by high rates of youth not in education, employment or training (NEET).³² The labour market impact of the 2008-2009 global financial crisis

²⁹ UNDP, 2014, Kosovo Human Development Report 2014: Migration as a force for development.

³⁰ See Falzoni, A. and Soldano, K., 2014, *Remittances and inequality in Eastern European countries*; and Peterski, M. and Jovanovic, B., 2013, "Do Remittances Reduce Poverty and Inequality in the Western Balkans? Evidence from Macedonia".

³¹ ILO, 2015, Global employment trends for youth 2015: scaling up investments in decent jobs for youth.

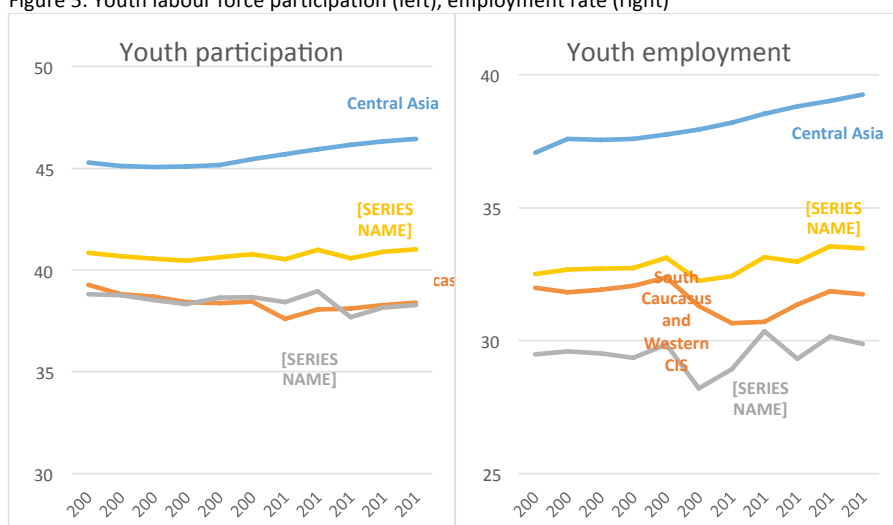
³² Mauro, J. A. and Mitra, S., 2015, Understanding out-of-work and out-of-school youth in Europe and Central Asia. Figures for 15-24 age group, post-2009.

within the region was much greater for youth than for other workers.³³ Youth employment rates continue to decline or are stagnant.

The highest rates of youth unemployment are reported in Southeast Europe: in Bosnia and Herzegovina, Serbia, and the former Yugoslav Republic of Macedonia more than half of young people are unemployed. These are some of the highest youth unemployment rates reported globally. The youth labour market situation is particularly severe in the former Yugoslav Republic of Macedonia, where a recent study found that only about a third of youths are economically active (of which more than one-half is unemployed)—and only a sixth are in regular employment.³⁴ Three quarters of those seeking a job have been doing so for more than a year. While many youth who are not in employment are studying, one-quarter of the youth population is both out-of-school and out-of-work.

Labour market exclusion concerns are also apparent in the South Caucasus and Western CIS countries, where the labour participation rate for youth fell from 55% in 2000 to 37% in 2013. Youth unemployment rates likewise range from around 30% (in Armenia and Georgia) to 14% (in Moldova)—slightly above the global average of 13%. In all of these countries except for Moldova, over half of this youth unemployment has a long-term character (one year or longer).³⁵ Migration is also a common coping strategy—particularly in Armenia and Moldova (which typically rank in the world’s top 10 countries in terms of the ratio of remittance inflows to GDP). Youth unemployment rates tend to be particularly high among the less-educated: in Ukraine, for example, close to 70% of youth with only primary education are unemployed.³⁶

Figure 5. Youth labour force participation (left), employment rate (right)

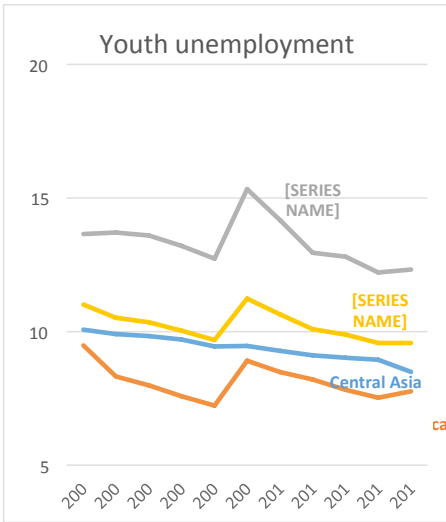


³³ ILO, 2014, Global Employment Trends. Figure for 2013. ILO regional estimates include Croatia and the Russian Federation.

³⁴ Elder, S., Novkovska, B., Krsteva, V., 2013, Labour market transitions of young women and men in the former Yugoslav Republic of Macedonia. See also Mojsosvska, S. and Janeska, V., 2014, Economic and Social Implications of the Youth Unemployment in the Republic of Macedonia. *Journal of Social Policy*, 7(11), 11-44.

