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Active Labor Market Policy in the Baltic-Black Sea Region

This brief outlines the characteristics of active labor market policy (ALMP) in four countries in the Baltic-Black Sea region: Belarus, Lithuania, Poland, and Ukraine. An analysis of the financing expenditure structure within this framework reveals significant differences between the countries, even for Poland and Lithuania, where the policies are to be set within a common EU framework. Countries also differed in terms of their ALMP reaction to the economic challenges brought about by the Covid-19 pandemic, as Poland and Lithuania increased their ALMP spendings, while Ukraine, and, especially, Belarus, lagged behind. Despite these differences, all four countries are likely to benefit from a range of common recommendations regarding the improvement of ALMP. These include implementing evidence-informed policymaking and conducting counterfactual impact evaluations, facilitated by social partnership. Establishing quantitative benchmarks for active labor market policy expenditures and labor force coverage by active labor market measures is also advised.

Introduction

This policy brief builds on a study aimed at conducting a comparative analysis of labor market regulation policies in Belarus, Ukraine, Lithuania, and Poland. In comparing the structure of labor market policy expenditures, the aim was to identify common features between Poland and Lithuania, both of which are part of the EU and employ advanced labor market regulation approaches. We also assessed Ukraine's policies, currently being reformed to align with EU standards, contrasting them with Belarus, where economic reforms are hindered by the post-Soviet authoritarian regime.

The analysis of the labor market policies for the considered countries is based on an evaluation of the structure of pertinent measures between 2017 and 2020 (Mazol, 2022). We used the 2015 OECD systematization of measures of active labor market policy, as presented in the first column of Table 1.

Our study reveals substantial differences in active labor market policies within the four considered countries. Still, motivated by OECD's approach to ALMP, we provide a range of common policy recommendations that are relevant for each country included in the study. Arguably, aligning with the OECD approach would have more value for current EU and OECD members, Poland and Lithuania, and the aspiring member, Ukraine. However, these recommendations also hold value when considering a reformation of the Belarusian labor market policy.

ALMP Expenditures in Belarus, Lithuania, Poland and Ukraine

Labor market policy comprises of active and passive components. Active labor market policy involves funding employment services and providing various forms of assistance to both unemployed individuals and employers. Its primary objective is to enhance qualifications and intensify job search efforts to improve the employment prospects of the unemployed (Bredgaard, 2015). Passive labor market policy (PLMP) encompasses measures to support the incomes of involuntarily unemployed individuals, and financing for early retirement.

Poland and Lithuania are both EU and OECD members, so one would expect their labor market policies to be driven by the EU framework, and, thus, mostly aligned. However, our analysis showed that the structure of their expenditures on active labor market policies in 2017-2019 differed (Mazol, 2022). In Lithuania, the majority of the funding was allocated to employment incentives for recruitment, job maintenance, and job sharing. From 2017 to 2019, the share for these measures was between 18 and 28 percent of all expenditures for state labor market regulation. In Poland, the majority of funding was allocated to measures supporting protected employment and rehabilitation. The spending on these measures fluctuated between 23 and 34 percent of all expenditures for state labor market regulation between 2017 and 2019.

The response to the labor market challenges during the Covid-19 pandemic in Poland and Lithuania resulted in a notable surge in state labor market policy spendings in 2020, amounting to 1.78 percent of GDP and 2.83 percent of GDP, respectively. Both countries sharply increased the total spending on employment incentives (see Table 1 which summarizes the expenditure allocation for 2020). Poland experienced a nine-fold increase in costs for financing these measures (29.4 percent of total expenditures on state labor market regulation). Meanwhile, in Lithuania, financing for employment incentives increased more than tenfold, amounting to 42.5 percent of all expenditures for state labor market regulation. In both countries it became the largest active labor market policy spending area.

Table 1. Financing of state labor market measures in Baltic-Black Sea region countries in 2020 (in millions of Euro).

Measures	Belarus	Lithuania	Poland	Ukraine
Total, expenses	11.09	1411.13	9367.69	507.53
ALMP:	8.38	656.32	4145.07	149.69
- public employment services	-	27.79	387.19	110.62
- education	1.69	14.27	16.01	11.44
- employment incentives	0.13	599.74	2758.35	9.13
- protected and supported employment and rehabilitation	3.54	4.18	789.14	1.66
- direct job creation	1.34	0	37.21	4.30
- incentives for start-ups	1.68	10.34	157.17	12.54
PLMP:				
- out-of-work income maintenance and support	2.55	754.81	4990.66	357.84
- early retirement	0	0	231.96	0
Unemployment, (% of labor force)	4.77	8.49	3.16	9.13
GDP (current prices, billions of euros)	53.82	49.85	525.72	169.3
Labor market regulation expenditures to GDP, %	0.021	2.830	1.782	0.364

Source: DGESAI, 2023. Author's estimations based on World Bank data (World Bank, 2023), National Bank of Belarus data, National Bank of Ukraine data.

