SP DISCUSSION PAPER NO. 0920

51698

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November 2009

Social Protection & Labor
THE WORLD BANK

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**Abstract**

This study focuses on internationally accepted labor standards and norms governing the individual employment contract, including ILO conventions and recommendations, EU labor standards (Directives) and the European Community Social Charter (Charter of Fundamental Social Rights of Workers). The study also analyzes relevant provisions in the main labor law of each Eastern European and Central Asian (ECA) country associated with commencing or terminating employment and during the period of employment. References are made to relevant practices from EU15 countries. Overall, despite similar origin of country labor laws, the current set of labor regulations in the region provides a wide array of legal solutions. The minimum content of the employment contract in most ECA countries coincides, and goes beyond, the requirements of the labor standards even in the countries that are non-signatories of relevant treaties. Some of these entitlements, however, have the potential to adversely affect labor market participation.

**Keywords**: Labor law, Labor standards, Employment contract, Working time, Annual leave, Contract termination, Minimum wage.

**JEL classification**: J41, J80, J81, J83, K31.

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## Acronyms and Abbreviations

| | |
|---|---|
| ALMPs | Active labor market programs |
| BEEPS | Business Environment and Enterprise Performance Survey |
| CEE | Central Eastern Europe |
| CIS | Commonwealth of Independent States |
| EBRD | European Bank for Reconstruction and Development |
| ECA | Eastern Europe and Central Asia |
| EPL | Employment protection legislation |
| EU | European Union |
| EUR | Euro |
| FYR | Former Yugoslav Republic |
| GDP | Gross domestic product |
| ILO | International Labor Organization |
| ICT | Information and telecommunication technology |
| LFS | Labor force survey |
| NFBE | Non-financial business economy |
| NGO | Non-governmental organization |
| OECD | Organization for Economic Cooperation and Development |
| Q | Quarter |
| SEE | South East Europe |
| SME | Small and medium size enterprise |
| USSR | Union of Soviet Socialist Republics |

# Introduction[1]

As the result of systemic changes in the economy and society, rather than cyclical only, in the last two decades the world of work has radically changed in Eastern European and Central Asian (ECA) countries.[2] Transition reforms have led to rapid structural shifts in the economy by the ownership of firms, in their structure by sectors, occupations, or skills in demand. Many new alternative forms of engagement and jobs have been generated, including in the informal sector. Widespread non-participation but also unemployment has become a common phenomena. Instead of a state-run planned economy, the rules and regulations of product and labor markets now dominate.

The labor relationship has been influenced by aspects of the sociocultural and psychological transition of the society. The ideologies of employees of the state-owned firms, or state and collective farms, have been replaced by those of owners, employers, entrepreneurs, wage earners of private firms, or the self-employed. These aspects have induced new work ethics and discipline. The previous universal and mandatory system of job security and employment stability has been replaced by a more liberal institutional framework for firings and hirings, and more flexible labor relations overall. These changes have shaped the dynamics and content of labor legislation, and labor market institutions in the region.

In the socialist period, since employment was an obligation of every individual in the working age bracket, participation rates were relatively high.[3] In the pre-reform period, in the USSR, the highest employment rates were registered in the Baltic republics. According to the 1989 census, in Estonia 86.1 percent of the working age population (ages 16-54/59) was engaged in "socially useful work" and 7.7 percent studied in day-time schools; 29.4 percent of pensioners also worked, including almost 60 percent in the first five years after retirement age. Employment rates were also high in other Baltic republics: in Latvia, it equaled 87 percent of working-age population and in Lithuania, 84 percent. The situation was similar in Central Eastern European countries (CEE).

Currently, reflecting the impact of transition reforms on labor markets, the employment rate in the region varies from 43 percent in FYR Macedonia and 45 percent in Serbia to 75 percent in Latvia and 76 percent in Estonia (in 2006; population aged 15-59; UNICEF 2008). Unemployment in turn is as high as 36 percent in Macedonia but only 5.6 percent in Lithuania (Annex Table A1). The overall business environment, including labor legislation and other labor market institutions, heavily contributes to such outcomes.

[1] We would like to acknowledge the valuable comments and suggestions provided by Rita Almeida, Pilar Salgado-Otónel and César Chaparro Yedro in the writing of this paper.

[2] In this paper, ECA countries are divided into three subgroups as follows. EU10: Czech Republic, Hungary, Poland, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Bulgaria and Romania; South East Europe (SEE): Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia and FYR Macedonia; Commonwealth of Independent States (CIS): Belarus, Moldova, Russian Federation, Ukraine, Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan (no data are available on Turkmenistan). EU15 includes Austria, Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.

[3] On the specifics of the Soviet labor market, see, for example, Oxenstierna 1990; Marnie 1992.

At the time of socialism, a job was guaranteed to all graduates. Moreover, graduates had compulsory assignments for their first jobs and as a rule, young specialists had to serve at least three years in their first assignment. Lengthy continuous service, possibly a lifetime spent with the same employer, was the ruling model. Fixed-term or part-time employment was an exception, surrounded by legislative restrictions and limitations, and a change of ownership, bankruptcy and group dismissals were unthinkable.

The right of the employer (e.g., the state enterprise or organization, the state or collective farm) to terminate employment was highly restricted by law and by the bureaucratic barriers created by the trade unions. A worker's lifetime-career was not split into separate periods of individual employment. Instead, it was considered as one continuum, an uninterrupted process, even if it happened to be spent with a series of state employers. This used to mean that rights and benefits, connected to seniority (e.g., notice periods, annual holiday, wage category or certain premiums) were, in general, conditional on an employee's work experience accumulated over the course of a lifetime. Employers had incentives to retain rather than dismiss employees during slow periods (i.e., to fend against unplanned labor shortages). In the rare event that a company was restructured and employees were dismissed, they were always placed with another state enterprise (For a detailed discussion, see Lehoczky et al. 2005).

Within the region, the reconciliation of social and economic functions of the enterprise had been viewed as complementary. The better the economic results of the enterprise and the higher its productivity, the higher would be the social funds for collective consumption and the share of these benefiting each employee. Enterprise-based services and the provision of non-wage benefits included housing, preschool education, recreational facilities, catering, and medical care. Enterprises were responsible for the delivery of family benefits for working parents. Some social activities, such as housing construction or establishing kindergartens, were even incorporated into the state plans and considered to fulfill the state social program. This view contrasts with a purely economic concept of an enterprise, with the sole objective being to maximize profits.

The labor market in the economies of the former Yugoslavia was shaped by the particular legacy of the "self-management" system for enterprises, and the existence of the so-called social ownership, which led to a high level of job protection and overall rigidity, and to widespread labor hoarding (See World Bank 2004).[4] Under the self-management system, employment relationships were not viewed as relationships between two parties, the employer and the employee. Instead, they were viewed as relationships of mutual dependency, reciprocity and solidarity between workers using the resources in social ownership and, on the basis of the right to self-management under the law, deciding themselves on their rights and obligations stemming from the work (Končar 2008).

In the self-management system, changes for economic, technological or other reasons were decided upon by the worker's council. It could be expected that workers would not opt for technological improvements and other organizational changes if job loss was a possibility.

[4] Social ownership was defined as a common property of all people working with resources in a social ownership.

Since there is strong evidence that the origin of a country's laws is an important determinant of its regulatory approach, in labor as well as in other markets (Botero et al. 2004), these and many other historical factors have an impact on the development of labor law in ECA countries. Despite major revisions in the 1990s and 2000s, the ideology of the current labor laws (labor codes) in many countries in the region still dates back to the 1970s, 1980s or early 1990s when the laws were first adopted.

Only two ECA countries still have old laws in effect, albeit amended numerous times. The Code of Laws on Labor of Ukraine (The Labor Code) of 1971, as amended, is the principal legislative act governing employment relationships in Ukraine. It bears the legacy of socialist labor relations, providing fairly strong employee protection and detailed regulations of almost every possible aspect of labor relations (Kupets and Leshchenko 2008). The Polish Labor Code adopted in June 1974, albeit amended numerous times and harmonized with the European Union laws, remains the main and binding labor law in the country.

Various institutional arrangements can provide employment protection: the private market, labor legislation, collective bargaining agreements and, not the least, court interpretations of legislative and contractual provisions. Legislation may set only minimum standards, which are extended by collective agreements. On the basis of these norms, parties – either in a collective or in an individual agreement – are free to negotiate terms exceeding the respective minimum standards.

Labor law, which governs subordinate employment, is based on the need to protect the worker, who is regarded – legally and socially – as being in the weaker bargaining position. Furthermore, in many ECA countries, work can also be performed on the basis of civil law contracts that are used for the work carried out by self-employed persons as well as to govern short-term employment relationships.

Employment law protects workers from arbitrary or unfair treatment while addressing labor market failures to deliver efficient and equitable outcomes, such as insufficient information, potential discrimination against vulnerable groups and incomplete insurance of workers against the risks of losing their job (Pierre and Scarpetta 2007). Reforms in labor legislation primarily affect hired employment in the formal sector, although there is some evidence of spillover effects to the informal sector. Hired employment, which is largely formal, differs significantly by country: from 34-41 percent of the total employment in Albania, Azerbaijan, Georgia and Uzbekistan to 93 percent in Russia and 94 percent in Belarus (CIS STAT 2007).

Employment in civil services and in public services may constitute around half or more of the hired employment in the formal sector in some ECA countries and can be governed by separate pieces of labor legislation – more generous and protective than entitlements in the Labor Code or Labor Act. For example, in Hungary, the 1992 legislation created three laws, with three different types of employment status identified as "employee", "public employee" and "civil servant" (Lehoczky et al. 2005).

Employment in particular firms may also be governed by local (internal) regulatory acts, which define the procedure of work at the enterprise and enumerate duties in greater detail. These acts, however, may not provide conditions for the employees, which would be less favorable than those established by the main labor law, other laws and normative acts.

The main labor law provides only for minimum legislative requirements that employers and employees must comply with on commencing or terminating employment and during the period of employment. Other legislative acts, internal regulations or collective agreements may provide supplementary guarantees to workers.

To this end, this study will first focus on internationally accepted labor standards and norms governing the individual employment contract vis-à-vis three sets of documents.[5] All ECA countries have ratified the eight ILO core Conventions (except Uzbekistan, which has not ratified Conventions No. 87 and 138). These fundamental Conventions, except on the minimum age, will not be a topic of this report.[6] As far as the ratification of other ILO Conventions is concerned, the countries vary significantly from twelve conventions ratified by Uzbekistan and 16 conventions ratified by Georgia to 82 conventions ratified by Bulgaria and 81 conventions by Poland (See Annex Table A2).[7] Next, most ECA countries are bound by the norms of the European Social Charter. This is a document signed by the members of the Council of Europe in Turin, on 18 October 1961 in which they agreed to secure to their populations the specified social rights in order to improve standards of living and social well-being. It was later revised in Strasbourg in May 1996. Nineteen ECA countries have ratified the Social Charter but the number of accepted paragraphs of the Charter varies from 25 in Latvia to 95 in Slovenia (Annex Table A2). In addition, Serbia, Montenegro and Russia have signed the Social Charter.[8] Finally, the EU defines minimum requirements for employment issues through Directives. There are currently 21 Directives in force in the area of Labor Law, the most important of which are also discussed in this paper.[9]

Although formally these three sets of international documents are binding only to signatories, other non-signatory countries are increasingly aligning their labor legislation according to the norms and regulations stipulated in these treaties. The basic provisions and norms listed in the above-mentioned international treaties, conventions and directives form internationally accepted minimum labor standards will be discussed in greater detail in this study. It will also summarize and refer to country implementation reports and other EU and OECD documents.[10]

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[5] For the list of ILO Conventions and Recommendations, and EU legislation discussed in the paper, see Annex Table A1.

[6] ILO core conventions include: the Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87); the Right to Organize and Collective Bargaining Convention, 1949 (No. 98); the Forced Labor Convention, 1930 (No. 29); the Abolition of Forced Labor Convention, 1957 (No. 105); the Minimum Age Convention, 1973 (No. 138); the Worst Forms of Child Labor Convention, 1999 (No. 182); the Equal Remuneration Convention, 1951 (No. 100); and the Discrimination (Employment and Occupation) Convention, 1958 (No. 111).

[7] http://www.ilo.org/global/What_we_do/InternationalLabourStandards/lang--en/index.htm.

[8] http://www.coe.int/t/dghl/monitoring/socialcharter/Presentation/Overview_en.asp.

[9] A Directive is a type of EU law that sets out minimum standards and requires Member States to achieve a particular result by a certain deadline without defining the precise form or method of implementation.

[10] The terms "Implementation", "Compliance" and "Effectiveness" are commonly used interchangeably; however, they are different. *Implementation* refers to the measures taken by states for the conventions to take effect within the framework of their domestic law. *Compliance* looks at whether countries in fact adhere to the provisions of the treaties and implementing measures they have undertaken. This is more difficult than measuring implementation and it goes beyond looking at domestic rules and regulations. Strict (full) compliance is rarely – if ever – achieved. The determination of the 'acceptable level' would in any case prove extremely

Second, the study will analyze relevant provisions in the main labor law of each ECA country, be it the labor code, law or act, law on labor relations, employment contracts act, or law on employment relationships associated with commencing or terminating employment and during the period of employment. It will also analyze the design features of some key issues attached to the individual employment contract. (The list of labor laws from 27 ECA transition countries is presented in Annex Table A3.)[11]

The study is based on a comparative analysis of the main indicators/parameters of the individual contract particular to the labor law of each country. It is intended as a sourcebook for practitioners from the ECA region who are working on reforming the labor legislation in their respective countries. Relevant characteristics of the labor law in ECA countries are largely presented in the Annexes. Therefore, the study will look into suggested labor norms, regulations and entitlements through the prism of ILO-relevant conventions and recommendations, EU labor standards (Directives) and the European Community Social Charter (Charter of Fundamental Social Rights of Workers). The list of relevant ILO Conventions and Recommendations and EU labor legislation is presented in Annex Table A4. References are made to practices from EU15 countries.

The main findings of the paper are as follows:

- Despite common roots, each of the ECA countries has its own history of labor law development, with differing labor market conditions and contrasting legal and social security systems. Some countries, such as Slovenia (1990), Hungary and Estonia (1992), Kyrgyzstan (1994), or Albania, Croatia and Uzbekistan (1995), adopted new labor laws early on while other countries aligned the existing laws to prevailing labor market conditions by amending particular provisions. At that time, the laws still reflected the legacy of the previous system when the legislation was created mainly to govern the employment relationships of persons working for large production enterprises.

- Over the last decade, a second generation of reforms in labor legislation has been carried out in many ECA countries. Ten countries became a member of the European Union, which required transposing the whole *acquis communautaire* into the national labor law, and most other countries have also overhauled their labor laws. In recent years, new labor laws have been adopted in Estonia and Montenegro (2008), the Czech Republic and Georgia (2006), FYR Macedonia and Serbia (2005), and Armenia and Kyrgyzstan (2004). Kyrgyz Republic and FYR Macedonia amended their labor laws in 2009. Legislative reforms in this area are ongoing.

- The minimum content of labor regulations governing the employment contract in most ECA countries coincides, and goes beyond, the requirements of the ILO

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difficult due to the subjective nature of the exercise. Related to compliance is the issue of the *effectiveness* of a treaty. A country may be compliant, but the treaty may be ineffective in attaining its objectives (See, for example, Weiss and Jacobson 1998).

[11] From Bosnia and Herzegovina (B&H), two labor laws are discussed, the Labor Code of the Federation of B&H, and the Labor Code of the Republic of Srpska (the third labor law from Brcko District was not available). Kosovo still has an interim labor law (the Essential Labor Law from 2001). The Labor Code of Turkmenistan was also unavailable.

Conventions, the European Social Charter, or EU Directives even in the countries which are non-signatories of relevant treaties.