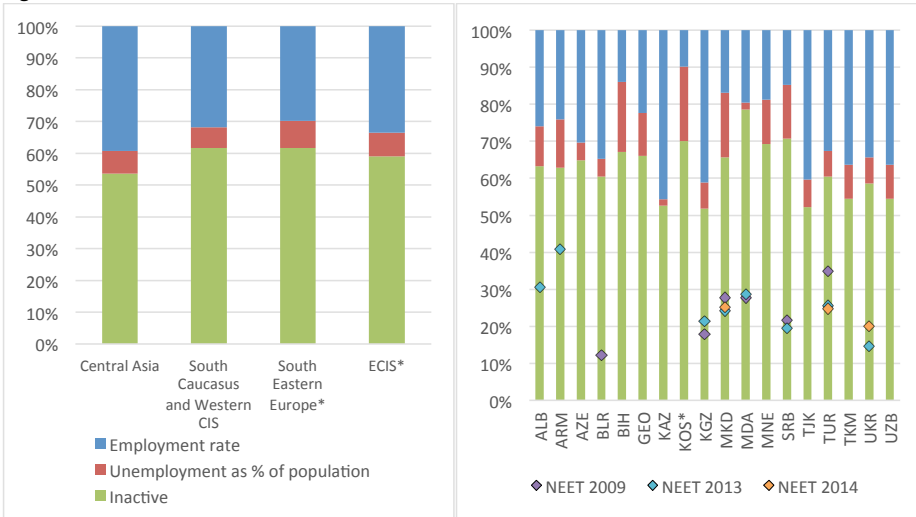
³⁵ Elder, S., Barucci, V, Gurbuzer, Y., Perardel, Y. and Principi, M., 2015, Labour market transitions of young women and men in Eastern Europe and Central Asia. Based on a survey of five countries of the region (Armenia, Moldova, FYR Macedonia, Ukraine, Kyrgyzstan), and Russia. Figure for Georgia is obtained from ILO KILM 8th ed.

³⁶ Ibid.



Source: Calculations based on ILO, 2015, KILM 9th ed. * except for 2012, averages do not include Kosovo under UNSCR 1244.

Figure 6. Youth labour force in 2014



Source: Calculations based on ILO, 2015, KILM 9th ed. *Averages do not include Kosovo under UNSCR 1244; Kosovo data for 2012.

Youth labour force participation data may be misleading in that young people may improve their job market prospects by remaining in school rather than actively seeking employment. However, in most of the region, between a quarter and a third of youth populations are “not in employment, education, or training”

(NEET). NEET rates reported in the region range from around 40% (Armenia, 2009) to around 12% (Belarus), with many countries in the 25-30% range (Figure 12).³⁷

In most of the region, young women are more likely to be out-of-work and out-of-school than young men. This difference is particularly pronounced in Central Asia, where the sub-regional NEET average is 37% for women compared to 19% for men.³⁸ A similar pattern is apparent in Turkey: whereas female NEET rates reach 35%, for young men they are around 15%. Young men are more likely to be unemployed non-students, while young women tend to be inactive non-students: young men are looking for (regular) jobs while young women are not.

While unemployment and NEET rates among youth in the region are worrisome, the quality of employment of those who are working may be of equal concern. The data that are available suggest that youth are more likely to work informally, without written employment contracts (in Armenia this is the case for almost one in four youth employees³⁹), or as contributing workers in their families' businesses—often without social protection or regular remuneration. In Armenia and the former Yugoslav Republic of Macedonia, this form of employment has been assessed at 17% and 22% of total youth employment, respectively.⁴⁰ In Kyrgyzstan, one study found that more than a third of young people in rural areas were working on family farms (or in family businesses) six years after leaving education.⁴¹

Groups at particular risk of labour market exclusion

UNDP's 2011 Regional Human Development Report found that individuals living with disabilities, or who are members of an ethnic minority, are at greater risk of economic and social exclusion. However, whether these risks are translated into actual exclusion depends on how they interact with risk drivers (i.e., institutions, norms, policies) and contexts (i.e., such local factors as residence in rural or urban areas, as well as in mono-company towns; access to public transport and economic infrastructure). When policies to promote inclusion (or the institutional capacity needed to implement such policies) are absent, labour market exclusion can trigger vicious circles of social and economic exclusion—further depressing prospects for labour market inclusion.⁴²

Drivers of labour market exclusion may differ between countries. Barriers to employment can arise from systemic exclusion based on gender, ethnicity, or geography. In Montenegro, geography is an important factor as long-term unemployment rates in the country's rugged northern interior are more than double those reported in the southern coastal regions.⁴³ The position of Roma—one of the region's largest ethnic minorities—is an illustrative example of a group facing an elevated risks of labour market exclusion, and from there exclusion more broadly. Survey data indicate that Roma unemployment rates in 2011 in much of the Western Balkans reached 50%—well above not only national unemployment rates, but also the unemployment rates reported for non-Roma communities located in close proximity to Roma neighbourhoods or settlements (Figure 13). These survey data also show that joblessness rates (reflecting both the unemployed and discouraged workers) reported for Roma women were well above those for Roma men—as well as for non-Roma women (Figure 14).⁴⁴

³⁷ Mauro, J. A. and Mitra, S., 2015. Tajikistan data from 2007 and 2009.

³⁸ Ibid. Sub-regional averages use available data; some country data is missing.

³⁹ Youth Studies Institute, Armenia, 2013.

⁴⁰ Elder, S. *et al.* 2015. SWTS surveys 2012-2013.

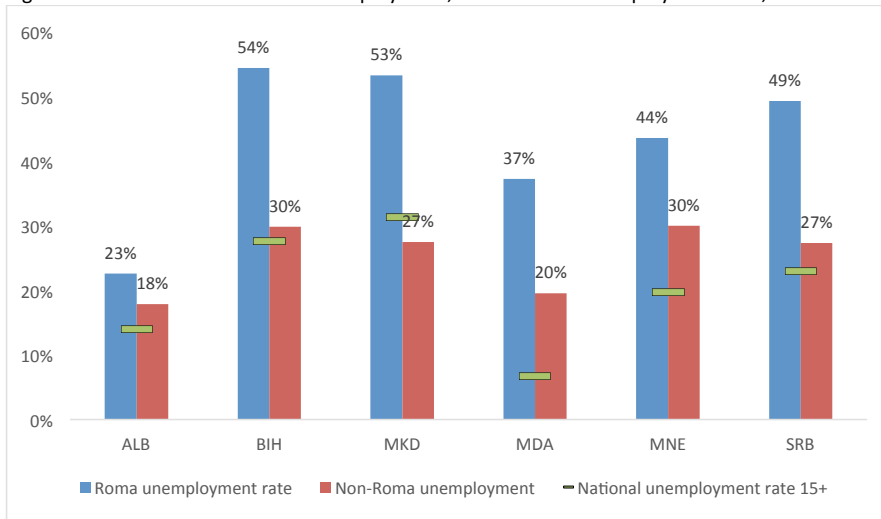
⁴¹ ETF (2013), Transition from school to work in Kyrgyzstan. Results of the 2011/12 transition survey, Turin.