In Ukraine, the primary focus for active labor market policy expenditures was, from 2017 to 2020, directed towards public employment services, comprising 18 to 24 percent of total labor market policy expenditures. Notably, despite the Covid-19 pandemic, there were no significant changes in either the structure or the volume of active labor market policy expenditures in Ukraine in 2020. Despite Ukraine's active efforts to align its economic and social policies with EU standards, the government has underinvested in labor market policy, with expenditures accounting for only 0.33-0.37 percent of GDP between 2017 and 2020. This is significantly below the levels observed in Lithuania and Poland.

In Belarus, labor market policy financing is one of the last priorities for the government. In 2020, financing accounted for about 0.02 percent of GDP, amounts clearly insufficient for having a significant impact on the labor market. Moreover, Belarus stood out as the sole country in the reviewed group to have reduced its funding for labor market policies, including both active and income support measures, during the Covid-19 pandemic. The majority of the financing for labor market policy has been directed towards protected and supported employment and rehabilitation, including job creation initiatives for former prisoners, the youth and individuals with disabilities.

ALMP Improvement Recommendations

As illustrated above, the countries under review do not have a common approach to active labor market policy spendings. Further, countries like Poland and Lithuania took a more flexible stance on addressing labor market challenges caused by the Covid-19 pandemic, by implementing additional financial support for active labor market policies. However, Ukraine and Belarus did not adjust their expenditure structures accordingly. Part of these cross-country differences can be attributed to differing legal framework: Poland and Lithuania are OECD and EU member states, and, thus, subject to corresponding regulations. Ukraine is in turn motivated by the prospects of EU accession, while Belarus currently has no such prosperities to take into account.

Another important source of deviation arises from the differences in current labor market and economic conditions in the respective countries, and the governments' need to accommodate these. While such a market-specific approach is well-justified, aligning expenditure structures with current labor market conditions necessitates obtaining updated and reliable information about the labor market situation and the effectiveness of specific labor market measures or programs. An effective labor market policy thus requires establishing a reliable system for assessing the efficiency of government measures, i.e., deploying evidence-informed policy making (OECD, 2022).

To achieve this, it is crucial to establish a robust system for monitoring and evaluating the implementation of specific measures. This involves leveraging data from various centralized sources, enhancing IT infrastructure to support data management, and utilizing modern methodologies such as counterfactual impact evaluations (OECD, 2022).

Moreover, an effective labor market regulation policy necessitates the ability to swiftly adapt existing active measures and service delivery methods in response to changes in the labor market. This might entail rapid adjustments in the legal framework, underscoring the importance of close cooperation and coordination among key stakeholders, and a well-functioning administrative structure (Lauringson and Lüske, 2021).

To accomplish this objective, it is vital to foster close collaboration between the government and institutions closely intertwined with the labor market, capable of providing essential information to labor market regulators. One of the most useful tools in this regard appears to be so-called social partnerships – a form of a dialogue between employers, employees, trade unions and public authorities, involving active information exchange and interaction (OECD, 2022).

A reliable system to assess labor market policy and in particular to facilitate their targeting, is an essential component of this approach.

Ukraine and Belarus are underfunding their labor market policies, both in comparison to the levels observed in Poland and Lithuania, and in absolute terms. It is therefore advisable to establish quantitative benchmark indicators to act as guidance for these countries, in order to ensure that any labor market policy implemented is adequately funded. Here, a reasonable approach is to align the costs of implementing labor market measures with the average annual levels for OECD countries (which are 0.5 percent of GDP for active measures and 1.63 percent for total labor market policy expenditures (OECD, 2024). Furthermore, it's essential to ensure a high level of labor force participation in active labor market regulation measures. A target standard could be set, based on the average annual coverage from active labor market measures, at 5.8 percent of the national economy labor force, as observed in OECD countries (OECD, 2024).

Conclusion

The countries under review demonstrate varying structures of active labor market expenditures. Prior to the Covid-19 pandemic, employment incentives received the most financing in Lithuania. In Poland the largest share of expenditures was instead directed to measures to support protected employment and rehabilitation. In Ukraine, the main expenditures were directed towards financing employment services and unemployment benefits while Belarus primarily allocated funds to protected and supported employment and rehabilitation. Notably, Lithuania and Poland responded to the economic challenges following Covid-19 by significantly increasing spending on employment incentives, while Ukraine and Belarus did not undertake such measures.

Part of the diverging patterns may be attributable to the countries varying legal framework and differences in the countries respective labor market and economic conditions.

While some of the differences in labor market policies are thus justified, ensuring funding at the OECD level for labor market measures, alongside adequate tools for monitoring and evaluating labor market policies, are likely to benefit all four Baltic-Black Sea countries.

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