- ECA countries are making adjustments in their regulatory frameworks that reduce and eliminate unnecessary rigidities in order to ensure that the benefits to enterprises entering the formal sector outweigh the costs of working within the rules of the formal economy. Overall, in the last two decades reform of the national employment protection legislation has focused on easing existing regulation to facilitate more contractual diversity. Fixed-term contracts, part-time contracts, on-call contracts, zero-hour contracts, contracts for workers hired through temporary employment agencies, freelance contracts, etc., have become an established feature of modern labor markets. Recent reforms are largely associated with easing the recourse to temporary forms of employment while leaving existing provisions for regular or permanent contracts practically unaltered.

- In most ECA countries, collective bargaining is not very widespread and collective agreements are relatively weak. Thus, the role of legislation as a safeguard for workers is much more essential than, for example, in EU15 countries where the majority of workers are somehow covered by collective arrangements. Moreover, very often firm-level trade unions, if any, are under strong management influence. They are unable to push employers to increase wages or at least to pay them on time, to lessen staff reduction and to improve working conditions. Some countries, most notably Montenegro and Romania, have mixed systems with a combination of both law and collective bargaining, giving general or sectored collective agreements the force of law by creating procedures to make them ‘generally binding’.

- Nevertheless, in many ECA countries, the labor law remains in some important ways too prescriptive for today’s realities. Employment protection legislation could be restricted to focus on core and enforceable labor standards, and to provide a greater role for trade unions and employers’ associations in order to determine employment relations through collective bargaining, with the aim of finding the balance between flexibility and security.

The study is organized as follows. In Chapter 1, we briefly discuss the factors that instigate modernization (or “flexibilization”) of the labor laws in ECA countries. In Chapter 2, we present the rules and regulations attached to commencing employment, as well as emerging forms of contractual relationships. In Chapter 3, the focus is shifted towards the establishment of the minimum wage, and implications of minimum wages on labor market outcomes. In Chapter 4, we report provisions associated with leave and holidays. Chapter 5 presents main rules and regulations associated with termination of employment contracts. The Conclusion closes with a brief assessment of the main findings and best practices.

## Chapter 1. New Requirements to Labor Laws

Flexible labor legislation is essential for promoting the creation of new businesses, growth of established firms, and job creation. A task of the labor law and other labor market institutions is to balance the need to protect workers' rights with the need to increase flexibility in the labor market, and to establish a more conducive environment for the creation of productive employment opportunities and the enhancement of social dialogue.

Most recently the European Commission, as well as ILO, has been promoting a concept of flexicurity, which is described as an optimal balance between labor market flexibility and security for employees against labor market risks.[12] The concept is a response to the needs that European labor markets are facing. Flexicurity policies can be designed across four policy components (EC 2008):

**Flexible and reliable contractual arrangements** (from the perspective of the employer and the employee, of "insiders' and "outsiders") through modern labor laws, collective agreements, and work organization.

**Comprehensive lifelong learning strategies** ensuring that citizens have the opportunity to have high quality initial education, that they complete at least their secondary education and that they acquire new skills and upgrade existing skills throughout their working lives. It is also about ensuring that enterprises invest more in human capital and allow employers to develop their skills.

**Effective active labor market policies** helping the unemployed return to work through job placement services and labor market programs, such as training and job creation. Job search courses and job clubs have been shown to be among the most effective measures in helping the unemployed find a job.

**Modern social security systems**, especially adequate unemployment benefits to act as a safety net when people change jobs, as well as healthcare benefits in case they fall ill and pensions for when they retire.

Further reforms in labor legislation and other labor market institutions constitute an integral part of the reforms in the overall business environment. As noted by the European Commission's Green Paper, "the modernization of labor law constitutes a key element for the success of the adaptability of workers and enterprises" (EC 2006). This is especially true for many ECA countries that struggle with low labor force participation and employment levels, high unemployment and a significant informal employment.

[12] The term "flexibility" includes several dimensions. It can refer to employers' desire for variable (flexible) labor inputs, in terms of numbers employed or hours worked, to match changes in demand for products or services. It can also refer to changing the tasks and skills of employees to increase productivity. The first type is sometimes described as 'external', 'quantitative' or 'numerical' flexibility; the second as 'internal', 'qualitative'; or 'functional' flexibility. It can also refer to employees' desire for variable (flexible) contractual arrangements and working conditions to match changing private and domestic needs. Flexibility may concern different forms of contractual arrangement (including 'atypical work'), particularly as regards working time, to better suit the work-life balance.
See: http://www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions/flexibility.htm.

There is a large international literature documenting empirical evidence that flexible labor legislation contributes to better labor market outcomes in terms of higher overall labor force participation and employment. Stricter EPL in turn is associated with a lower turnover in the labor market and a greater prevalence of temporary jobs, with both jobs and unemployment spells tending to last longer (See, for example, Scarpetta 1996; Nickell, 1997; Elmeskov, Martin and Scarpetta, 1998; Bertola, Boeri and Cazes 1999; Blanchard and Wolfers, 2000; Nickell and Layard, 2000; Blanchard and Portugal, 2001; Young 2003; Di Tella and MacCulloch, 2005; Allard 2005; Bassanini and Duval 2006; Amable et al. 2007).[13] Empirical results from OECD countries suggest that mandatory dismissal regulations have a depressing impact on productivity growth in industries where layoff restrictions are more likely to be binding. (For an overview of the literature on linkages between job protection legislation and productivity, see Bassanini, Nunziata and Venn 2009.) Strict labor regulation is also associated with a larger unofficial economy, especially in countries with limited enforcement capacity, and with a higher share of self-employment (Grubb and Wells 1993; Botero et al. 2004; OECD 2008; Djankov and Ramalho 2009). Rigid EPL tends not only to discourage hiring and firing, but may also slow down adjustment to shocks and impede the reallocation of labor. Typically, strict EPL makes it harder for certain groups, including youth, women, and displaced older workers, to enter or re-enter the labor market, at least on an open-ended contract.

In 2003 the report to the European Council from the European Employment Task Force, chaired by Wim Kok, observed that as a result of rigid employment protection legislation (EPL), a two-tier labor market might emerge divided between the permanently employed and the relatively well-protected "insiders" and "outsiders", including those unemployed and detached from the labor market as well as those precariously and informally employed. The latter occupy a grey area where basic employment or social protection rights may be significantly reduced, giving rise to a situation of uncertainty about future employment prospects (EC 2003).[14]

The European Commission “Employment in Europe 2006” report refers to findings that stringent employment protection legislation tends to reduce the dynamism of the labor market, worsening the prospects of women, youth and older workers. The report underlines that deregulation "at the margin", while keeping stringent rules for regular contracts largely intact, tends to favor the development of segmented labor markets with a negative impact on productivity. It also stresses that workers feel better protected by a support system in case of unemployment than by employment protection legislation (EC 2006).

Literature is emerging on the impact of EPL in transition countries (Riboud et al. 2002; Cazes and Nesperova 2003; Micevska 2004; Rutkowski and Scarpetta 2005). Based on the analysis of EPL in eight transition countries, Cazes and Nesporova (2003) concluded that the

[13] For an overview of the findings from the 29 selected studies on the effects of EPL on labor market performance in OECD countries, see OECD 1999; and from 11 other studies, see OECD 2004.

[14] In a study carried out in Argentina, Mexico and Venezuela, workers who moved from formal to informal wage employment experienced a decline in monthly earnings, while the reverse move produced the opposite effect. Moreover, moves by women from informal to formal yielded the largest gains. The lowest-earning workers had a greater incentive to opt out of formality, which increased the likelihood of remaining in poverty (Duryea et al 2006).

impact on labor market performance and labor market flows in transition countries seems to be rather modest. Based on the analysis of labor data, Haltiwanger and others (2003) found that rigid employment protection legislation is associated with lower employment rates and a higher long-term unemployment share. However, these relationships differ between OECD and transition economies. In particular, transition economies experience a weaker (less negative) relationship between the employment rate and EPL but a stronger (more positive) relationship between EPL and long-term unemployment.

The need for a shift towards more flexible work organization structures, de-standardization of employment contracts and diversification of working time arrangements in the economies in the ECA region is driven by numerous factors. Although still less than in EU15 countries, there is an increasing demand for non-standard forms of employment contracts, be it fixed-term, part-time, on-call, zero-hour, teleworking, freelance or hirees through temporary employment agencies. These can differ significantly from the standard contractual model in terms of the degree of employment and income security and the relative stability of the associated working and living conditions.

Among EU10 countries, between 54 percent in Slovakia to 78 percent in Estonia of the non-financial business economy workforce was employed in SMEs, with less than 250 persons (Table 1). Employment in the SME sector is, in particular, driven by an increasing share of micro enterprises employing less than 10 people as well as by small enterprises employing between 10 and 50 employees; it is the primary generator of new employment. In some of the ECA countries, such as the Czech Republic, Hungary and Poland, micro enterprises account for over 30 percent of the jobs in the non-financial business economy, and flexibility of labor regulations is often the key for their survival (Eurostat 2006). However, current labor laws to a large extent were designed keeping in mind the needs of large enterprises.

**Table 1: Key SME Indicators in the Non-financial Business Economy In EU27 and EU10 States (2005)**

| | Number of enterprises, 1000' | Number of persons employed, 1000' | Value added (EUR billion) | Share of SME in national total, % | | |
|---|---|---|---|---|---|---|
| | | | | Number of enterprises | Number of persons employed | Value added |
| EU-27 | 19602 | 85000 | 3090 | 99.8 | 67.1 | 57.6 |
| Bulgaria | 240 | 1318 | 5 | 99.7 | 72.6 | 53.2 |
| Czech R. | 878 | 2461 | 30 | 99.8 | 68.9 | 56.7 |
| Estonia | 38 | 305 | 4 | 99.6 | 78.1 | 75.1 |
| Latvia | 62 | 469 | 5 | 99.7 | 75.6 | 71.1 |
| Lithuania | 93 | 619 | 5 | 99.7 | 72.9 | 58.5 |
| Hungary | 556 | 1783 | 20 | 99.8 | 70.9 | 50.2 |
| Poland | 1405 | 5289 | 59 | 99.8 | 69.8 | 48.4 |
| Romania | 410 | 2463 | 13 | 99.5 | 60.8 | 48.4 |
| Slovenia | 88 | 371 | 8 | 99.7 | 66.4 | 60.6 |
| Slovakia | 42 | 501 | 7 | 98.8 | 54.0 | 44.5 |

Note: Tthe non-financial business economy excludes agriculture, public administration and other-non-market services, as well as the financial services sector.
Source: Eurostat 2008a.

In the last two decades, there has been a major shift from less skilled, blue-collar manufacturing jobs towards more skilled, white-collar service sector jobs. Employment in the service sector predominates throughout ECA, except Armenia and Tajikistan (CIS STAT 2008). In the pre-transition period, the service sector was extremely underdeveloped; therefore, it has had the highest capacity to absorb surplus labor.

The increased exposure to international market forces adds to the labor market risk inherent to economic growth (Boeri, Helppie and Macis 2008). So, in terms of enhancing the competitiveness of the business and investment climate, it is beneficial for the countries in transition to have a "competitive" labor law, in particular, in order to attract foreign investors. Recent studies indicate that greater flexibility in the host country's labor market relative to that in the investor's home country is associated with larger foreign direct investment flows (Javorcik and Spatareanu 2004).

Rapid demographic changes, including ageing of the population, intensive labor migration, prolonged education and changes in the way households now allocate their time and income, trigger the need for more flexibility for employees, too. In the interest of improving their work–life balance, workers need more choices regarding working time arrangements, especially during the "rush hour" of their life when working, caring and education pressures come together.

Also in light of EU15 experience, the countries in the region could consider adopting a lifecycle approach to work that may require shifting from the concern to protect particular jobs through stringent labor legislation to a framework of support for employment security, including social support and active labor market measures in order to assist workers during periods of transition. In particular, recent experience shows that moderately strict EPL, when combined with a well-designed system of unemployment benefits and a strong emphasis on active labor market programs, can help create a dynamic labor market while also providing adequate employment security to workers (OECD 2006). This is particularly important in a world characterized by the gradual disappearance of life-long jobs and an increasing need for job mobility.

Bargaining on terms and conditions of employment should become more market-driven in order to overcome current rigidities. In this regard, social dialogue in ECA countries should play a much bigger role in framing collective and/or firm-level solutions enabling "insiders" as well as "outsiders" to successfully transition between different employment situations while also assisting businesses to respond more flexibly to the demands of an economy and to changes in the competitive landscape. Employment protection legislation could be restricted to focus on core and enforceable labor standards and provide a greater role for trade unions and employers associations to determine employment relations through collective bargaining, with the aim to find the balance between flexibility and security.

Trade unions are best positioned to assess the situation in their enterprises and industries and, through collective bargaining, develop rules that determine such important matters as wages, benefits, and overtime and part-time work arrangements but that also strengthen surveillance in the fight against undeclared work. In light of a sharp drop in union density, and limited

labor bargaining–especially at the firm level, the role and importance of trade unions and collective bargaining in the ECA region has significantly diminished.[15]

Nevertheless, employers' organizations in the region tend to be even less organized. These associations have the difficult task of organizing enterprises not only with divergent interests but also very often are competitors or critically intertwined in a buyer-supplier relationship. In other words, at first sight it seems easier for the employers to organize given their small numbers, lower turnover rates, stronger networks and resources. In reality, employers have a more fragmented and specialized organizational structure than workers.

In countries where collective bargaining is not very widespread and collective agreements are relatively weak, the role of legislation as a safeguard for workers is much more essential than in countries where the majority of workers are covered by collective arrangements. In many ECA countries, employment laws are often ineffective because of evasion, weak enforcement and failure to reach the informal sector. Even though labor legislation might be rigid *de jure*, *de facto* it is not enforced and is widely evaded. Achieving greater labor market flexibility through non-enforcement of laws is not an optimal choice because it undermines the rule of law, exposes firms to costly uncertainty, impedes decent formal employment growth and leaves workers without adequate protection (Rutkowski and Scarpetta 2005).

Wage arrears are proof of the state's inability to protect the basic rights of workers. Especially in a time of economic downturn, accumulated wage arrears tend to rapidly increase. They reached 8.7 billion rubles in Russia by the end of the first quarter of 2009 (a threefold increase over the same period a year ago), and 1.6 billion grivnas in Ukraine (US$200 million, or more than double the amount a year ago). In Latvia, in the fourth quarter of 2008, 6.4 percent of employees experienced wage arrears (Kuddo 2009). Therefore, as noted by the previous ILO Director General, "Labor legislation without good inspection is an exercise in ethics, but not a binding social discipline." (World Bank 2007d).

Many ECA countries need to develop modern Labor Inspectorates to effectively enforce core worker rights, to supervise the implementation of labor regulations and to provide technical assistance and advisory services to enterprises. Labor inspection is more than a mere bureaucratic organization, or simply a technical "tool". As highlighted by ILO, it is "a force for reform and a powerful means of initiating change" (ILO 2003). The 2006 ILO General Survey Report of the Committee of Experts on the Application of Conventions and Recommendations underscored this, calling on governments to recognize the "vital contribution to development and social cohesion made by an effective labor inspection service." (ILO 2006). Labor inspectors can also play an important educative role by working with firms and workers to encourage compliance.

The enforcement of laws on minimum wages is a prime example. In Romania, enforcement reisdes with labor inspectorates and specialized supervisory bodies of the Ministry of Labor

[15] The highest union density rate among ECA countries for which the data are available is reported in Ukraine, 96 percent (the percentage of wage employees affiliated to labor unions), and the lowest in Estonia, nine percent. (Lawrence and Ishikawa 2005; Kupets and Leshchenko 2008). The weighted average for union density in 10 new EU Member States is 22 percent, while the density in the 15 "old" EU Member States is 30 percent. In most CIS states, the union density rate is still relatively high, for example, around 75 percent in Russia while in Georgia only 13 percent of labor, by the government data, is unionized.

and Social Protection. In the case of Ukraine, financial bureaus, the State Tax Inspectorate, and the Procurator General and its direct reports are responsible for enforcing the minimum wage legislation (Annex Table A7). In Russia and Ukraine, trade unions are involved in monitoring compliance; and although sanctions for non-compliance are regulated, enforcement is weak, inspections are infrequently carried out due to a lack of resources and fines are rarely imposed. This would suggest that minimum wages would have little impact since the wage is paid at the discretion of the employer with little government oversight, or if there is, little cost of punishment.