⁴² UNDP, 2011, Beyond Transition: Towards Inclusive Societies.

⁴³ ETF, 2011, Long-Term Unemployment in Northern Montenegro: From Analysis to Action.

⁴⁴ The UNDP/WB/EC Regional Roma Survey, 2011 compared socio-economic position of Roma communities with non-Roma communities living in close proximity in Albania, BiH, Kosovo, Macedonia, Moldova, Montenegro and Serbia (and New EU Member States)

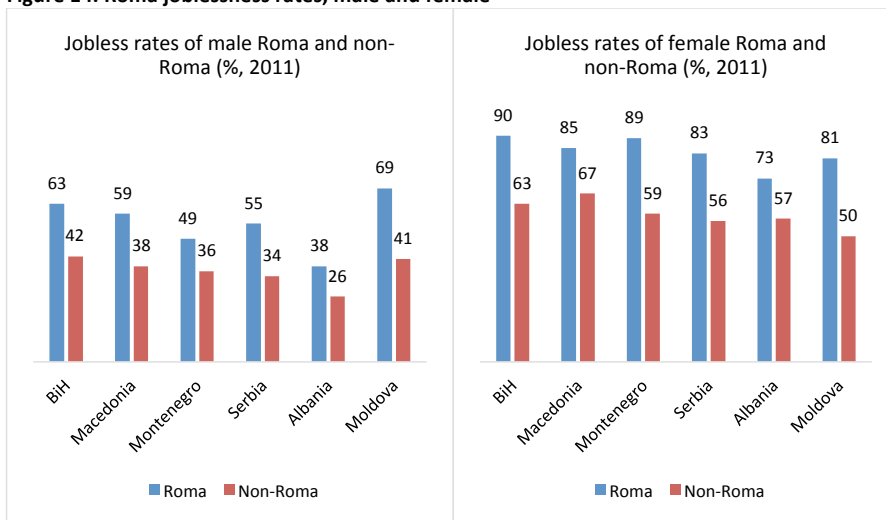
Figure 13. Roma and Non-Roma Unemployment, and national unemployment rate, 2011



Source: UNDP/WB/EC Regional Roma Survey 2011.

Unequal employment outcomes are also apparent in the wages earned by those Roma who do manage to find jobs—which in 2011 were found to be 45%-80% of the wages earned by non-Roma. Roma women’s wages were found to amount to only 45% of those earned by non-Roma men, and 54% of the wages earned by non-Roma women. Roma youth are likewise at greater risk of experiencing labour market exclusion than non-Roma youth: the 2011 survey data indicate that unemployment rates for Roma youth are well above national and non-Roma unemployment rates (Figure 16).

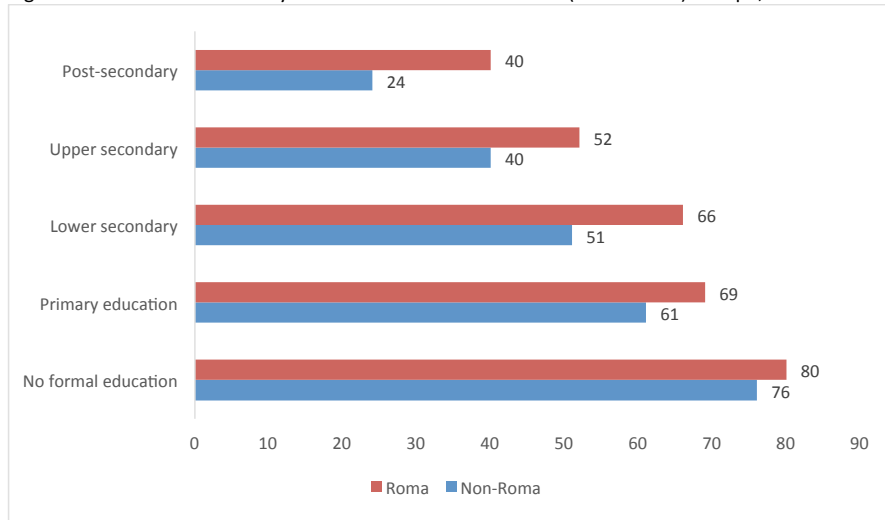
Figure 14. Roma joblessness rates, male and female



Source: UNDP/WB/EC Regional Roma Survey 2011.