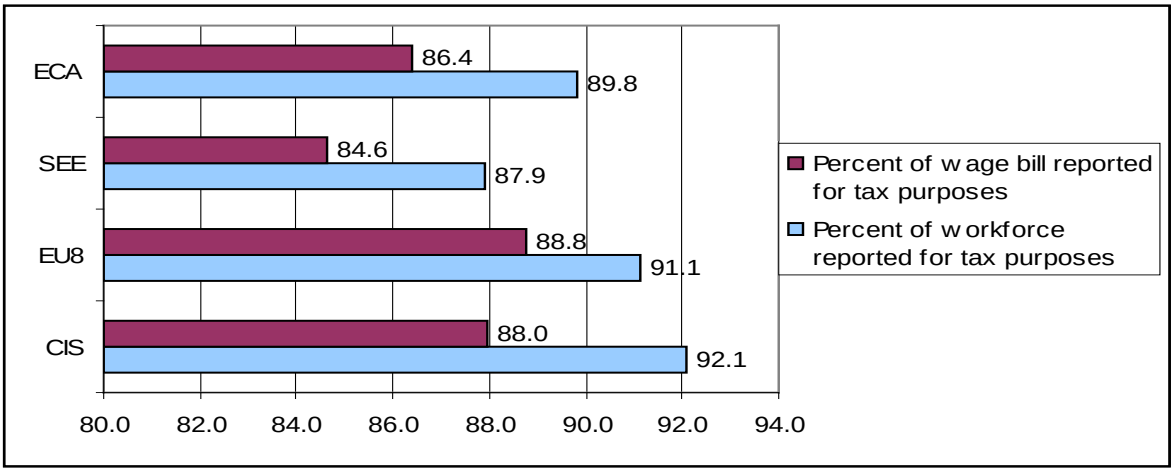
International studies of best practice highlight a number of characteristics of high-quality, well-functioning labor inspection services. These include adequate resources (both staff and infrastructure); recruitment and training policies designed to attract and retain high quality inspectors; central administration to improve consistency and reduce duplication; preventive targeting of firms based on risk; integration of different types of inspections to reduce the inspection burden on business; and a focus on prevention and education as well as enforcement (OECD 2008; Schrank and Piore 2007; ILO 2006; Treichel 2004). Good cooperation is, in particular, required between the labor inspectorate and other agencies, social partners, institutions and NGOs.

It is the recommendation of ILO (2006) that advanced countries have at least one labor inspector per 10,000 employed persons and that transition countries have one inspector per 20,000 employed persons. In the CEE, Hungary, Poland and the Slovak Republic meet the recommended number of inspectors for advanced countries, and the Czech Republic meets the transition country guidelines.

In addition to significant employment in the informal sector (see, for example, Schneider 2007), significant informal employment occurs in the formal sector (hired employment) as well.[16] According to the Business Environment and Enterprise Performance Survey (BEEPS) of firms in ECA, the average percent of workforce reported for tax purposes was 90 percent. At either extreme, Albania and Macedonia reported 75 and 79 percent, respectively, and Armenia reported 96 percent. In addition, a significant share of hired employees work without written labor contracts, in violation of labor laws. As for wages, the rate of tax compliance in 2005 was on average in ECA 86 percent of the wage bill that has to be taxed by law and is reported by employers to tax authorities (Figure 1).

[16] On the concepts of "employment in the informal sector" and "informal employment", see Hussmanns 2004 and ILO 2000.

**Figure 1: Tax Compliance in CIS, SEE, EU8, and ECA Countries (2005)**




Source: EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS) (2005).

Thereby, by making labor regulations more flexible, the government can encourage informal businesses to operate formally and create more jobs. This expands the reach of regulation and the associated social protections to more people, benefiting especially the young and women.

Finally, lack of public awareness on legal rights associated with employment may also impair the enforcement of the law in a number of countries. Workers should know their legal rights and how to enforce them. Evidence, to the contrary, suggests that public opinion is often ill-informed. Running campaigns to inform individuals of their legal labor-related rights is thus crucial.

## Chapter 2. Entry into Employment

The most important document that sets out the individual rights and obligations of the parties to an employment relationship is the employment contract. This is also the most important contract in their lifetime for the majority of people in the region. In the socialist system, an employment relationship existed between the worker and state/public organization or enterprise; under current labor laws, it is between an employer (or in some countries, such as in Ukraine, defined in the law as between the owner of an enterprise, organization or institution or the authorized agency thereof, or a natural person) and an employee.[17]

The existence of an employment relationship is internationally recognized in ILO Employment Relationship Recommendation No. 198 (2006) by the following:

a. The fact that the work: is carried out according to the instructions and under the control of another party; involves the integration of the worker in the organization of the enterprise; is performed solely or mainly for the benefit of another person; must be carried out personally by the worker; is carried out within specific working hours or at a workplace specified or agreed by the party requesting the work; is of a particular duration and has a certain continuity; requires the worker's availability; or involves the provision of tools, materials and machinery by the party requesting the work.

b. Periodic payment of remuneration to the worker; the fact that such remuneration constitutes the worker's sole or principal source of income; provision of payment in kind, such as food, lodging or transport; recognition of entitlements such as weekly rest and annual holidays; payment by the party requesting the work for travel undertaken by the worker in order to carry out the work; or absence of financial risk for the worker.

### *2.1. Mandatory Provisions of Employment Contract*

Except short-term or casual work arrangements, employment relationships in all ECA countries should be legitimated in a written employment contract. The only exception is the new Georgian Labor Code from 2006, which equally endorses verbal contracts by stating that the employment agreement is executed in writing or verbally but the employer must issue a certificate of employment upon request of the employee that includes data on performed labor, labor compensation and duration of the employment agreement. *De facto* oral work

[17] The definition of the terms "employee", "employer", "contract" and "employment relationship" is left to national legislation. The Directive 2002/14/EC of the European Parliament and of the Council of 11 March 2002 establishing a general framework for informing and consulting employees in the European Community provides the following definitions in very general terms: (a) "employer" means the natural or legal person party to employment contracts or employment relationships with employees, in accordance with national law and practice; (b) "employee" means any person who, in the Member State concerned, is protected as an employee under national employment law and in accordance with national practice.

agreements are common in many countries in the region. In Armenia, according to the 2004 labor force survey (LFS), 23 percent of employees in firms and organizations worked based on an oral agreement, evidence that it is necessary to deepen the legal and contractual regulation of labor relations (NSS 2005).

Council Directive 91/533/EEC of 14 October 1991 on an employer's obligation to inform employees of the conditions applicable to the contract or employment relationship stipulates that an obligation to inform employees in writing of the main terms of the contract or employment relationship shall not apply to employees having a contract or employment relationship:

(a) with a total duration not exceeding one month, and/or - with a working week not exceeding eight hours; or

(b) of a casual and/or specific nature provided, in these cases, that its non-application is justified by objective considerations.

In Estonia, an oral employment contract may be entered into only for employment for a term of less than two weeks while in Bosnia and Herzegovina, the duration of such an engagement without a contract can last up to two months. Slovakian legislation considers two exceptions, neither of which gives rise to an employment relationship. The first exception affects the relationship known as contract for work, defined for a contract whose duration does not exceed 300 hours per year. The second refers to contracts for work by a student, understood as those held between an employer and a student of a high school or a university, as long as the duration of work does not exceed 20 hours per week in a maximum twelve month average.

Furthermore, by the Directive, the employee must be provided with information on any change in the essential elements of the contract or employment relationship except in the event of a change in the laws, regulations and administrative or statutory provisions.

The same Directive lists the essential aspects of the contract or employment relationship of which an employee should be notified:

(a) the identities of the parties;

(b) the place of work; where there is no fixed or main place of work, the principle that the employee is employed at various places and the registered place of business or, where appropriate, the domicile of the employer;

(c) (i) the title, grade, nature or category of the work of the employee; or (ii) a brief specification or description of the work;

(d) the date of commencement of the contract or employment relationship;

(e) in the case of a temporary contract or employment relationship, the expected duration thereof;

(f) the amount of paid leave to which the employee is entitled or, where this cannot be indicated when the information is given, the procedures for allocating and determining such leave;

(g) the length of the periods of notice to be observed by the employer and the employee should their contract or employment relationship be terminated or, where this cannot be indicated when the information is given, the method for determining such periods of notice;

(h) the initial basic amount, the other component elements and the frequency of payment of the remuneration to which the employee is entitled;

(i) the length of the employee's normal working day or week;

(j) where appropriate, (i) the collective agreements governing the employee's conditions of work; or (ii) in the case of collective agreements concluded outside the business by special joint bodies or institutions, the name of the competent body or joint institution within which the agreements were concluded.

This information may be given to the employee, not later than two months after the commencement of employment, in the form of: (a) a written contract of employment; and/or (b) a letter of engagement; and/or (c) one or more written documents, where one of these documents contains at least all of the information listed in (a), (b), (c), (d), (h) and (i). Permitting an employee to commence work is equivalent to entering into an employment contract, regardless of whether the employment contract has been formalized.

The minimum content of the employment contract in most of the EU10 countries coincides, and even goes beyond, the requirements of the Directive. However, legislation exists where the content does not cover the list of issues contained in the Community regulation; this is the case of the Czech and Slovakian legislation. For example, the Czech national law does not oblige to inform on employment conditions relative to the title, grade, nature or category of the work, the date of the commencement of the contract, the duration of the contract, in the case of temporary employment and, where appropriate, the collective agreements of application.

The European Social Charter asks the signatories to ensure that workers are informed in written form, as soon as possible, and in any event not later than two months after the date of commencing their employment, of the essential aspects of the contract or employment relationship. The labor legislation in most ECA countries is stricter in this regard: as a rule, an employee cannot commence work without an employment contract being signed. The Polish Labor Code stipulates that if an employment contract is not made in writing, an employer shall, not later than on the day of the commencement of work, provide the employee with written confirmation of the identities of the parties, the type of contract and the terms. The remaining information required by the Directive should be given separately, also in writing, to the employee within seven days from the date of commencement of work.

In Serbia and FYR Macedonia, as in a few other countries, the employer is obliged to register all new employment contracts with the public employment service (PES), mainly for health and social insurance purposes. In the Ukraine, only a labor contract between an employee

and an individual employer should be registered with the state employment service where the individual resides within one week of actually starting work. This exacerbates the already-heavy work load of the PES, although electronic submissions of the contracts was recently instated.

Regulations for non-compliance with these provisions varies throughout the region. On one side of the spectrum, especially in the Western Balkan countries, labor inspectors can fine the employer on the spot if they find out that somebody is engaged in the firm without a written employment contract, for example, in Montenegro. On the other side, the Estonian law formalizes the process by creating two copies of the employment contract (one held by the employer and the other by the employee), national law does not state any legal ramifications for cases of non-compliance with the written contract.

### *2.2. Working Age and Statutory Retirement Age*

The legal rights of children and young people at employment are protected in many international treaties.[18] According to the ILO Minimum Age Convention No. 138 (1973), a minimum age for admission to employment or work within its territory shall not be less than the age of completion of compulsory schooling and, in any case, shall not be less than 15 years. National laws or regulations may permit the employment or work of persons 13 to 15 years of age in light work that is (a) not likely to be harmful to their health or development and (b) not such as to prejudice their attendance at school, their participation in vocational orientation or training programs approved by the competent authority or their capacity to benefit from the instruction received.

In addition, the ILO Worst Forms of Child Labor Convention No. 182 (1999) obliges each member state that ratifies the Convention to take immediate and effective measures to secure the prohibition and elimination of the worst forms of child labor as a matter of urgency. There are two classifications: (i) unconditional forms of worst child labor and (ii) hazardous work. The former is slavery and practices similar to slavery (sale, trafficking, debt bondage, serfdom, compulsory or forced labor–including compulsory recruitment of children for armed conflicts). The latter includes work that, by its nature or under the circumstances that it is carried out, is likely to harm the health, safety or morals of children.

The EU's Charter of Fundamental Rights states that the employment of children is prohibited. The minimum age of admission to employment may not be lower than the minimum school-leaving age, without prejudice to such rules as may be more favorable to young people and except for limited derogations. Young people admitted to work must have working conditions appropriate to their age and be protected against economic exploitation and any work likely to harm their safety, health or physical, mental, moral or social development or to interfere with their education.

[18] "Young person" means any person under 18 years of age; "child" means any young person of less than 15 years of age or who is still subject to compulsory full-time schooling under national law; "adolescent" means any young person of at least 15 years of age but less than 18 years of age who is no longer subject to compulsory full-time schooling under national law.

The European Social Charter prescribes that the minimum age of admission to employment shall be 15 years, subject to exceptions for children employed in prescribed light work without harm to their health, morals or education. Also the minimum age of admission to employment shall be 18 years with respect to prescribed occupations regarded as dangerous or unhealthy. The labor laws should provide additional guarantees to young people under 18 years of age, such as the prohibition of night work; the right to a minimum of four weeks' annual holiday with pay; the accounting of time spent by young persons in vocational training during the normal working hours with the consent of the employer shall be treated as forming part of the working day; and so on.

Similar provisions are stipulated in the Council Directive 94/33/EC of 22 June 1994 on the protection of young people at work, namely that the minimum working or employment age is not lower than the minimum age at which compulsory schooling as imposed by national law ends or 15 years in any event. In addition, the maximum working time of young people should be strictly limited, for example, for adolescents to 8 hours a day and 40 hours a week, and for each 24-hour period, a minimum rest period of 12 consecutive hours.

In the Soviet Union, the working age was defined as from age 16 to up to 55 for females, and 60 for males. Therefore, in CIS states the minimum age for entering into an employment contract is still 16 years (with the exception of Azerbaijan); yet, in most EU10 and SEE countries (except Albania, Bulgaria, Lithuania, Poland and Romania), it is 15 years (See Annex Table A1). For example, the Uzbek Labor code stipulates that the employment shall be allowed from the age of 16 years. A 15 year old may be employed with the written consent of a parent or a guardian.

In most ECA countries, the legal pensionable age has been kept low for a long time. Partly this is explained by the low life expectancy in the region, and partly by the poor health status of many pensioners, reflecting the extremely bad working and living conditions in the past in socialist industries, enterprises or regions. Prior to the transition, the standard legal retirement age in socialist countries (except Poland) was 55 for females and 60 for males. For retirees having a sufficient service length in the Far North and Far East regions of the USSR, the pension age was 55 years for men and 50 years for women. Furthermore, various early retirement schemes were available, thus making the effective retirement age even lower.

By international conventions and treaties, the definition of a statutory pensionable age is left to the countries themselves, and currently there is a great variance of retirement ages: from 65 for both males and females in Bosnia and Herzegovina; 65 for males and 60 for females in Albania, Croatia, Georgia and Poland to the still low 60 for males and 55 for females in Belarus, Moldova, Russia and Uzbekistan (See Annex Table A1).

The differences in life expectancy at retirement between the EU15 and ECA countries are much less pronounced.[19] In some transition countries, such as in Russia, it is complicated to prove the necessity of raising the retirement age when life expectancy at birth but also at retirement is low and declining.

[19] See, for example, http://data.un.org/Search.aspx?q=life+expectancy.

Given the demographic trend towards ageing of the working population, various international documents call for elimination of any legal and administrative obstacles to the employment of older workers. EU Council recommendation 82/857/EEC of 10 December 1982 on the principles of a Community policy with regard to retirement age suggests that (i) as from a specified age, and if necessary within an age limit, employed persons should be free to choose the age from which they could take their retirement pensions; and, (ii) failing that, and provided that the system stipulates a specific age for the granting of a pension, employed persons should have the right, during a specified period, to apply for a pension in advance of the prescribed age or to defer it beyond that age.