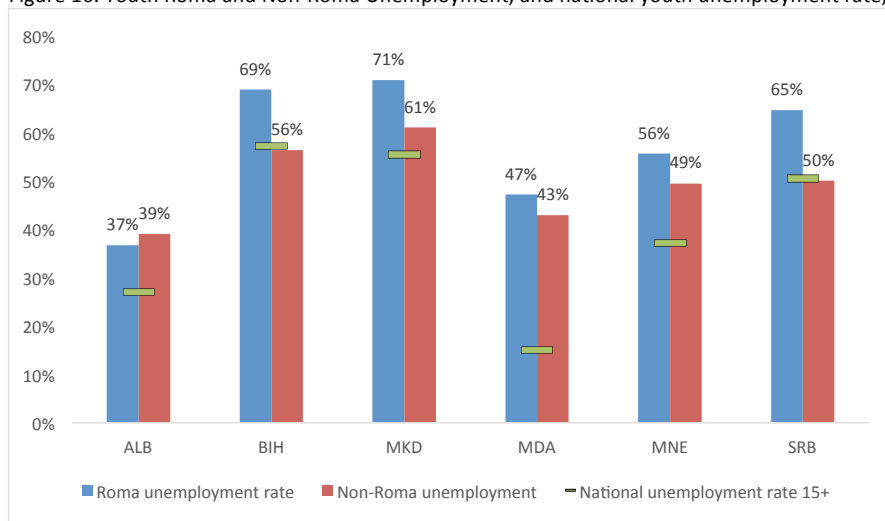
The 2011 survey data also suggest that discrimination contributes to Roma labour-market exclusion. As the data in Figure 15 show, differences in joblessness between Roma and non-Roma living in close proximity to Roma settlements are minimal for persons with no formal education. However, while joblessness rates decline as education levels rise for both Roma and non-Roma, these declines are much steeper for non-Roma. Since neither education levels nor location can explain these differences, employer reticence to hire “the other” may offer at least a partial explanation.

Figure 15. Joblessness rates by education levels in Southeast (and Central) Europe, 2011



Source: UNDP/WB/EC Regional Roma Survey 2011.

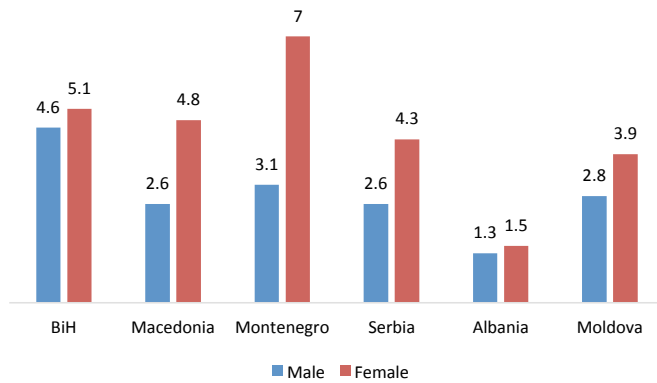
Figure 16. Youth Roma and Non-Roma Unemployment, and national youth unemployment rate, 2011



Source: UNDP/WB/EC Regional Roma Survey 2011.

These survey data also point to extensive Roma engagement in the informal economy. In Albania, 87% of working Roma men, and 79% of Roma women, were employed informally in 2011. The intensity of informal employment was particularly strong in Bosnia and Herzegovina, as well as in Montenegro (Figure 17). As formal-sector employment is a precondition for eligibility for many forms of social protection, Roma households' extensive engagement in the informal sector may also imply their exclusion from social protection and social services. More than one half of Roma respondents participating in the 2011 survey reported difficulties in acquiring medicines, compared to one in four non-Roma survey respondents.⁴⁵

Figure 17. Ratio of Roma to non-Roma prevalence of informal employment



Source: UNDP/WB/EC Regional Roma Survey 2011. Involvement in informal employment is defined as the percentage of workers (15-64) who are not paying health or pension contributions.

The above analysis strongly suggests that significant numbers of workers in the region are facing significant risks of labour market exclusion, which can easily translate into risks of social exclusion more broadly. The problem is not just lack of jobs—it is a lack of decent jobs. These numbers correspond to estimates of the numbers of individuals who have incomes close to poverty lines, and who could easily slip into poverty—which, given the predominance of precarious and vulnerable employment in the region, could easily happen. Since wages are the main source of income for poor and vulnerable households, shifting the pattern of growth so that the benefits accrue most robustly to low-income households requires, first and foremost, the accelerated creation of well-paying income- and employment-generation opportunities.

Policies and programming for labour market inclusion

In some respects, prospects for generating significant numbers of decent jobs in the region depend on factors beyond government control. These include in particular growth rates in key global and regional export markets, the prices of key exports, and the like. However, governments can undertake measures to increase employers' willingness to higher workers in the formal sector. These include:

- **Reducing social-security and other taxes on labour.** These revenue losses can be offset by: (i) higher taxes on carbon-intensive and other environmentally unsustainable activities; (ii) reductions in tax

⁴⁵ UNDP / Ivanov, A., Kagin, J., 2014, Roma poverty from a human development perspective.

breaks or budget subsidies that accrue primarily to wealthy households; and (iii) more aggressive measures to reduce the diversion of budget revenues to tax havens.

- **Raising the profile of employment policies** within overall policy frameworks. While “getting the overall growth framework right”, and improvements in business and commercial environments are clearly necessary condition for employment growth, they are not sufficient conditions. Whole-of-government approaches, in which responsibilities for implementing national employment strategies are clearly assigned to all relevant government bodies needed instead. In practice, however, employment is typically “embraced by everyone, but owned by no one”.
- **Investments in state capacity** are often needed in such areas as public employment services, national labour policy coordination structures, and platforms for dialogue and employment partnerships between the private sector, government, and civil society partners (including labour unions). Public employment services in particular have particularly important roles to play in addressing labour market exclusion. Stronger regional- and local-level presences, better use of employment-relevant e-governance platforms, and stronger abilities to coordinate and partner with other institutions—in the state (e.g., social service offices, vocational training centres), private sector (employers) and in civil society (e.g., NGOs representing vulnerable groups)—all this (and more) is needed.
- **Be willing to address labour-market discrimination**, particularly as concerns ethnic minorities (e.g., Roma) but also women. In some cases, improvements in institutional capacity among labour offices and NGOs may be enough to redress deep-seated labour market exclusion. In other cases, however, public awareness campaigns and other, legal measures to tackle discrimination may be needed.

Social protection and social inclusion

Inequalities in employment opportunities, and their links to social exclusion, have important implications for social protection systems. The emergence of extensive informal employment has put considerable financial strain on poorly-financed social protection systems. At the same time, employment and social protection systems that were designed to work in near-full employment conditions have not been flexible enough to meet the needs of those most at risk of labour market or social exclusion. This combination has commonly led to the design and implementation of social policy reforms that have focused on reducing the size and coverage of social assistance benefits—despite the paucity of decent jobs.

When combined with labour market policies, social protection has the double role of: (i) promoting decent employment (with social insurance coverage); and (ii) providing income support to those who find themselves without employment. When social protection systems are ineffective, the loss or lack of employment can create vicious cycles of exclusion. These in turn can be aggravated by the lack of reforms in, and inadequate coordination between, public employment services and social protection agencies—with the latter focusing on mediation, and the former on administration of benefits. Vocational education, labour market, and social protection policies are often fragmented across different sectors, with inadequate instruments for inter-departmental coordination. The significance of these problems can be further magnified by the fact that labour market data and indicators are not always “fit for purpose” (as explained above).

Social protection can be understood in different ways. Here we refer to social insurance (pensions, maternity leave, sick leave, invalidity pension) based on contributory schemes; (ii) social assistance based on tax-financed support to the poor or vulnerable; (iii) locally provided social support services to households (including for the elderly living alone, families with members who have disabilities); and (iv) active labour market measures aimed at helping the unemployed population find a job.

In all the countries of the region except Turkey, broad social protection systems featuring both contributory social insurance⁴⁶ components and non-contributory⁴⁷ components were in place prior to the 1990s. Combined with generally tight labour market conditions, the subsidies for basic goods and services that were available prior to the 1990s, and extensive public investment in the provision of health, education, and other social and communal services (some of which were provided by the state- or socially owned enterprises, or public administration, in which most people worked), these systems provided households with high degrees of economic security—much of which was codified in legal/constitutional “rights” to “free” health, education and other services. However, these systems were also quite bureaucratic in nature, and were less effective in resolving problems of social exclusion that required local solutions, or could not otherwise be addressed by regional development or public works programming.

The economic transitions that took hold in the 1990s presented huge challenges for these social protection systems. The emergence of extensive labour-market informality and irregular migration flows, often combined with demographic trends that have increased the numbers of pensioners relative to the workforce, have threatened the financial sustainability of contributory pension schemes and left growing numbers of workers uncovered by social insurance systems. Social assistance programmes have been expanded, in order to both address these challenges and compensate for reductions in labour market security and in subsidies for basic goods and services. However, fiscal considerations, concerns about further weakening incentives for labour force participation, and technical difficulties in setting appropriate eligibility criteria (minimizing errors of inclusion and exclusion) have limited the scope and effectiveness of these programmes. Moreover, some countries have emphasized the provision of social assistance to “deserving” social groups (e.g., war veterans) whose members may not necessarily be among the most poor or vulnerable.

The World Bank’s ASPIRE data base can be used to address questions about the size and nature of the resulting gaps in social protection coverage. Data in Figure 18 indicate that both social insurance and social assistance programmes reduce poverty and inequality (Gini) indicators across the region. However (apart from in Azerbaijan), social insurance (presumably pensions) has the greater impact—reflecting relatively large benefit sizes and numbers of beneficiaries. However, the data in Figure 19 indicate that in most countries, less than quarter of all social protection beneficiaries are in the poorest quintile—suggesting large coverage gaps among the most vulnerable. Moreover, non-contributory social assistance covers only a small proportion of the poorest 20%. Social protection systems in Kazakhstan, Kyrgyzstan, and Tajikistan seem to be particularly lacking: in coverage of the poorest, spending, and in poverty and inequality impact. By contrast, Ukraine and Belarus appear to achieve impressive reductions in poverty and inequality thanks to higher-than-average spending and good coverage of the poorest quintile.

Social protection in Central Asia. Coverage of both social insurance and social assistance in Kazakhstan, Kyrgyzstan, and Tajikistan is the most limited in the region—particularly for the poorest section of the population (Figure 19).⁴⁸ The importance of formal labour market status in determining eligibility for many forms of social insurance excludes significant portions of the labour force in the latter two countries, who engage in irregular migration. Moreover, support for the so-called working poor (i.e., households with employed adults) is almost total absent. Remittance inflows therefore serve as a substitute for formal social protection systems (at least in Kyrgyzstan and Tajikistan). However, the labour migration that generates these inflows also reduces contributions to social insurance systems, which both reduces their financial sustainability and deprives migrants of access to future pensions and other benefits. Social protection systems in Tajikistan and Kazakhstan appear to be quite ineffective in relieving poverty among the poorest, while Kyrgyzstan can report moderate success in this respect (Figure 19). Tajikistan in particular is facing urgent challenges of better targeting social assistance to poor families that do not receive remittances.⁴⁹

⁴⁶ Insurance against risks of unemployment, employment injury, disability, sickness, maternity, and old age.