Furthermore, flexibility as regards the pension age can also be achieved whereby entitlement to a retirement pension arises after a given number of years of occupational activity or membership of an insurance scheme. Several ECA countries have incorporated relevant guarantees into their labor legislation, which will be discussed below. Some countries have introduced early retirement schemes for purely labor market reasons. For example, in FYR Macedonia, unemployed females aged 57 and over and males aged 59 and over are provided early retirement allowance until they reach the retirement age of 62 or 64 years respectively and are entitled to an old-age pension. This allowance is financed from the regular budget of the Employment Agency. By the end of 2007, beneficiaries (but only 21,300 individuals) comprised 86 percent of all the recipients of the unemployment benefit, and high costs are increasingly crowding-out alternative expenditures, such as on active labor market programs (ALMPs).

### *2.3. Term of Employment Contract*

A contract of employment can be concluded for an indefinite term, for a fixed term or for the time of completion of a specified task. Usually in the absence of an agreement, to the contrary, an employment relation is established for an indefinite duration.

In labor legislation in the region, most attention is paid to relevant arrangements associated with fixed-term employment, which in the socialist period was deemed to be an exceptional form of employment, conditioned by the nature of work or by other objective conditions. In recent years, fixed-term work has been increasing not only in EU15 countries but in ECA countries as well.[20] Fixed-term contracts are heavily concentrated among young people (in the EU close to 40 percent for individuals aged 15-24) and also among other labor market entrants, the unemployed, those with the lowest education levels - in general among people who have weaker bargaining power.[21] On the other hand, especially for these workers, fixed-term work can provide a bridge into employment and an opportunity to gain experience and skills. This is especially true for first time workers who lack experience and are given an opportunity to be trained and to receive an income; businesses receive incentives to hire and

[20] The term 'fixed-term worker' means a person having an employment contract or relationship entered into directly between an employer and a worker where the end of the employment contract or relationship is determined by objective conditions such as reaching a specific date, completing a specific task, or the occurrence of a specific event.

[21] An overview of fixed-term contracts in EU15 countries see: http://ec.europa.eu/employment_social/labour_law/docs/fixed_term_impl_eu15_en.pdf

keep theses workers once they have learnt the necessary skills. It is also more important in the primary, service and construction sectors than in manufacturing.

By Eurostat data, almost 15 percent of women employees and around 14 percent of men were employed in jobs with fixed-term contracts in the EU as a whole in 2005.[22] A significant proportion of whom worked in fixed-term jobs because they could not find a permanent job.

The main findings of the referred study on fixed-term contracts in the EU are:

- 7.5 percent of all women employees and 6.7 percent of men in 2005 were employed in fixed-term jobs involuntarily.
- The share of both women and men employed in fixed-terms jobs and those employed in such jobs involuntarily increased between 2000 and 2005.
- Almost a third of women and men employees under age 30 had fixed-term contracts in 2005, of which around 40 percent were employed in fixed-term jobs involuntarily.
- The largest shares of involuntary fixed-term employees were in agriculture, and among those employed in private households.
- A much larger share of employees in elementary occupations were employed in fixed-term jobs involuntarily than those employed as managers, professionals and technicians.
- Some 43 percent of women and 48 percent of men employed in fixed-term jobs involuntarily had contracts of less than six months.

Therefore, a disproportionate number of young men and women under 30 works in jobs with fixed-term contracts, partially because they are employed on temporary training or probationary contracts. Furthermore, men and women in elementary occupations, as well as agricultural workers, are more likely to be employed in fixed-term jobs involuntarily. While among managers, only 1 percent of men and women were employed in fixed-term jobs involuntarily, among workers in elementary occupations the ratio was 14 percent for women and 15 percent for men, and among skilled agricultural workers, 17 percent and 13 percent respectively (Eurostat 2008).

In ECA countries, the proportion of fixed-term workers is 27 percent in Poland but only 1 percent in Romania. This might be partly explained by restrictions in labor legislation. In Romania, fixed-term contracts are prohibited for permanent tasks and the maximum duration is 24 months, whereas in Poland there is no restriction on the use and maximum duration of fixed-term contracts. The main reasons for working in temporary jobs (fixed-term contracts) are commonly that respondents cannot find a permanent job or that they have a contract for the probationary period.

[22] http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-07-098/EN/KS-SF-07-098-EN.PDF.

**Table 2: Share of Employees with Temporary Contracts By Country and Sex (2Q 2008)**

| | Total | Men | Women |
|---|---|---|---|
| Bulgaria | 5.1 | 6.0 | 4.2 |
| Czech R. | 8.2 | 6.7 | 10.1 |
| Latvia | 3.0 | 3.9 | 2.0 |
| Lithuania | 2.7 | … | … |
| Hungary | 7.9 | 8.7 | 7.0 |
| Poland | 27.0 | 26.1 | 27.9 |
| Romania | 1.3 | 1.3 | 1.2 |
| Slovakia | 4.2 | 4.0 | 4.4 |
| Slovenia | 17.0 | 15.0 | 19.2 |
| EU-27 | 14.2 | 13.3 | 15.1 |
| EU-15 | 16.5 | 15.4 | 17.7 |

Source: Eurostat 2008b.

Recent reforms in labor legislation in the region (in particular, in Azerbaijan, Montenegro and FYR Macedonia in 2008; in Georgia in 2006) are largely associated with liberalization of term contracts. Fixed-term work contributes to making labor markets more flexible. It provides a buffer for cyclical fluctuations of demand, allowing companies to adjust employment levels without incurring high firing costs. Fixed-term work also allows companies to reap market opportunities by engaging in projects of short duration without bearing disproportionate personnel costs. This is especially important in those labor markets where permanent employment is protected by strict regulations and high firing costs. To counterbalance the latter, some ECA countries have established the minimum service length of one to three years with the same employer to be eligible to claim severance pay, which makes fixed-term contracts of short term less attractive (See below section on contract termination).

However, research has pointed out a number of risks associated with the use of fixed-term work, especially for workers but also for employers. For instance, fixed-term workers are subject to higher turnover, earn lower wages on average and receive less training (EC 2006). In addition, expansion of temporary employment may reinforce labor market duality. In fact, its main effect may be to produce high turnover in temporary jobs, with many workers going through several unemployment spells before obtaining a regular job (see Blanchard and Landier 2002; Cahuc and Postel-Vinay 2002). There is a risk that part of the workforce becomes trapped in a succession of short-term, low-quality jobs with inadequate social protection, leaving them in a vulnerable position. EU-15 data show that around 60 percent of those who had taken up non-standard contractual arrangements in 1997 had standard contracts in 2003. However, 16 percent of them were still found in the same situation and 20 percent of them had moved out of employment.

When firms can easily hire temporary workers but it is costly to dismiss regular ones, firms do not have any incentives to convert workers from temporary to permanent contracts. Since temporary contracts can only be renewed a limited number of times or have a given duration, temporary workers – mostly young and unskilled – are forced into an endless rotation across temporary jobs. Their low probability of being converted into a permanent job, even if they

are very good, reduces incentives to perform well and to learn in the job, with obvious costs in productivity growth (Aguirregabiria and Alonso-Borrego 1999).

Furthermore, temporary workers provide a buffer against unemployment for permanent workers. This is because in the case of economic difficulties, temporary workers will always be the first to go. This effect reduces the response of wages to increases in unemployment leading to higher wages and lower permanent employment rates than otherwise (Blanchard and Landier 2001; Bentolila et al. 1994).

To prevent abuse arising from the use of successive fixed-term employment contracts or relationships, the EU Council Directive 1999/70/EC concerning the framework agreement on fixed-term work suggests listing in national legislation one or more of the following measures:

(a) Objective reasons justifying the renewal of such contracts or relationships;

(b) Maximum total duration of successive fixed-term employment contracts or relationships;

(c) Number of renewals of such contracts or relationships.

It is also important to emphasize in the law that fixed-term workers should not be treated in a less favorable manner in an employment relationship than comparable permanent workers unless different treatment is justified on objective grounds arising from the law or collective agreement. The equal treatment should apply in various fields: health and safety, remuneration, duration and organization of working time, paid leave and public holidays, vocational training, social benefits, or information on available vacant posts and remuneration.

The above-mentioned EU Directive suggests that, as far as possible, employers should facilitate access by fixed-term workers to appropriate training opportunities to enhance their skills, career development and occupational mobility. Employers should also inform fixed-term workers about vacancies that become available in the undertaking or the establishment to ensure that they have the same opportunity to secure permanent positions as other workers. Such information may be provided by way of a general announcement at a suitable place in the undertaking or establishment.

The labor laws in ECA countries display a wide range of solutions (Annex Table A6). In 10 countries there are no restrictions on valid cases for fixed-term contracts while some other countries require objective reasons which are specified technically in various ways ranging from a more general requirement, such as temporary nature of the assignment, to more or less detailed lists in the legislation indicating the range and types of permissible fixed-term contracts. In Russia and Kyrgyzstan, while an extensive list of valid cases for conclusion of fixed-term contracts is listed in the national legislation (18 and 17 cases respectively), an important exception is made for SMEs: in Russia fixed-term contracts can be concluded with persons enrolling in small business organizations with the personnel numbering up to 40 persons (up to 25 persons in the trading and consumer services organizations) as well as working for individual employers; and in Kyrgyzstan, firms with less than 15 employees can also conclude term contracts with new employees for one year.

Limitations on the duration and/or the renewals of fixed-term contracts are also common. Albania, Georgia, Kazakhstan, Montenegro, and Poland, do not have any limit for a single fixed-term contract or maximum cumulated duration of successive contracts; similarly, Armenia, Azerbaijan, Belarus, and Moldova do not limit cumulated duration of such contracts. In contrast, Serbia allows term contracts only for 12 months and several other countries (Bosnia and Herzegovina, Czech Republic, Romania and Slovenia) for two years.

According to the available data, there is a steady trend in some of ECA countries for an increase in the share of fixed-term contracts, especially among the newly hired employees. In 2005, FYR Macedonia, which has a 34 percent unemployment rate and only a 41 percent employment rate, replaced previous restrictions on the conclusion of fixed-term contracts with a simple formulation, "A fixed-term employment contract may be concluded for carrying out work which by its nature is of limited duration, with interruption or without interruption, for a period of up to four years". With these and other improvements in labor legislation, the number of newly registered employment contracts significantly increased from 112,000 in 2004 to 191,500 in 2007 (of which 54 percent were fixed-term contracts). It also reflects the fact that more employers choose to formalize contractual relationships with their employees. Respectively, the share of informal employment declined: the share of employment in the informal sector, according to the labor force survey data, fell from 35 percent in 2006 to 27 percent by the end of 2007.

Hungary reported a similar trend. While the total percentage of fixed-term employees did not change significantly from 1997 to 2003 (from 6.3 to 7.2 percent), the ratio of fixed-term contracts among new employees grew from 40.1 to 52.3 in the same period (Lehoczky et al. 2005).

Labor legislation among the EU15 countries provides for a wide variety of options with respect to fixed-term contracts. To list a few examples, in Denmark, rules on fixed-term contracts are mainly found in collective agreements and breach of these rules gives rise to claim for damages. German legislation gives a non-exhaustive list of objective reasons justifying fixed-term contracts, for example, where the work is operationally required only temporarily, the employee substitutes another employee, the particular nature of the work justifies the limitation of the duration, the limitation is for a trial period, the limitation is justified by reasons connected with the person of the employee and where the employee is remunerated from budgetary funds set aside for fixed-term work and he or she is correspondingly employed. Fixed-term contracts can also be concluded without any particular objective reason justifying the fixed-term contract but in these cases the contract can be renewed only three times during a period of two years. In France, the fixed-term contract has an exceptional character and is subject to objective and precise conditions laid down in the Labor Code, such as the replacement of an absent employee, a temporary increase in the activity of the company or work that is temporary by nature, such as seasonal jobs. The Finnish Employment Contracts Act of 2001 provides in general terms that any fixed-term contract has to be based on objective (justifiable) reasons.

As far as the duration is concerned, in EU15 countries, the fixed-term contracts vary (with exceptions in some countries) from one year in Spain, 18 months in France, two years in Greece, Luxembourg and Sweden, and three years in the Netherlands and Portugal. There are no limits on duration in Austria, Belgium, Denmark, Ireland and Italy. In Germany, there is

no maximum duration for a fixed-term contract with objective cause, and two years for a fixed-term contract without objective cause. In the UK, there is no limit as well but employees who have worked successive fixed-term contracts for a period of four years or more will become permanent employees unless the employer can objectively justify the continued use of a fixed-term arrangements. In Finland, there is no specific maximum duration for fixed-term employment contracts. However, after five years, a fixed-term contract is subject to the same requirements for termination as an indefinite-term contract. Renewals for fixed-term contracts are more restricted, and even in the countries with the most flexible arrangements, as a rule, a justification is required. For example, in Belgium, the maximum term of a single fixed-term contract is not limited; however, it cannot be renewed without justification based on the nature of the functions or other legitimate reasons. Contracts of shorter duration can be renewed multiple times within a maximum total time period of two years (three years with prior authorization). In Denmark, renewal is allowed only for objective reasons while in Spain, no renewal is allowed at all.[23]

In many ECA countries, flexible arrangements for fixed-term contracts have the potential to be abused, although in the current circumstances, they could become an engine for job creation. Relaxing restrictions on the use of temporary or fixed-term contracts and reducing firing costs for young or inexperienced workers would also improve incentives for firms to hire formal workers.

### *2.4. Probationary Period*

In ECA countries, except Albania, according to the labor law an employment contract may prescribe a probationary period in order to confirm that the employee has the necessary professional skills and abilities, suitable social skills and health to perform the work agreed on in the employment contract. It may be set upon the wish of the employer with the goal of assessing the suitability of an employee for the envisaged work (position), or at the request of the person being employed to define the suitability of the offered job (position) for him/her. A probationary period condition must be stated in a labor agreement. If no probationary period condition is stated in a labor agreement, an employee is accepted without a probationary period.

The employer assesses the results of the probationary period and may dismiss the employee if the results are unsatisfactory. Upon dismissal due to the unsatisfactory results, as a rule, the employer is not required to give prior notice or pay compensation to the employee. However, in Lithuania, a written notice three days in advance by either of the parties is required prior to terminating the employment contract during the trial period.

The length of the trial period is important because, during this period, regular contracts are not fully covered by employment protection provisions and usually unfair dismissal claims cannot be made. Azerbaijan and Hungary have the shortest trial period, where employers cannot use probationary periods, as a rule, of more than one month (Annex Table A6). In most ECA countries, probation may last up to other months, which is also a very short

[23] According to the World Bank database *Doing Business 2009*.

probationary period. In many jobs, particularly high level positions, employers need more than three months to determine if a worker or employee is a good match. The lengthiest probationary period of up to six months is found in most SEE countries and Georgia. However, by some anecdotal evidence, especially in micro enterprises and in the service sector, some of the employers tend to abuse lengthy probationary periods by hiring the workers only for the trial period, and replacing them at the end of the period with new employees. In order to avoid such situations, in the Romanian national legislation, it is prohibited to successively employ more than three persons for trial periods for the same position.

On the other hand, for many unskilled and semiskilled occupations, it would not be necessary to have a lengthy probationary period to verify the abilities of the worker. Therefore, the differentiation might be warranted to explore lengthier trial periods for employees in managerial/executive positions and shorter periods for unskilled workers. The most detailed differentiation is provided in Romania's national legislation: up to 5 working days for unskilled workers; up to 30 calendar days for executive positions; up to 50 calendar days when employing disabled persons; up to 90 calendar days for management positions, and 3-6 months for hiring higher education graduates.

In many countries, the probationary period is not applied to minors (Belarus, Estonia, Lithuania, Russia and Tajikistan); disabled persons (Belarus and Estonia); pregnant women and women with children up to three years of age (Uzbekistan); and some other categories of employees. In some countries, a shorter or longer trial period may be stipulated in the collective agreement or agreed upon by the parties (Hungary and Ukraine). If the contracted term of a probation period expires and the employee continues to perform the work, it is considered that he or she has passed the probation period.

### *2.5. Other Flexible Forms of Labor Contract*

The drive for flexibility in the labor market has given rise to increasingly diverse contractual forms of employment, which can differ significantly from the standard contractual model in terms of the degree of employment and income security and the relative stability of the associated working and living conditions. This is reflected in variations in work organization, working hours, wages, and workforce size at different stages of the production cycle.

These changes have created a demand for a wider variety of employment contracts. In addition to fixed-term contracts, also part-time contracts, on-call contracts, zero-hour contracts, contracts for workers hired through temporary employment agencies, freelance contracts, etc., have become an established feature of European labor markets. The share of total employment by those engaged in working arrangements that differ from the standard contractual model as well as those in self-employment has increased from over 36 percent in 2001 to almost 40 percent of the EU-25 workforce in 2005 (EC 2006b).

Atypical work can provide considerable economic and social benefits. It opens up the labor market to people for whom full-time employment is unfeasible or unattractive. It also provides more flexibility, mobility and dynamism to the labor market, which in turn may

contribute to an innovative culture, improved economic performance and efficiency. Examples of regulation of atypical work in the labor legislation of ECA countries follow.

In Estonia, on-call time may be established if, due to the nature of work, the employee needs to perform unexpected and urgent tasks (e.g. medical workers, rescue workers, etc.). The Estonian Employment Contract Act makes it possible for employers to require employees to be available during rest time (i.e. the employee has rest from work). On-call time is established in addition to the duration of general working time. On-call hours are not included in working time if the employee is not called to work. If the employee is called to work, the hours worked are counted as working time.[24]

Since on-call time is highly inconvenient for rest (a worker cannot travel far from home, must be ready to immediately attend work when called, etc.), this time is compensated by additional remuneration. The 2008 Employment Contracts Act of Estonia stipulates that if an employee and an employer have agreed that the employee shall be available to the employer for performance of duties outside of working time (on-call time), remuneration that is not less than one tenth of the agreed wages shall be paid to the employee. The hours worked are treated as overtime, since on-call time is additional to the general working time.

In Hungary, “on-call” work is allowed for work that addresses the basic needs of the society, providing services to prevent or preclude accidents, natural disasters and severe damage or to preclude direct and severe danger to human life, body or health or where it is needed for the safe use of technology. Two forms of on-call work are recognized, where the employee must remain available and in a suitable condition for work. In "stand-by" work, the employee is obligated to be in a place designated by the employer while they are on duty. In "on-call" work, the employee may decide the place, as long as he or she is available in due time for work. The employee shall carry out no more than 168 hours of on-call work per month. Actual work carried out during on- all must be regarded as overtime work.

In Lithuania, the employer may assign the employee to on-call work only in extraordinary cases when it is necessary to ensure proper operation of the enterprise or completion of urgent work. There are two types of on-call work: at the enterprise or at home. The assignment to be on duty at the enterprise or at home after the working day, on rest days or on public holidays can be made not more than once a month or, with the consent of the employee, not more often than once a week. The duration of being on-call at the enterprise together with the duration of the working day (when an employee is on duty after the end of a working day) may not exceed the regular duration of a working day set in Labor Code (40 hours per week, 8 hours a day; maximum working time (including overtime) must not exceed 48 hours per 7 working days). The duration of being on duty at the enterprise on rest days and public holidays as well as at home may not exceed 8 hours a day. The duration of being on-call at the enterprise shall be counted as working time in full, and the duration of being on-call at home will be counted as at least half of the working time (Muda et al. 2006).

Telework is a relatively new form of flexible employment that is at least as much driven by the needs of employees as by employers’ interest.[25] In most EU15 countries (France, Greece,

[24] The 1992 Employment Contracts Law (as amended) limited the duration of on-call time to 30 hours a month.
[25] Pennings (1997) defines telework as " ... the work performed by a person (employee, self-employed,

Ireland, Italy, Spain and the UK), telework is seen as a new form of homework, which is characterized by the use of information and telecommunication technology (ICT). Telework is not a legal category. In some countries, teleworkers are considered to be a special type of homeworker. In many Member States, however, the ICT connection to a specific employer makes it quite easy - easier than with other types of homeworkers - to look at teleworkers as employees. Teleworkers who work for more than one commissioning organization and who do not work in a clear hierarchical mode are considered to be self-employed.

Telework is recognized as an employment relationship in several countries in the ECA region. In Romania, teleworkers are employees who carry out, at their home, assignments typical of their positions. Such workers set up their own work schedule. However, as an expression of authority, the employer is entitled to check a teleworker's activity, under the terms set by the individual employment contract. The employment contract for telework must comprise: express mention that an employee must work at home; the schedule during which the employer shall be entitled to check the employee's activity; the actual manner in which such checks are carried out; the employer's obligation to ensure transport, to and from an employee's domicile, and as the case may be, of the raw materials and materials, which he/she uses in his/her activity, as well as the finished products made by him/her. Teleworkers enjoy all the rights stipulated by the law and the collective labor agreements applicable to employees whose workplace is at the employer's head office (Dima 2008).

The uptake of telework in Hungary paralleled the widespread use of information technololgy. It served primarily as a way of supporting the labor market participation of persons with difficulties undertaking labor outside of the home (e.g. parents with multiple children, disabled persons, people living in remote areas, etc.) as well as school-leavers or unemployed intellectuals. The amendment of the Labor Code in 2004 provided legal certainty, by inserting a chapter on telework. The provisions define the concept of the teleworker: a worker engaged in activities on a regular basis within the employer's regular profile of operations at a place of choice, other than the employer's facilities, using computers and other means of information technology and delivering the product through electronic means (Lehoczky et al. 2005).

Assistance to purchase the necessary IT equipment was available from public resources, and employers were eligible for support for the purpose of widening applied telework. Occasionally at the outset, the rules on outworking were applied in the absence of adequate regulation, in spite of the qualitative differences between outworking and teleworking. Telework is clearly a form of subordinate labor under the continuous control of the employer. Outworkers are much more in control of the process of labor and their responsibility is focused more closely on the result to be delivered; thus, their status is half way between employment and a civil law contract for work.

In addition to the legal changes, the Ministry of Employment in Hungary launched a fund to promote telework, which resulted in the establishment of almost 4,000 teleworking jobs. The government's efforts to promote telework has so far resulted in an increase in the percentage

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homeworker, ...) mainly or for an important part, at (a) locations other than the traditional workplace for an employer or a client, involving the use of advanced technologies".

of employees working as teleworkers from an estimated proportion of 2 percent to 4 percent of the total employed labor force.

A relatively new type of work arrangement in ECA region is flexible distribution of working time (flexitime). The purpose is to make better use of employee work hours and meet their personal needs more satisfactorily within the framework of 40 hours per week. Slovakia and Slovenia have introduced the concept in the interest of increasing efficiency and better responding to the needs of workers. The 'core' hours during which the employee must be present in the workplace are determined by the employer, and they must be at least five hours each day. The period of 'optional' working time at the start and end of the day must be of at least one hour (for a 40 hour week). Also, prior negotiation with employee representatives is required to initiate flexitime. Another form of flexitime arrangements is the Moldovan Labor Code in which compressed workweeks of 4 or 4 1/2 days are permitted but weekly hours must not exceed 40 hours.

In Romania, depending on the typical features of the company or of the work performed, an unequal distribution of the working time may be chosen, provided 40 hours per week is not exceeded. The flexible working program represents the division of the length of the working day into two periods: a fixed period during which all the employees are at their work places, and a variable, mobile period in which the employee chooses the times of arrival and departure, provided the working time is observed. The manner for establishing an unequal working schedule must be negotiated by collective labor agreement at the level of the employer, or, in the absence of such a collective agreement, it must be stipulated in the company's rules and regulations. The unequal work schedule may operate only if it is expressly stated in the individual labor contract.

The Czech Labor Code regulates the following new instruments for distributing working time: (i) uneven distribution of working time; (ii) flexible distribution of working time; and (iii) working time accounts. Uneven distribution of working time is defined relatively liberally; the act only restricts it in the interest of setting rest periods as follows: “In the event of uneven distribution of working time into individual weeks in a schedule of shifts the average weekly working time without overtime must not exceed the prescribed weekly working time for a period of at most 26 consecutive weeks. Only a collective agreement may define such period as at most 52 consecutive weeks. The length of a shift must not exceed 12 hours in the event of uneven distribution of working time.” Latvia and Poland balance uneven distribution of working time in four months, while Hungary, within a year.

Flexible distribution of working time is far more common than part-time work in the Czech Republic. As part of the uneven distribution of working time, the employee chooses when to start and finish on individual days within periods of time set by the employer (“optional working time”). A period of time in which the employee is obliged to be in the workplace (“basic working time”) is inserted between two periods of optional working time. On the application of flexible schedule of working hours to unevenly scheduled working hours, an employee is required to fulfill the average weekly working hours within a four-week settlement period. In any case, the total shift length may not exceed 12 hours (Koldinska 2007).

The “working time account” is a new concept in Czech law. The working time account is another way of unevenly distributing working time. It may be contained only in a collective agreement or internal regulation, with the prior consent of the individual employees. When applying working time accounts, employers are obliged to keep an employee’s working time account and wage account. Working time accounts are used mainly by those employers whose business involves seasonal work or work on one-off large-volume orders where the need for work is sporadic.

### *2.6. Transfer of Undertakings*

It is necessary to provide for the protection of employees in the event of a change of employer, in particular, to ensure that their rights are safeguarded. Some basic rules regarding the transfer of establishments (undertakings) have been established in the Council Directive 2001/23/EC of 12 March 2001 on the approximation of the laws of the Member States relating to the safeguarding of employees' rights in the event of transfers of undertakings, businesses or parts of undertakings or businesses.

In particular, the Directive stipulates that:

(i) Member States may provide that, after the date of transfer, the transferor and the transferee shall be jointly and severally liable in respect of obligations which arose before the date of transfer from a contract of employment or an employment relationship existing on the date of the transfer.

(ii) Following the transfer, the transferee shall continue to observe the terms and conditions agreed in any collective agreement on the same terms applicable to the transferor under that agreement, until the date of termination or expiry of the collective agreement or the entry into force or application of another collective agreement. Member States may limit the period for observing such terms and conditions with the provision that it shall not be less than one year.

According to the Directive, the transfer of the undertaking, business or part of the undertaking or business should not in itself constitute grounds for dismissal by the transferor or the transferee. At the same time, this provision should not stand in the way of dismissals that may take place for economic, technical or organizational reasons entailing changes in the workforce but common rules (e.g., entitlements, such as notice and severance pay) should be followed. A few examples follow.

The Estonian new Employment Contracts Act from December 2008 transposed this Directive into the national legislation by validating the existing employment contracts in the event of transfer of enterprise in the following way: (i) employment contracts transfer to the acquirer of an enterprise unamended if the enterprise continues the same or similar economic activities; (ii) transferors and acquirers of enterprises are prohibited to cancel employment contracts due to the transfer of enterprises, except in case of the declaration of bankruptcy of employers.

The Albanian labor law stipulates that in the case of transferring of enterprise or a part of it, the rights and obligations stemming from that, on the basis of a contract of employment will pass on to the person subject to the transferring of these right. The employee, even when refusing to change the employer, remains tied to the new employer until the termination of the legal notice deadline.

It might be beneficial to add also in the labor law that after a change of ownership, the new employer is responsible for any outstanding benefits or entitlements owed to the employees at the time of the change of ownership.

# Chapter 3. Minimum Wages

As with most labor market policy measures, statutory minimum wages imply both benefits and costs. Effective minimum wages – by providing a wage floor – can reduce wage inequality in the bottom half of the wage distribution, limit low pay and reduce the gender pay gap.

While minimum wages can boost the earnings of low-income employees, they can also lead to unemployment where the minimum wage is above the market-clearing level and where it is actually binding. Their effectiveness in bolstering incomes of low-paid workers will also depend on their interactions with other policies designed to support low-income households. The different views on minimum wage policies essentially hinge on the relative weight attached to these positive and negative effects.

Until recently, in many CIS states, through minimum wage regulations, the linkage between income and labor market policies was provided. Being still formally the basis for the wage tariff schedule, the major role of the minimum wage has been not only as a nominal anchor for most social transfers (and even fees) but also as a foundation for the salary scales of state employees in the budgetary sector.[26]

A recent ILO study reports a reactivation of minimum wages around the world in recent years to reduce social tensions resulting from growing inequalities. Globally, over the period 2001–2007, minimum wages were allowed to rise by an average of 5.7 percent per year in real terms – contrasting with some previous periods when the real value of the minimum wage had declined – and to increase in proportion to the average wage (ILO 2008).

This section summarizes the legal solutions to establish minimum wages in ECA countries, and some of the key findings in the relevant literature.

## *3.1. Standards on Minimum Wages*

Several international documents refer to policy recommendations on minimum wages. In particular, the ILO Minimum Wage Fixing Convention No. 131 (1970) states that the elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include:

(a) The needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups; and

(b) Economic factors, including the requirements of economic development, levels of productivity, and the desirability of attaining and maintaining a high level of employment.

[26] The unified Tariff Schedule of Wages and Salaries is still mandated in labor legislation of many CIS states.

The Convention sets up the following other principles: (i) Once established, minimum wages have the force of law; (ii) Most workers should benefit from the protection of the minimum wage although exceptions are possible; (iii) Social partners should be fully consulted (not just informed); and (iv) Minimum wages should be adjusted from time to time.

As regards to wages, the European Social Charter states the following: "All workers have the right to a fair remuneration sufficient for a decent standard of living for themselves and their families… With a view to ensuring the effective exercise of the right to a fair remuneration, the Parties undertake:

(i) Recognize the right of workers to a remuneration that will give them and their families a decent standard of living;

(ii) Recognize the right of workers to an increased rate of remuneration for overtime work, subject to exceptions in particular cases;

(iii) Recognize the right of men and women workers to equal pay for work of equal value;

(iv) Permit deductions from wages only under conditions and to the extent prescribed by national laws or regulations or fixed by collective agreements or arbitration awards.

The exercise of these rights shall be achieved by freely concluded collective agreements, by statutory wage-fixing machinery, or by other means appropriate to national conditions."

The Social Charter initially defined the decency threshold in the 1960s as 68 percent of average earnings within a national economy. The definition was modified to 60 percent of net earnings (as of July 2004) to allow for the difficulties experienced in taking into account initiatives such as redistributive tax systems when calculating adequate incomes.

The OECD 1994 Jobs Strategy recommended making wages and labor costs more flexible by reassessing the role of statutory minimum wages and either switching to better-targeted redistributive instruments or minimizing their adverse employment effects by introducing sub-minima differentiated by age or region and/or indexing them to prices instead of average earnings.

From the end of the 1990s, the focus has shifted from the low and inequitable pay to poverty reduction, preventing social exclusion, and promoting the quality of work. In 2000, the European Council in the Lisbon Summit launched a social exclusion strategy in response to the EU new objectives. The strategy stresses that the best way to fight against social exclusion is a job. The objectives of the strategy include a "guarantee that everyone has the resources necessary to live in accordance with human dignity" and ensuring that the take-up of employment results in increased income".

Minimum wage regulations have many dimensions: (i) the level set; (ii) coverage; (iii) differentiation in the level (e.g., by age, sector, or region); (iv) methods of adjusting levels to reflect inflation; (v) how the level is set (e.g., by government or by the social partners); (vi) whether it applies to the private and/or public sector; and (vii) sanctions for non-compliance.

Most, but not all, ECA countries set minimum wages although with considerable variation in the details.

### *3.2. How Minimum Wages Are Set?*[27]

There are two basic mechanisms for setting the minimum wage. First, a statutory minimum wage is set by the government, possibly involving consultations with trade unions and employers. Second, minimum wages are determined through collective (tripartite or bipartite) negotiations. Collective agreements can set national or sectoral (industry, occupational) minimum wages. In some countries, sectoral collective agreements are extended to employers who were not party to the original agreements, and also to workers not belonging to trade unions.[28]

In most ECA countries, minimum wages are set by the government after consultations with the social partners. However, there are exceptions. In Slovenia, by legislation, the minimum wage is set by the minister responsible for labor after consulting with the social partners; in Serbia, by the tripartite Decision of the Social and Economic Council; in Ukraine, by the Supreme Council of Ukraine on the recommendation of the Cabinet of Ministers of Ukraine, after consultations with social partners; and in Tajikistan, by the President of the Republic of Tajikistan. In some countries, the level of minimum wages is determined by collective agreements, such as in Montenegro, FYR Macedonia, or Bosnia and Herzegovina. In many CIS states, the labor code stipulates that minimum wages are determined by law or legislation giving the government the discretion to set the level.