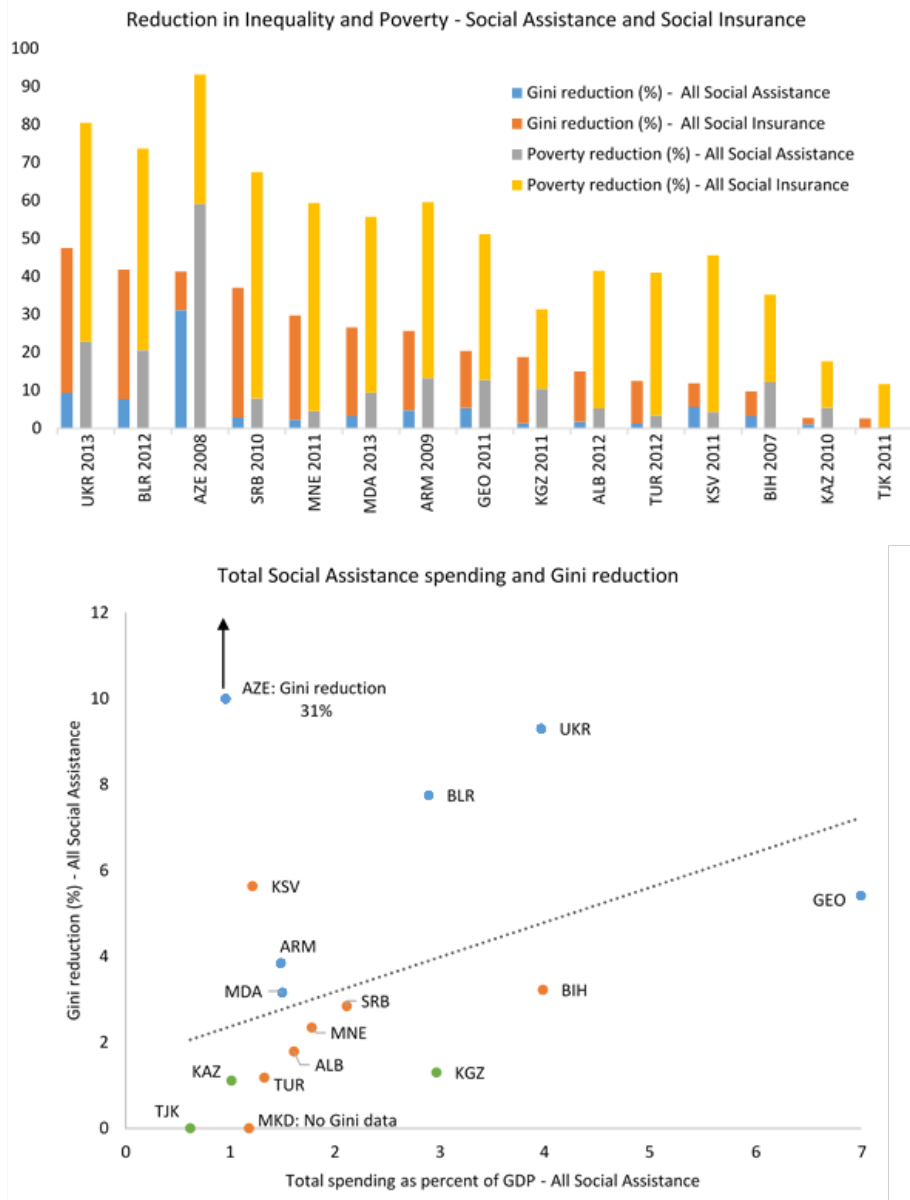
⁴⁷ Social assistance of last resort; social pensions, some disability related allowance, child and birth allowance, housing and utility support.

⁴⁸ Comparable data for Turkmenistan and Uzbekistan are not available.

⁴⁹ Amir, O. and Berry, A., 2013, Challenges of Transition Economies: Economic Reforms, Emigration and Employment in Tajikistan. In: UNDP, Social Protection, Growth and Employment: Evidence from India, Kenya, Malawi, Mexico and Tajikistan, 2013.

Social protection in Southeast Europe. With the exception of Kosovo, social protection systems in this sub-region are poorly targeted, with the poorest quintile often receiving less than 20% of total benefits (Figure 19 top left). This results in part from the presence of categorical benefits that are not linked to income status. In Bosnia and Herzegovina, for example, over half of all social protection spending is allocated to war veterans; high spending on categorical benefits is also present in Albania and Serbia.

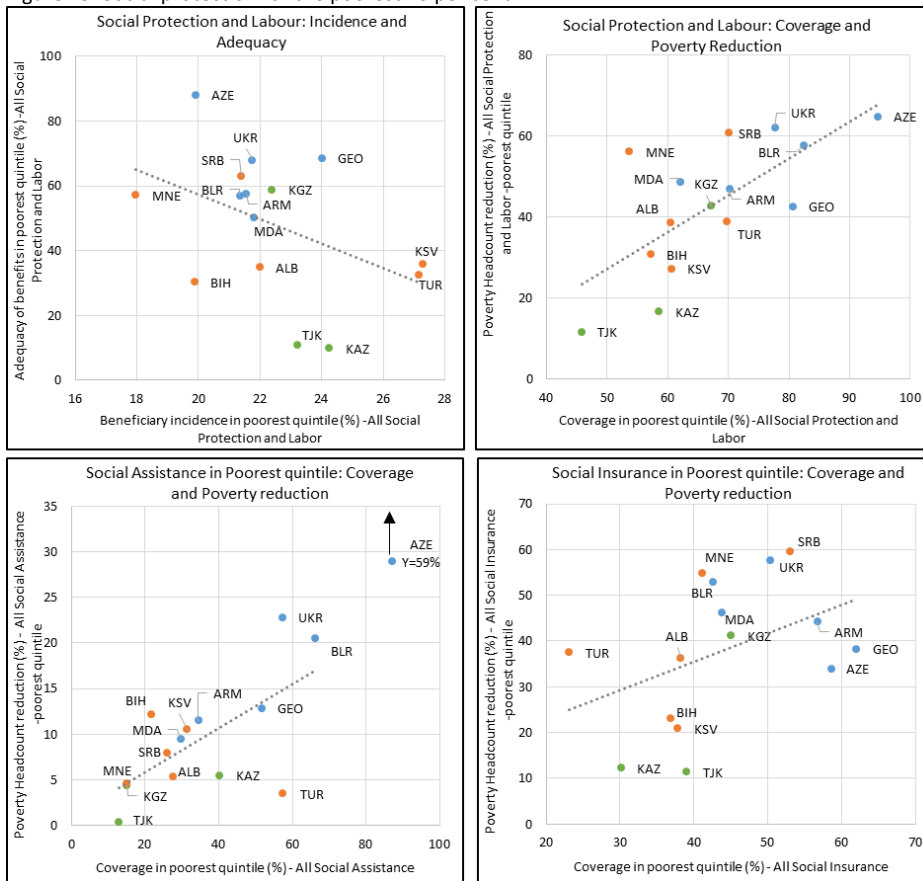
Figure 18. Impact of Social Protection on Inequality and Poverty⁵⁰