There is no minimum wage in Georgia. In Montenegro and FYR Macedonia, currently the national minimum wage is binding only for public sector employees.

In January 2009, 20 of the 27 Member States of the EU (Belgium, Bulgaria, Czech Republic, Estonia, Greece, France, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and the U.K.) and one candidate country (Turkey) had national legislation setting statutory minimum wages. Minimum wages varied widely, from 123 EUR per month in Bulgaria to 1,642 EUR per month in Luxembourg. Among the EU10 countries, the highest monthly minimum wage of 589 EUR was in Slovenia followed by the Czech Republic, 306 EUR (Eurostat 2009).

In some other EU Member States (e.g., Austria, Germany and Italy), despite the absence of country-level regulations, minimum wages de facto exist due to a widespread collective bargaining together with the regulations, which extend the coverage of wage agreements to non-organized workers. Although Nordic countries (Denmark, Finland, and Sweden,) have no formal system of extending collective agreements, in practice, collective agreements cover almost the entire workforce, making minimum wages mandatory to most of the employers there as well. In EU15 countries that do not have the universal minimum wage set by law, the collective agreements defining contractual minima covers 95 percent of

[27] On the minimum wage fixing machinery in the world see ILO 1992.

[28] Information about minimum wages in around 100 countries in the world see: http://www.ilo.org/travaildatabase/servlet/minimumwages.

employees in Austria, 90 percent in Belgium and Finland, 80 percent in Denmark and Italy, and 68 percent in Germany (Boeri and van Ours 2008).

In most EU countries, minimum wages are differentiated across workers. Apprentices and trainees are often exempted or only qualify for a reduced rate. Disabled workers are often excluded or come under separate regulations. In some cases, public servants are also not covered (for example, France, Greece, and Luxembourg), as their wages are regulated by some other legal act.

**Table 3: Minimum Wage Differentiation in the EU Member States, 2005**

| | Basis of Differentiation | Minimum Wage* | Country |
|---|---|---|---|
| No minimum wage | | | Austria, Germany, Denmark, Finland, Italy, Sweden |
| No differentiation | | | Hungary, Estonia, Lithuania, Portugal, Slovenia |
| Based on age and service period | Under 16 years old | 30-50% | Netherlands, Slovakia |
| | Under 17-18 years old | 70-95% | France, Ireland, Luxembourg, Malta Slovakia |
| | Under 22-23 years old | 45-85% | Belgium, UK, Netherlands |
| | During the first 6-24 months of employment | 80-95% | Czech Republic, Poland, Cyprus |
| Altered working capability | Total disability pension<br><br>Partial disability pension | 75%<br><br>50% | Czech Republic<br><br>Slovakia |
| Casual workers and outworkers | Casual workers and outworkers | | Spain |
| Qualifications, sector, trade | People with qualifications in 16 areas | 120%<br><br>100%+- | Luxembourg<br><br>Malta |
| Position | Mandatory wage tariff of 12 elements | | Czech Republic |
| Service period and family status | 0-15 years of service, with spouse | 100-123%; +13% | Greece |
| Hazardous job | | 115% | Latvia |

Note: * - as a proportion of the general minimum wage level.
Source: European Industrial Relations Review (2005).

The law may establish different minimum rates of the minimum monthly wage (hourly pay) for different branches of economy, regions, or categories of employees. Collective agreements may establish higher rates of the minimum wage than those specified in the law.

However, while multiple minimum wages are desirable to tailor the "fair" wages to a particular geographic area, skills level, or productivity level, they are only successful if an equally complex system of oversight accompanies them. For example, the Italian and German systems of multiple minimum wages allow for such complexity since they are monitored by the unions that negotiated the contracts.

### *3.3. Level of Minimum Wages and Coverage*

In setting minimum wages, governments or the bargaining parties need to reconcile two opposite considerations. On the one hand, there are social consideration of workers needs, standards of living, and earnings inequality, which lead to pressure –usually from labor unions – to increase the minimum wage. On the other hand, there are economic considerations of productivity, competitiveness, and job creation, which result in the pressure – usually originating from employers' organizations – to keep the minimum wage at a low level.[29]

Countries where the labor movement is strong and societies are committed to the goal of equality tend to have higher minimum wages (relative to productivity) than countries where the labor movement is weaker and where economic inequalities are more widely accepted. Countries that still have economy-wide binding General Collective Agreements (e.g., Bosnia and Herzegovina, Montenegro, and Romania) tend to have higher unionization rates, and a stronger union influence on the wage determination process than countries where decentralized bargaining dominates. Also, comparison between countries is not valid without conditioning on the skill distribution. If a country has a large dispersion in its level of skills, then it would have a wide dispersion and a lower ratio of the minimum wage to the mean wage, and vice versa.

In many ECA countries (Albania, Bosnia and Herzegovina, Czech Republic, Slovakia, FYR Macedonia, and Montenegro), additional rules drive effective minimum wages further up. These rules are defined as mandatory wage coefficients that multiply the base minimum wage depending on the education level of employees. Especially problematic are minimum wage coefficients for vocational/secondary education. Vocational and high school education, as some of the studies show (Kotzeva et al. 2006; Krstic et al. 2007), yield very low returns because of their poor quality, skills mismatch, and general over-supply. Therefore, compulsory coefficients tend to aggravate employability problems of labor force members with vocational and secondary education. This has been confirmed by the in-depth analysis for Montenegro (Krsmanovic and Walewski, 2006), showing that very high percentages of employees with vocational education earn exactly the coefficient-augmented minimum wage.

In several ECA countries, minimum wages are differentiated according to job characteristics. In Hungary, on 28 November 2005, the tripartite Interest Reconciliation Council agreed on a new three-tier minimum wage system fixing different minimum wage rates according to the qualification requirements namely: (i) jobs not requiring a secondary school or vocational training qualification; (ii) jobs requiring a secondary school or vocational training qualification; and, (iii) jobs requiring a university-level education.

Minimum wages can be set on either an hourly, daily, weekly, or monthly basis, which complicates cross-country comparisons of their levels.[30] In the EU, in Luxembourg and

[29] For an overview of the empirical literature on the employment effects of minimum wages, see Dolado et al 1996; OECD 1998 and 2006; Brown 1999; Neumark and Wascher 1999; Neumark and Wascher 2007; Boeri and van Ours 2008.

[30] The mean wage is not a good benchmark for the minimum wage, due to outliers in the right tail of wage distribution. The *median* wage (which is the wage such that one-half of all workers earn less than it and one-half

Malta, the minimum wage level is close to 50 percent of the average monthly gross earnings. In Bulgaria, Ireland, the Netherlands, Portugal, Slovakia, Slovenia, and Spain, the monthly minimum wage ranges between 41 and 47 percent of the average gross monthly earnings (Eurostat 2008). Especially in some of the CIS states, the ratio of minimum wages to the average wages is very low, and virtually nobody receives wages at that level. These include Kyrgyzstan where the ratio is only 3 percent, Russia, 10 percent, Moldova, 11 percent, etc. (Annex Table A7). In addition to taking cross-country productivity differences into account, such a ratio also provides an indication of how many workers are likely to be affected by the minimum.[31]

As the chances of being employed informally are substantially higher for young workers, introducing a discounted minimum wage for youth or those with limited labor market experience, the minimum wage could reduce informal employment for this group and improve their job perspectives. Several ECA countries have legislated lower minimum wage levels for youth. The labor law in Serbia allows a trainee wage that is 80 percent of the regular minimum wage. In FYR Macedonia, the new Employment Relations Law from 2005 stipulates that the employee–trainee is entitled to a salary determined by law and collective agreement, but not lower than 50 percent of the minimum salary of the job for which he has been trained, yet the 80 percent level is more commonly used by businesses. For those aged 18-21 years old, Czech legislation permits 90 percent of the minimum wage rate to be paid for a six-month period as of the first day of employment. Employees younger than 18 years of age are entitled to 80 percent of the minimum wage rate. A lower minimum wage to facilitate the entering of young people in the labor market is also found in Albania, Bulgaria, and Poland. Similar options to introduce sub-minima wages for trainees have been explored in other countries in order to encourage employers to hire this age group, given their lack of experience.

In Kyrgyzstan, the Labor Code stipulates that minimum wages are established by law and cannot be less than subsistence minimum. However, subsistence minimum is an instrument to measure living standards (cost of living) and poverty levels, and it depends on the composition of the minimum consumption basket and inflation. Minimum wages are primarily dependent on labor market factors, such as labor productivity, or labor supply and demand. Since the minimum wage in Kyrgyzstan is eightfold lower than the subsistence minimum and constitutes only 9 percent of the average wage in 2007, it indicates that the law with respect to minimum wages is not followed (Table 3.2).

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earn more) is a more relevant benchmark to assess the "bite" of the minimum wage. (Rutkowski 2003). Also because the minimum wage is generally exempted from income taxes, which are often progressive, it may also be preferable to use net wages as the denominator in computing ratios of minimum wages to average wages (earnings).

[31] In many ECA countries, such ratios of the minimum wage to the average wage should be treated with precaution due to over- or underestimation of the average wage by the official statistics. In Albania it is suggested that the official statistics overestimates average earnings by 25-30 percent while in Montenegro they are underestimated by 10 percent. (Arandarenko and Vukojevic 2007).

**Table 4: Minimum Wages, Average Wages, and the Official Minimum Subsistence Level In Some of the Countries of the CIS in 2007 (per Month; in National Currency)**

| Country and Currency Unit | Minimum Wage, End-Year | Average Wage | Subsistence Level |
|---|---|---|---|
| Azerbaijan, manat | 50 | 215.8 | 69.1 |
| Belarus, 1000' Byelorussian rubles | 188.4 | 694.0 | 184.3 |
| Kazakhstan, tenge | 9800 | 52500 | 9653 |
| Kyrgyzstan, som | 340 | 3970 | 2795.9 |
| Moldova, lei | 400 | 2065 | 1099.4 |
| Russia, ruble | 2300 | 13593 | 3847 |
| Ukraine, grivna | 460 | 1351 | 532* |

Note: * - IV quarter.
Source: CIS STAT (2008).

The importance of the minimum wage depends not only on its relation to the average wage, but also on the shape of the wage distribution. If wage inequality and the incidence of low-pay are high, the minimum wage has a larger effect than if wage inequality and the fraction of low-paid workers are low (Dolado et al. 1996). In many EU countries, although the minimum wage/average wage ratio is relatively high, the wage distribution is so compressed that nobody actually receives the minimum.

Therefore, one of the factors determining the relevance of the minimum wage in the labor market is how many workers are directly influenced by this measure (i.e., earning minimum wages). In general, in most ECA countries, the minimum wage is unlikely to be binding since very few employees earn the minimum wage. Eurostat Labor Force Survey data show that only around 2 percent of full-time employees earned the minimum wage in 2007 in the Czech Republic, Hungary, Romania, and the Slovak Republic, compared with 9 percent in Latvia and 12 percent in Bulgaria. Among EU15 countries, between 1 percent of full-time employees in Spain and 2 percent in the United Kingdom and Malta, on the one side, and 11 percent in Luxembourg and 13 percent in France, on the other, earned the minimum wage (Eurostat 2008c). The percentage of females earning the minimum wage is usually higher than males.

The level of minimum wages in most CIS states, except perhaps Ukraine and Belarus, is moderately low to be binding that is, to affect wage and employment decisions (Annex Table A7). In Ukraine, which has the highest ratio of the minimum wage to the average wage among CIS states – 38 percent in 2006 – in case of financial difficulties of the enterprise, the minimum wage can be fixed by collective agreement at a lower level than the national minimum wage for a period not exceeding six months. On the other hand, in many other ECA countries, workers with earnings close to a minimum wage are likely to fall into poverty.

In most ECA countries, minimum wages are adjusted on a yearly basis, with discretionary changes in others. The legislation usually provides for both social and economic criteria to be used to adjust the level of the minimum wage. Adjustments may be tied to inflation, GDP fluctuations, the poverty line, or market wages.

In Ukraine, the minimum wage is adjusted in the course of approval of the state budget. In Poland, the minimum wage for the next year is negotiated within the Tripartite Commission by 15 July every year based on the proposal of the level and date of changing of minimum wage put forward by the government. The level of minimum wage grows together with projected average annual consumer price index. If the level of minimum wage in the year of negotiations is less than half of the level of average earnings, minimum wage increases according to two thirds of the projected real GDP growth rate. The determined level of the minimum wage is announced every year in the "Monitor Polski" before 15 September. In case that the Tripartite Commission does not reach a consensus, the government sets the minimum wage, although it cannot be less than the level included in the proposal presented to the Tripartite Commission.

Some of the EU10 countries, such as, Estonia, Hungary, Latvia, Lithuania, and Poland, set multi-annual programs to ensure a sustained and constant increase of the minimum wage. The purpose being to reach a certain target level as compared to the national average wage in the medium term. Similarly, in the Czech Republic, the minimum wage was brought to about 40 percent of the average wage in 2006. In Hungary, a medium term plan for monthly national minimum wage increases and pay policy guidelines were agreed by the government and the social partners for the period 2006-2008. In Poland, a new mechanism for setting the minimum wage was defined in 2005, increasing each year by the forecast inflation rate plus two thirds of the forecast GDP growth rate until it reaches 50 percent of the national average wage.

In Russia and in several other CIS states, the national minimum wage rate applies to all unqualified employees performing simple work. However, a tariff system is also in place that sets a wage scale for categories of work depending on the complexity of work carried out and the employee's skill level.

In EU15, only Belgium and Luxembourg appear to automatically index for price indexation, while in France, Greece, Portugal, and Spain, both price and wage movements are either explicitly or implicitly taken into consideration in annual reviews of the minimum rate.

In sum, the labor market impacts of minimum wages in ECA depend heavily on the level at which they are set and how well they are enforced. Setting the minimum wage at a lower level and enforcing it effectively is in general a more efficient and equitable approach than setting the minimum wage at a higher level but with weak or selective enforcement. The general trend towards declining real minimum wages, especially among CIS states, presumably has led to the weakening of its impacts on employment and earnings.

# Chapter 4. Working Hours

## *4.1. Standards on Working Hours*

Adjustments in the labor market and the flexibility of labor have also taken the form of flexibility in the amount of time worked (internal numerical flexibility of labor). Thus, working hours and working time arrangements are increasingly important issues in today's labor markets, in particular with regard to their relation to productivity, labor market flexibility and quality of work (EC 2006b). Relevant laws should protect the health and well-being of workers; facilitate a balance between work and family life; ensure that workers have adequate time to devote to their other responsibilities and interests; and prevent discrimination against part-time workers or other workers on flexible arrangements.

Several international treaties deal with minimum standards regarding work time arrangements. The first ILO Hours of Work (Industry) Convention from 1919 was devoted to hours of work in industry. Article 2 of the Convention states, "Working hours … shall not exceed eight in the day and forty-eight in the week…"[32] The follow-up Forty-Hour Week Convention No. 47 from 1935 states that each country that ratifies the convention declares its approval of the principle of a forty-hour workweek.[33]

The EU's Charter of Fundamental Rights promulgates, "Every worker has the right to limitation of maximum working hours, to daily and weekly rest periods and to an annual period of paid leave."

The European Social Charter suggests providing for reasonable daily and weekly working hours, and the working week to be progressively reduced to the extent that the increase of productivity and other relevant factors permit eliminating risks in inherently dangerous or unhealthy occupations. And, where it has not yet been possible to eliminate or reduce sufficiently these risks, to provide for either a reduction of working hours or additional paid holidays for workers engaged in such occupations.

It is important to fix in labor legislation the principle of the 40-hour week (or shorter in some countries) as the length of the normal working week since overtime, including wage premiums, does not apply to this period. Basic definitions and minimum requirements for the organization of working time, in respect of periods of daily rest, breaks, weekly rest, maximum weekly working time, annual leave, and aspects of night work, shift work, and patterns of work are laid down in the Directive 2003/88/EC of the European Parliament and of the Council of 4 November 2003 concerning certain aspects of the organization of working time.

[32] However, Article 4 of this Convention states that the limit of hours of work prescribed in Article 2 may be exceeded in those processes which are required by reason of the nature of the process to be carried on continuously by a succession of shifts, subject to the condition that the working hours shall not exceed 56 in the week on the average. This convention was ratified by 52 ILO members and has interim status.

[33] This convention was ratified by only 14 ILO members and has interim status.

In particular, the following definitions are applied:

(i) "Working time" means any period during which the worker is working, at the employer's disposal and carrying out his/her activity or duties, in accordance with national laws and/or practice;

(ii) "Rest period" means any period that is not working time;

(iii) "Night time" means any period of not less than seven hours, as defined by national law, and which must include, in any case, the period between midnight and 5:00 a.m.;

(iv) “Night worker” means: (a) any worker, who during night time works at least three hours of his/her daily working time as a normal course; and (b) any worker who is likely during night time to work a certain proportion of his/her annual working time, as defined at the choice of the Member State concerned…;

(v) "Shift work" means any method of organizing work in shifts whereby workers succeed each other at the same work stations according to a certain pattern, including a rotating pattern, and which may be continuous or discontinuous, entailing the need for workers to work at different times over a given period of days or weeks;

(vi) "Shift worker" means any worker whose work schedule is part of shift work.

As far as daily rest is concerned, the Directive indicates that every worker in Member Countries should be entitled to a minimum daily rest period of 11 consecutive hours per 24-hour period. Where the working day is longer than six hours, every worker is entitled to a rest break, the details of which, including duration and the terms on which it is granted, are laid down in collective agreements or agreements between the two sides of industry or, failing that, by national legislation. Per each seven-day period, every worker is entitled to a minimum uninterrupted rest period of 24 hours plus the 11 hours' daily rest referred to above. If objective, technical, or work organization conditions so justify, a minimum rest period of 24 hours may be applied.

Although in most ECA countries, a 40-hour workweek and 8-hour workday has been a norm for a long period of time: There were exceptions as well. In Poland, until 1995, a daily 8 hour norm and a weekly 46-hour norm were in force. The amendment of the Labor Code, which was introduced in 1996, shortened the weekly standard to 42 hours, and it was an average maximum during a three-month reference period. Further amendments associated with transposition of the EU labor law led to the shortening of the norm to 40 hours, and to the extension of the basic settlement period to four months.

The Czech Republic also fulfilled the European Community’s requirements for working time and the maximum 40-hour week by amending its labor code. The previous limit for working time was 42.5 hours a week. However, work breaks, which were usually 30 minutes during each shift, were counted in working hours. The new legislation retained the employer’s obligation to provide work breaks, with the understanding that these were no longer included in working hours.

In most EU15 countries, legislation sets normal weekly working hours. Thus, normal weekly working time is, for instance, 40 hours in Austria, Belgium, Finland, Luxembourg, Spain, and Sweden. However, differences may exist for (sometimes large) categories of employees, and wide variations occur between countries. Moreover, principles of the Directive occasionally do not apply to all employees and are sometimes superseded by collective agreements that either increase or reduce the duration. In two countries, there are no general legal limits: the United Kingdom (apart from special groups, such as miners and lorry drivers) and Denmark; in these countries the main source of regulating daily hours is collective bargaining.

As for the duration of the workday is concerned, in most EU15 countries maximum daily normal working time is limited to 8 hours a day. There are however exceptions. In the Netherlands, the normal maximum working-time is fixed at 8.5 hours, in Portugal it is 7 hours a day for white collar workers, in Spain 9 hours and in France 10 hours. In Italy, the daily limit is derived from the weekly limit of 48 hours: therefore it amounts to 9 hours a day without overtime pay. In Sweden, there is no statutory rule limiting daily working hours other than the provision that all employees should get time off for nightly rest. This period is defined as being between midnight and 5:00 a.m.

### *4.2. Part-Time Work*

A widely accepted definition of part-time work is that given by ILO: "Part-time work is regular, voluntary work carried out during working hours distinctly shorter than normal". "Voluntary" work in this sense does not mean work without pay, instead referring to individuals choosing to work.

During the socialist era, part-time work, similarly to fixed-term employment, was an exceptional form of employment. It was a predominantly supplementary activity for pensioners, students, disabled persons, and only exceptionally the main source of income. Part-time employment is still not very common in the ECA region. Among EU10 countries, only between 2 percent of the employed in Bulgaria and Slovakia, and 10 percent in Romania work part-time compared to about 20 percent on average in EU15 countries.

**Table 5: Part-Time Employment (% of Total Employment) by Country and Sex (2Q 2008)**

| | Total | Men | Women | Hours Worked Per Week in Part-Time Work in 2007 |
|---|---|---|---|---|
| Bulgaria | 2.4 | 1.9 | 2.9 | 20.8 |
| Czech R. | 5.0 | 2.2 | 8.6 | 22.3 |
| Estonia | 6.4 | 3.8 | 9.1 | 20.8 |
| Latvia | 6.4 | 4.4 | 8.5 | 21.9 |
| Lithuania | 6.5 | 4.6 | 8.4 | 22.7 |
| Hungary | 4.5 | 3.2 | 6.0 | 23.7 |
| Poland | 8.3 | 6.1 | 11.0 | 21.9 |
| Romania | 10.1 | 9.1 | 11.3 | 25.7 |
| Slovakia | 2.2 | 1.0 | 3.8 | 21.7 |
| Slovenia | 9.0 | 7.2 | 11.3 | 19.4 |
| EU-27 | 18.2 | 7.9 | 31.0 | 20.0 |
| EU-15 | 19.8 | 7.7 | 35.0 | 19.8 |

Note: The distinction between full-time and part-time work is made on the basis of a spontaneous answer given by the respondent.
Source: Eurostat 2008b.

In theory, the decision about part-time work is determined by labor supply and labor demand behavior. Part-time work provides flexibility to the worker that allows him to combine a paid job with care activities within the household (Boeri and van Ours 2008). At the same time, part-time work may have fewer fringe benefits and career possibilities than full-time jobs.

In transition economies, the situation seems different. For example, LFS data from Bulgaria indicates that the main reason for working part-time is lack of work, or the unavailability of full-time jobs (World Bank 2007b). Employees also cannot afford to work part-time because of low wage levels in the region, and the associated costs in relation to earnings are too high (transport, meals, clothes, children care, etc.).

The prevalence of low wages is indicated as the fundamental reason for the low incidence of part-time employment in Hungary as well (Lehoczky et al. 2005). To work for such low wages is only worthwhile for those who have a basic income from either a pension or a social benefit, which can be complemented by a part-time salary: 34 percent of employed pensioners, 43 percent of employees on disability assistance and 29 percent of employees eligible for the child care benefit worked part-time in 2002; 43 percent of all part-time employees were eligible for a pension or some kind of child care benefit. Part-time employees not eligible for a pension or social benefits only worked for higher wages: they worked 49 percent less but earned only 32 percent less, and their hourly wages were 35 percent higher than their full-time counterparts.

Also, the period of increasing the incidence of involuntary part-time employment may coincide with periods of economic recession: since fewer standard full-time jobs are available, workers are forced to take jobs with reduced working hours as "better-than-unemployment" alternatives. During economic recovery, when more standard full-time jobs are created, indicators of involuntary part-time employment are expected to decline.

Basic conditions for part-time work are emphasized in the ILO Part-Time Work Convention No. 175 and Part-Time Work Recommendation No. 182 from 1994. In particular, the relevant Convention emphasizes that measures shall be taken to ensure that part-time workers receive conditions equivalent to those of comparable full-time workers in the fields of: (a) maternity protection; (b) termination of employment; (c) paid annual leave and paid public holidays; and (d) sick leave. Statutory social security schemes that are based on occupational activity shall be adapted so that part-time workers enjoy conditions equivalent to those of comparable full-time workers; these conditions may be determined in proportion to hours of work, contributions or earnings, or through other methods consistent with national law and practice. However, exceptions are allowed: part-time workers whose hours of work or earnings are below specified thresholds may be excluded from the scope of any of the measures taken in the above-mentioned fields, except in regard to maternity protection measures other than those provided under statutory social security schemes and to employment injury benefits.

Measures are called by ILO to be taken to overcome specific constraints on the access of part-time workers to training, career opportunities, and occupational mobility. In particular, where appropriate, employers should give consideration to: (a) requests by workers to transfer from full-time to part-time work that becomes available in the enterprise; and (b) requests by workers to transfer from part-time to full-time work that becomes available in the enterprise.

Employers should also provide timely information to the workers on the availability of part-time and full-time positions in the establishment, in order to facilitate transfers from full-time to part-time work or vice versa. A worker's refusal to transfer from full-time to part-time work or vice versa should not in itself constitute a valid reason for termination of employment, without prejudice to termination for other reasons such as those that may arise from the operational requirements of the establishment concerned.

In the EU, part-time work is regulated by a Council Directive 97/81/EC of 15 December 1997 concerning the Framework Agreement on part-time work, which sets out the general principles and minimum requirements relating to part-time work. In respect to employment conditions, by the Directive, part-time workers should not be treated in a less favorable manner than comparable full-time workers solely because they work part time unless different treatment is justified on objective grounds. Where appropriate, the principle of pro rata temporis shall apply.

In particular, the Council notes that European Union approach in this regard should be based on the following principles:

(i) Part-time work must be voluntary and open to both men and women. It must not be imposed on persons who wish to work full-time. Furthermore, particular care must be taken to ensure that part-time work is not limited to women or to relatively unskilled work;

(ii) Consideration should be given to the extent to which part-time work could be made more readily available to certain groups of workers, particularly parents of young children and older workers;

(iii) Part-time workers should as a rule have the same social rights and obligations as full-time workers, bearing in mind however the specific character of the work performed;

(iv) Part-time work should not be limited to half-time work; it could be on a daily, weekly, or monthly basis according to the needs of different groups of workers and to those of undertakings.

In ECA countries, generally, the same regulations apply to part-time employees, as to full-time employees. Certain pecuniary entitlements, such as social protection benefits, are determined in proportion to hours of work or earnings. Recent amendments to the labor legislation in some countries, for example, in 2003 in Poland, specially emphasize that concluding an employment contract that provides part-time employment cannot cause the determination of employee's conditions of work and pay to be less favorable in comparison with employees, who provide the same or similar work full time.

The Macedonian labor legislation stipulates additional protection for those with multiple contracts: When a worker has part-time contracts with several employers, the employers are obliged to assure that the worker can take simultaneously annual leave and other absences from work, unless it would cause damage to them. However, the Slovakian legislation offers simplified termination rules with regard to part-time workers: An employment relationship with hours of less than 20 per week can be terminated by notice by either employer or employee for any reason or without statement of reason. The notice period is also shorter - 15 days.

As far as EU15 countries are concerned, a statutory definition of part-time work is non-existent in Belgium, Denmark, Finland, the Netherlands, Portugal, Sweden, and the UK. Since there is no (legal) difference between part-time and full-time workers, part-time workers are entitled to the same statutory rights as full-time workers in these countries. Most statutory employment rights are now dependent on a part-timer being able to establish the fact that they have the status of employee, working under a contract of employment.

However, in some EU15 countries, distinction is made between full-time and part-time employees in some entitlements. With regard to dismissal protection, in Denmark, in order to qualify for relevant benefits, the part-time worker must work at least 15 hours per week, in Germany 18 hours per week, in Spain 12 hours per week, in France and the Netherlands, there is no threshold and in Ireland the threshold is 12 hours per week, in Luxembourg 16 hours per week, in Austria 12 hours per week, in Sweden 17 hours a week and in the United Kingdom the threshold is earnings of at least 57 pounds per week.[34]

Also in Germany, the disadvantageous treatment of part-time employees is prohibited. However, part-timers working less than 10 hours per week or 45 hours per month are not covered by the Improvement of Employment Opportunities Act with regard to unfair dismissal and are not covered by social security payments. The Dismissal Act only applies to firms with five or more employees working 10 or more hours per week. In Belgium, in order

[34] See http://ec.europa.eu/employment_social/labour_law/docs/06_parttime_implreport_en.pdf.

to qualify for sickness benefit an employee must have worked for 120 hours over a 13-week period.

In Greece, the right to paid holidays is granted to an employee who has performed a year of continuous service in the same company. In this country, to qualify for maternity allowance, the parent must have worked a minimum of 200 hours in the last two years. In France, to have any right to a paid annual vacation, employees must have been employed in the same enterprise during the year of reference for a minimum of one month of actual work. In Ireland part-time employees have a right to 14 weeks maternity leave but only after 13 weeks of employment.

### *4.3. Overtime*

The ILO Forty-Hour Week Convention No. 47 states that Each Member of the International Labor Organization that ratifies this Convention declares its approval of the principle of a forty-hour week applied in such a manner that the standard of living is not reduced in consequence.[35] Respectively, working hours above this threshold should be considered as overtime.

The European Social Charter suggests recognizing the right of workers to an increased rate of remuneration for overtime work, subject to exceptions in particular cases. As noted by the Charter, "...The exercise of this right shall be achieved by freely concluded collective agreements, by statutory wage-fixing machinery, or by other means appropriate to national conditions."

Directive 2003/88/EC of the European Parliament and of the Council of 4 November 2003 concerning certain aspects of the organization of working time stipulates that in keeping with the need to protect the safety and health of workers:

(a) the period of weekly working time is limited by means of laws, regulations, or administrative provisions or by collective agreements or agreements between the two sides of industry;

(b) the average working time for each seven-day period, including overtime, does not exceed 48 hours.

In many ECA countries, among hired employees overtime is still restricted, although it is very common especially among the self-employed and those employed in seasonal work. Overtime work is particularly common in Armenia: by the LFS data, 26 percent of the workforce works 51 or more hours per week (World Bank 2007). In contrast, in Hungary, the portion of employees for whom the number of hours actually worked exceeds the number of hours usually worked due to overtime was only 2.2 percent in 2005 (2.9 percent of males and 1.6 percent of females) versus 5.7 percent of total employees in EU15 countries (EC 2007a).

[35] This Convention has been ratified by 14 countries.

Within the EU, some 12 million, or 9 percent of full-time employees usually work more than 48 hours a week, which is the statutory maximum number of working hours per week in most EU Member States (EC 2006a). Overtime is more costly to employers due to wage premium but allows them to react quickly to temporary fluctuations in economic activity.

Overall, two types of overtime work can be specified: (i) overtime that an employee generally can agree to work, and (ii) overtime that the company generally can require an employee to work. In around half of the ECA countries, the rules and time limits are the same but in the rest of the pool, substantial differences between the two categories exist.

As far as overtime is concerned, the most restrictive rules are in Ukraine where an employee cannot even agree to overtime without exceptional circumstances (*force majeure*). The same is true for Tajikistan where, in addition, the employee must agree to it (For a summary of the rules on overtime, see Annex Table A8). In many countries, an employee's consent or the consent of employee representatives is required if an employer asks the worker to perform overtime (i.e., Estonia, Georgia and Romania). Conversely, in Kazakhstan, there are no limits on overtime; and in Azerbaijan, the Labor Code does not specify any limits if overtime is initiated by an employee (as agreed upon with an employer).

In other countries, limits on overtime are specified as daily, weekly, monthly and yearly. Poland and Slovakia have the most generous overtime limit, reaching or exceeding a total of 400 hours per year. In Hungary, it may be extended from 200 hours per calendar year to 300 hours by a collective agreement. In most CIS states, the limit is usually 120 overtime hours per year, as in the Soviet time.

Wage premiums for overtime work varies from 25 percent in the Czech Republic and Slovakia to up to 100 percent in Latvia. In some countries, such as in Slovenia and Montenegro, wage premiums are determined by collective agreements. Furthermore, in some countries, compensation for overtime work can be replaced with time-off for each hour of overtime work (the Czech Republic and Slovakia). In Moldova, it is not permitted to replace compensation of overtime work with time-off. In Hungary, there is no wage supplement for public servants, and only additional free time is provided. In Armenia, there is no wage premium if the overtime is agreed between the parties.