Source: World Bank ASPIRE database, no data for Uzbekistan and Turkmenistan. Bottom: regression line calculation does not include AZE (outlier) and MKD (missing data). ALB 2014/2012; ARM 2012/2013; BLR 2013/2012; BIH 2011/2007; GEO 2013/2011; KAZ 2012/2010; ; KSV 2013/2011; KGZ 2013/2011; MDA 2013/2013; MNE 2013/2011; SRB 2013/2010; TJK 2012/2011; TUR 2013/2012; UKR 2013/2013; MKD 2012/NA; AZE 2011/2008.

⁵⁰ In these scatter plots, country points are color-coded by sub-region: SEE – orange; CA – green; SC and WCIS – blue.

Figure 19. Social protection for the poorest 20 per cent



Source: World Bank ASPIRE database. No data for MKD, UZB and TKM. ALB 2012; ARM 2013; AZE 2008; BLR 2012; BIH 2007; GEO 2011; KAZ 2010; KSV 2011; KGZ 2011; MDA 2013; MNE 2011 SRB 2010; TJK 2011; TUR 2012; UKR 2013. Adequacy is defined as the amount of transfers received by the poorest quintile divided by the total income or consumption of the beneficiaries in that quintile. Beneficiary incidence is defined as the number of beneficiaries in the poorest quintile relative to the total number of beneficiaries in the population. Bottom-left: AZE excluded from trendline calculation

Throughout the Western Balkans, large numbers of elderly are not covered by any kind of pension (Albania—where old-age pension coverage is quasi-universal—is a notable exception⁵¹). In Serbia, up to one-third of the over-65 population elderly may not be covered by any kind of pension.⁵² In Kosovo, by contrast, a complete re-design of the social protection system seems to have contributed to improvements in poverty and inequality (Figure 19Error! Reference source not found. top)—thanks in part to the introduction of a simple, universal old-age pension. Eligibility for unemployment benefits tends to be quite broad in this sub-region, and registering and receiving unemployment status makes further benefits available

⁵¹ European Commission, 2009, Social Protection and Social Inclusion in the Western Balkans: A Synthesis Report.

⁵² European Commission, 2008, Social Protection and Social Inclusion in the Republic of Serbia: Executive Summary.

(child/maternity/welfare/veteran benefits, as well as health insurance and pensions). This is not the case in Turkey, where only unemployment benefits are available for the registered unemployed. In the former Yugoslav Republic of Macedonia, however, access to unemployment benefits is very restricted. In Albania, as well as in the former Yugoslav Republic of Macedonia, individual farmers cannot register for unemployment benefits⁵³—a particular issue in Albania, where some 40% of the workforce is engaged in agriculture. On the other hand, recipients of unemployment benefits in other countries may be involved in informal economic activities. However, those unemployed for long periods of time are often ineligible for adequate support. A recent European Commission study which included FYR Macedonia, Serbia, and Turkey found that most services addressing the long-term unemployed are not particularly effective.⁵⁴

Social protection in the South Caucasus and Western CIS. Wide variance in social protection performance is apparent in these countries. On the one hand, in Ukraine and Belarus both social assistance and social insurance programmes enjoy relatively good coverage of those most in need (Figure 19 bottom), and are overall quite successful in both reducing poverty and inequality (Figure 19 top). However, the replacement rates of social insurance (contributory) programmes, and in particular of unemployment insurance, are low—reducing their effectiveness. (This is particularly the case in Moldova, where the entitlement period is very short and where contributions are limited by high rates of labour emigration.) While poverty in Belarus and Ukraine is far less widespread than in other parts of the region, it is more concentrated in certain social groups—such as those without formal incomes, or people living with disability.

In the South Caucasus countries, by contrast, social insurance systems (i.e., pensions) appear to have generous coverage among the poorest—but social assistance is much less effective. Oil-rich Azerbaijan is an exception, where over 90% of the poorest receive some sort of benefit (Figure 19 top right), and where social protection makes up over 80% of the poorest quintile beneficiaries' consumption (Figure 19 top left). Many structural shortcomings are apparent in these systems—in Georgia, for example, unemployment benefits are non-existent. While unemployment benefits exist in the other South Caucasus countries, their levels are quite low. Moreover, because these are financed on a contributory basis, workers in the informal sector who do not contribute to the unemployment compensation fund are unable to claim benefits from it.

While social protection systems across the region have generally retained their coverage and scope on paper (see Annex 1), large gaps in coverage and quality have emerged in practice. Inequalities in labour market access are in this way extended and amplified as social exclusion. Limitations on state abilities to deliver on social protection obligations are often offset via such coping mechanisms such as remittances, precarious employment, and family support. This “informalized” social protection⁵⁵ can also lead to large out-of-pocket spending for required services, further diminishing equality of opportunities and outcomes and increasing risk of social exclusion.

Social protection and labour market policies—Getting the links right

Extensive labour market informality in the region excludes significant numbers of workers from social protection systems and threatens their financial sustainability. Many governments have sought to address these challenges by (further) raising already high social security taxes: a recent World Bank report⁵⁶ notes that, in the Western Balkans, social security levies and other taxes in labour account for over 30% of wages. This tax wedge is even larger for low-wage and part-time workers. However, these high taxes themselves play a major

⁵³ ETF, 2011, *Activating the Unemployed: Optimising Activation Policies in the Western Balkans and Turkey*. European Training Foundation.

⁵⁴ Bouget, D., Frazer, H., and Marlier, E. with Peña-Casas, R. and Vanhercke, B., 2015, *Integrated support for the long-term unemployed: A study of national policies*. European Commission.

⁵⁵ Drahokoupil, J. and Myant, M. (2009) *Varieties of Capitalism, Varieties of Vulnerabilities: financial crisis and its impact on welfare states in Eastern Europe and the Commonwealth of Independent States*. *Historical Social Research* 35, 266-298.

⁵⁶ Arias, O., and Sánchez-Pármio, C., 2014.

role in driving employment, and economic activity, into the informal sector. Efforts to break this vicious cycle must therefore focus on reducing this tax burden on labour.

Box 3. Does it pay to formalize informal employment in Serbia?

In Serbia, the formalization of informal employment means that social security contributions (e.g., to the pension and health funds, unemployment insurance fund) will have to be paid by both workers and employers. It means that income tax will be withheld from worker's pay checks. Given the high tax wedge and low progressivity of labour taxation in Serbia, the effective tax rate is high. Furthermore, unlike in the former Yugoslav Republic of Macedonia and Bosnia and Herzegovina, social security contributions in Serbia do not vary with hours worked, so part-time workers are disproportionately affected. This can theoretically result in negative net wages for part-time workers. If it leads to the reporting of incomes that would otherwise be hidden, formalization can also mean losing social assistance payments that are linked to formal reported income levels.⁵⁷

As a result, a Serbian worker who takes a low-wage formal job and loses eligibility for unemployment benefits can see 90% of the nominal increase in income due to engaging in formal employment be lost, due to higher taxes and unemployment benefits foregone.⁵⁸ For many working people in Serbia, formal employment simply does not pay. One study found that more than 40% of informal workers in Serbia were earning less than the legal minimum wage in 2008.⁵⁹ Despite the low earnings of informal work, their net income was still higher than what was available in formal jobs.

For these reasons, many workers in Serbia choose to remain in precarious informal employment. Faced with similar circumstances and incentives, the fact that many workers in other countries of the region behave in a similar manner should not come as a surprise.

This vicious cycle also suggests that concerns that social assistance may reduce incentives for labour force participation may be exaggerated. Instead, it is the anticipated loss of unemployment (or other) benefits, combined with the high taxation of labour in the formal sector, that reduces incentives for workers to abandon informal labour (see Box 3). A number of studies from the region bear this out. In Armenia, for example, the receipt of social assistance seems not to have an impact on participation in the formal labour force.⁶⁰ In Tajikistan, social assistance has been found to have a positive effect on employment rates in female-headed households—suggesting that such transfer payments can actually promote social inclusion by strengthening incentives for formal labour force participation.⁶¹

When aligned with well designed active labour market policies, social protection systems can further strengthen incentives for formal labour force participation, reducing social exclusion.⁶² Other labour market-related social services that can promote social inclusion include the care of children, the elderly, and others who are unable to fully take care of themselves. Unfortunately, public provision of childcare is not available in some countries of the region, namely Azerbaijan, Kazakhstan, Tajikistan and Turkey.⁶³ Support for part-time

⁵⁷ Koettl, J., 2013, Does Formal Work Pay in Serbia? The Role of Labor Taxes and Social benefit Design in Providing Disincentives for Formal Work. In: C. Ruggeri Laderchi and S. Savastano (eds.) *Poverty and Exclusion in the Western Balkans*.

⁵⁸ Arias, O., and Sánchez-Pármo, C., 2014.

⁵⁹ Comparison of 2008 LFS and HBS in Koettl, J., 2013.

⁶⁰ World Bank, 2011, Armenia: Social Assistance Programs and Work Disincentives.

⁶¹ World Bank, *forthcoming*, Ethnicity, Conflict and Development Outcomes in the ECA Region. Cited in Arias, O. and Sánchez-Pármo, C., 2014

⁶² See Kuddo, A., 2009, Employment Services and Active Labor Market Programs in Eastern European and Central Asian Countries. World Bank, Social Protection Discussion Paper No. 0918. See also Lehmann, H. and Murayev, A., 2010, Labor Market Institutions and Labor Market Performance: What Can We Learn from Transition Countries? Working Paper 714, Dipartimento Scienze Economiche, Università di Bologna.

⁶³ World Bank, 2012, Women Business and the Law Database <http://wbl.worldbank.org/>.

formal employment is other means through which formal employment can be increased, particularly for women and youth whose other obligations do not allow for full-time labour force participation. This means adjusting the tax burden or social contributions to hours worked, and allowing for a flexible range of part-time contracts in terms of duration.

Of course, many of these measures have fiscal implications. However, alternative sources for funding social services and labour market policies that can reduce social exclusion, and which can offset revenues losses from reductions in taxes on labour, exist. These may include:

- **higher taxes on environmentally unsustainable activities** (e.g., the use of high-sulphur coal to generate electricity);
- **reductions in budget subsidies that support environmentally unsustainable activities** (e.g., fossil fuel production and consumption subsidies), or which accrue primarily to the middle class (e.g., categorical benefits for war veterans) or the wealthy;
- **more aggressive measures to reduce the diversion of budget revenues to tax havens;**⁶⁴ and
- **more robust direction of budgetary procurement and contracting resources to companies (e.g., social enterprises) that explicitly promote social inclusion.**

⁶⁴ The most recent report of the Global Financial Institute on *Illicit Financial Flows from Developing Countries: 2004-2013* finds that the countries in the region on average lose \$65 billion annually in illicit financial flows. If five percent of these flows could be captured as taxes, this would generate an additional \$3.2 billion in budget revenues. (For more, see Dev Kar and Joseph Spanjers, *Illicit Financial Flows from Developing Countries: 2004-2013*, Global Financial Institute, December 2015.)