In order to limit overtime work, in several ECA countries, procedural inconveniences have been introduced. In Bulgaria, prior to introducing the increased working time, the employer is obliged to inform and consult the representatives of the employees and the trade union organizations in the enterprise. In the course of the consultations, the employer acquaints the representatives with the specific reasons that necessitate the introduction of increased working time and its length in the specific case, and hears out their opinions, proposals, etc. In addition, the employer is obliged to inform the Labor Inspectorate about the introduction of increased working time, specifying its length and the number of employees.

In Croatia, a Labor Inspector must be notified of overtime work by a particular worker if it lasts more than four consecutive weeks or more than twelve weeks during one calendar year, or if overtime work by all workers of a certain employer exceeds 10 percent of the total working hours in a particular month. The Labor Inspector may limit or prohibit overtime

hours if such work has harmful consequences on the worker's health and working ability or if, as a result of its excessive usage, the employment of unemployed persons is hindered.

Labor legislation in many ECA countries sets up limits to perform overtime work by certain categories of workers. Typically a pregnant worker, a mother of a child less than three years of age and a single parent of a child under an age as defined in national legislation may work overtime only if he or she gives a written agreement to such work. Young workers are commonly prohibited from working overtime hours, as are persons studying in secondary and vocational schools without interrupting work – on study days, as well as in other cases established by law and the collective agreement. Disabled persons, as a rule, may be assigned to overtime work provided that this is not forbidden by medical conclusion.

In EU15 countries, the maximum number of weekly overtime hours varies widely, from two in Spain to 15 in the Netherlands (Boeri and van Ours 2008). In many countries, there is no overtime premium, by law. In others, the overtime premium varies between 25 percent and 100 percent (Table 4.2).

**Table 6: Premium for Overtime Work in EU15 Countries in 2007/08**

| | Premium for overtime work |
|---|---|
| Austria | 50% |
| Belgium | 50% but 100% on Sundays and holidays |
| Denmark | None by law but 50%-100% by CA |
| Finland | 50% for first 2 hours; 100% thereafter. |
| France | 25% for first 8 hours; 50% after. Can be reduced to 10% by CA |
| Germany | 25% but determined in CA |
| Greece | 25% for up to 5 hours over 40 hours within the week; 50% for up to 120 hours within the year |
| Ireland | None by law |
| Italy | None by law; set up in CA |
| Luxembourg | 25% for blue collar workers; 50% for white collar workers |
| Netherlands | None by law |
| Portugal | 50% for 1st hour;75% 2nd hour; 100% following hours or any hour on a holiday or rest day |
| Spain | 0% |
| Sweden | None by law; set up in CA |
| United Kingdom | None by law |

Note: CA – collective agreements.
Source: World Bank (2008); World Bank *Doing Business 2009* database.

In sum, on many occasions the workers themselves would like to work overtime in excess of a standard 40-hour week to earn extra income. On the other hand, overtime arrangements can also be abused by employers, especially on-season or during increases in the volume of work. Instead of hiring additional labor, the existing workers are requested to work overtime. Labor legislation, therefore, needs to find the optimal way to address both situations.

### *4.4. Night Work*

The human body is more sensitive at night to environmental disturbances and also to certain burdensome forms of work organization. Therefore, long periods of night work can be detrimental to the health of workers and can endanger safety at the workplace.

Some of the night work arrangements are discussed in the ILO Night Work Convention No. 171 from 1990.[36] The following definitions are given in this Convention:

(a) The term night work means all work that is performed during a period of not less than seven consecutive hours, including the interval from midnight to 5 a.m., to be determined by the competent authority after consulting the most representative organizations of employers and workers or by collective agreements.

(b) The term night worker means an employed person whose work requires performance of a substantial number of hours of night work which exceeds a specified limit. This limit shall be fixed by the competent authority after consulting the most representative organizations of employers and workers or by collective agreements.

Article 8 of the Convention states that compensation for night work shall "recognize the nature of night work." Article 10 states that before introducing a night work schedule, the employer must consult the workers' representatives concerned, and then continue to consult them on a regular basis.

The European Social Charter also suggests the countries to ensure that workers performing night work benefit from measures that take account of the special nature of the work.

Directive 2003/88/EC of the European Parliament and of the Council of 4 November 2003 concerning certain aspects of the organization of working time suggests:

(i) There is a need to limit the duration of periods of night work, including overtime.

(ii) It is important that night workers should be entitled to a free health assessment prior to their assignment and thereafter at regular intervals and that whenever possible they should be transferred to day work for which they are suited if they suffer from health problems.

(iii) The situation of night and shift workers requires that the level of safety and health protection should be adapted to the nature of their work.

In more detail, the Directive sets up the following minimum requirements regarding night work:

(a) Normal hours of work for night workers do not exceed an average of eight hours in any 24-hour period.

[36] This convention was ratified by only nine ILO members.

(b) Night workers whose work involves special hazards or heavy physical or mental strain do not work more than eight hours in any period of 24 hours during which they perform night work.

As far as a health assessment and the transfer of night workers to day work is concerned, the Directive suggests that the Member States take the measures necessary to ensure that: (i) night workers are entitled to a free health assessment before their assignment and thereafter at regular intervals; and, (ii) night workers suffering from health problems recognized as being connected with the fact that they perform night work are transferred whenever possible to day work to which they are suited.

In ECA countries, night workers are protected and/or stimulated in various ways. A pay premium has been established in most countries, varying from 15 percent in Hungary to 50 percent in most CIS states. In many countries (e.g., Bulgaria, Latvia and most CIS states), the night shift has been reduced by one hour to seven hours. In Romania, night shift workers have to choose between the night shift reduced by one hour and the night bonus at 25 percent of wages as set by the collective agreement. Aside from Azerbaijan and Georgia, there are restrictions on night work region-wide (World Bank 2008).

The health of night workers is specially protected in many countries. In Latvia, the labor legislation stipulates that a night worker is entitled to undergo a health examination before he/she is employed in night work and subsequently not less frequently than once every two years or once every year as from 50 years of age. Similarly, in Bulgaria, the law requires that the employees be medically examined in advance so that the employer is sure that the night work will not harm their health.

In many countries, labor legislation prohibits night work for certain categories of workers. For example, in Belarus, night work is prohibited for pregnant women, women who are on postnatal leave and women who have children under the age of three.

Among the EU15, there are no restrictions on night work in Denmark, France, Ireland and the UK. However, in Denmark, under the collective agreement for members of the Confederation of Danish Industries, workers are entitled to special premiums for night time work, and the workweek is also limited to 34 hours. In Germany, night workers are entitled to a shorter shift. In Austria, additional rest periods are provided if the employee who works night hours for an average of more than eight hours per day, averaged on a 26-week basis. Night workers work for at least three hours between 10:00 pm and 5:00 am for 48 days per year, and have a statutory right to free medical checks. Furthermore, if their health is in danger or they have to take care of children up to 12 years of age, night workers have the right to relocate to a daytime job. In Spain, workers are entitled to a specific remuneration for night work, the amount being determined through collective bargaining agreements (World Bank 2008).

### *4.5. Work on Weekends and Public Holidays*

Employers may require employees to work on weekends and public holidays if this is necessary to provide services to the public, ensure uninterrupted production processes (the

employer operates in continuous shifts) or perform temporary and urgent work in the case of need arising from *force majeure*.

The European Social Charter suggests the signatories ensure a weekly rest period that, as far as possible, coincides with the day recognized by tradition or custom in the country or region concerned as a day of rest.

In most countries, labor legislation allows work on Sundays and on legal holidays but additional remuneration or compensatory leave should be provided. In most countries, the wage premium for work is 100 percent but 26 percent in Serbia, and not more than 10 percent in the Czech Republic. In Croatia and Montenegro, the wage premium is determined in the collective agreement or contract of employment.

However, in Slovakia, work on public holidays can only be required exceptionally and upon prior negotiation with workers' representatives. In Tajikistan, work on weekends is prohibited unless it falls under one of the specified in the law exceptional circumstances (Annex Table A8). With the exception of Azerbaijan, Georgia and Serbia, all other ECA countries restrict, to varying degrees, work on weekends and public holidays (World Bank 2008).

A country can establish 24 hours of weekly rest, but without naming a specific day, leaving it open to negotiation between an employer and employee according to their necessities. For example, in Denmark and the United Kingdom, the weekly holiday is flexible by law but in Denmark under the collective agreement for members of the Confederation of Danish Industries, workers are entitled to special premiums for work on Sundays. In the UK, however, employees have the right to opt-out of working on Sunday with notice.

In Germany, generally, no work is permitted on Sundays. In Austria, the employer has to provide a compensatory time off for work on Sundays, according to the Rest Periods Act. In Finland, employees can be required to work on a Sunday or a church holiday only when the work concerned is regularly carried out on the said days due to its nature or agreed upon in the employment contract, or with the separate consent of the employees. The wage payable for Sunday work performed as part of regular working hours is twice the regular wage.

# Chapter 5. Leave Policies

## *5.1. Annual Paid and Unpaid Leave*

Labor legislation in respect to annual leave regulates two basic elements: first, a period off work during the regular work schedule, and second, payment (i.e., the right to normal wages or equivalent compensation during the leave period although work is not performed). Various leave entitlements incur substantial costs to the employer, especially if the employee should be replaced for a prolonged period of time. On the other hand, flexible leave policies allow work time to be reconciled with family duties and recreational or social activities. Family leave entitlements especially have positive implications for the care of children, as well as for encouraging entry into the labor market and enabling people to remain at work.

Basic principles of a paid annual leave are laid down in the ILO Holidays with Pay Convention (Revised) No. 132 from 1970 which in particular states the following:

(i) Every person to whom this Convention applies shall be entitled to an annual paid holiday of a specified minimum length… The holiday shall in no case be less than three working weeks for one year of service;

(ii) A person whose length of service in any year is less than that required for the full entitlement shall be entitled in respect of that year to a holiday with pay proportionate to his length of service during that year;

(iii) A minimum period of service may be required for entitlement to any annual holiday with pay. The length of any such qualifying period shall not exceed six months;

(iv) Public and customary holidays, whether or not they fall during the annual holiday, shall not be counted as part of the minimum annual holiday with pay;

(v) Periods of incapacity for work resulting from sickness or injury may not be counted as part of the minimum annual holiday with pay;

(vi) Every person taking the holiday shall receive in respect of the full period of that holiday at least his normal or average remuneration (including the cash equivalent of any part of that remuneration which is paid in kind and which is not a permanent benefit continuing whether or not the person concerned is on holiday);

(vii) The division of the annual holiday with pay into parts may be authorized by the competent authority or through the appropriate machinery in each country… One of the parts shall consist of at least two uninterrupted working weeks;

(viii) An employed person who has completed a minimum period of service shall receive, upon termination of employment, a holiday with pay proportionate to the

length of service for which he has not received such a holiday, or compensation in lieu thereof, or the equivalent holiday credit; and

(ix) Agreements to relinquish the right to the minimum annual holiday with pay to forgo such a holiday, for compensation or otherwise, shall, as appropriate to national conditions, be null and void or be prohibited.

The ILO Convention No. 132 has been ratified by only 35 countries, including 12 countries in ECA, although all of these principles have not been transposed into the national legislation in the region.

The European Social Charter declares that signatory countries have to provide for a minimum of four weeks' annual holiday with pay.

Directive 2003/88/EC of the European Parliament and of the Council of 4 November 2003 concerning certain aspects of the organization of working time lays down minimum requirements in respect of annual leave as well and stipulates the following: (i) Member States shall take the measures necessary to ensure that every worker is entitled to paid annual leave of at least four weeks, and (ii) the minimum period of paid annual leave may not be replaced by an allowance in lieu, except where the employment relationship is terminated.

The countries in the ECA region have a wide variation of legal solutions with respect to annual leave. Typically it is calculated in working days or weeks but in most CIS states (except Georgia and Uzbekistan), it is still calculated in calendar days (See Annex Table A9). The shortest minimum paid annual leave is the 15 working days in Uzbekistan and the 18 calendar days in Kazakhstan, and the lengthiest is found in Hungary where workers over 45 years of age receive 30 working days.

Some countries regulate a minimum period of service required for entitlement to an annual holiday with pay. In Tajikistan, the length of such a qualifying period is eleven months but exceptions are made to nine categories of employees, including women with small children, minors and war veterans.

In many countries, the minimum annual leave is differentiated for various criteria. Typically state and local government employees as well as pedagogic and academic employees have lengthier leaves. In Hungary, annual leave is dependent on the age of a worker: from 20 working days at age less than 25 to, as noted, up to 30 working days for older workers. It might create an additional disincentive not to hire the workers at older age. In some countries (Poland and Slovakia), the duration of the minimum annual leave is dependent on the length of services of the worker. Moreover, in Poland, it includes the job tenure with the previous employer(s).

Labor legislation in ECA envisages various other supplementary leave entitlements. While in some countries, the nature of work is taken into consideration, in others, social considerations prevail. In the Czech Republic, Estonia, Bulgaria, Romania and a few other countries, employees who are engaged in work that poses a health hazard are entitled to supplementary leave. In many countries, minors and/or disabled persons are entitled to additional days of leave. In Belarus and Russia, employees with open-ended working hours can have extra leave. In Hungary, single parents and parents with three and more children under 16 years of

age are entitled to a supplementary leave. In Slovenia, the workers are entitled to one additional day for every child under the age of 15.

Moreover, especially in SEE countries but also in Lithuania, the labor legislation envisages additional days of a family leave for various family events. In many EU15 countries, workers are entitled to time off from work, in accordance with national legislation, collective agreements and/or practice, on grounds of *force majeure* for urgent family reasons in cases of sickness or accident, making the immediate presence of the worker indispensable.[37] In some countries, the employers have to bear the costs; in some others, remuneration is determined in the collective agreement or is additional unpaid leave.

In Lithuania, an employee is entitled to at least three calendar days of extra leave for a wedding and at least three days of unpaid leave for the funeral of a family member. In the Federation of Bosnia and Herzegovina, on the other side of the spectrum, the labor law entitles the worker to up to seven working days of paid leave in one calendar year in the case of marriage, wife's confinement, serious disease or death of a close family or household member, and up to four days to meet religious/traditional needs of which two days with salary compensation.

While the coverage of such costs can be negotiated in a collective or individual labor agreement, if the law obliges the employer to bear such personal costs, it could be especially burdensome to small firms. In most other transition countries, employees may be granted leave without pay for such family events. If necessary, a fallback would only include marriage, birth of a child (for male parent only) and death of an immediate relative.

Unpaid leave is regulated in different ways across the ECA region although, in general, it is carried out upon request of the employee with the consent of the employer. In many countries, the rules for unpaid leave are determined by a collective agreement, and legislation in some countries establishes strict limits on how many days of unpaid leave the employee can take in a single year. In Bulgaria, it is up to 30 working days for one calendar year; in Ukraine, up to 15 calendar days; in Azerbaijan, up to 14 calendar days; and in Georgia, not less than 15 calendar days. In some other countries, social criteria determine the right to unpaid leave. For example, in Lithuania, employees raising a child under 14 years of age are entitled to additional unpaid leave upon request for up to 14 calendar days; employees raising a child with disabilities before he/she has reached sixteen years, for up to 30 calendar days; and disabled persons, for up to 30 calendar days. In most CIS states, war veterans are entitled to additional unpaid leave, up to 35 calendar days in Russia (Annex Table A9).

In the EU15 states, mandatory paid annual leave after 20 years of continuous employment in a private sector firm varies from 20 working days in Belgium, Ireland, Italy, and the Netherlands to 25 working days in most other countries (See Table 7).

[37] See: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2003:0358:FIN:EN:PDF.

**Table 7: Annual Leave Entitlements in EU15 Countries in 2007/08**

| | Mandatory paid annual vacation (in working days) after 20 years of continuous employment |
|---|---|
| Austria | 25 |
| Belgium | 20 (24 working days in a 6 day/week working regime) |
| Denmark | 25 |
| Finland | 30 working days, including Saturdays |
| France | 30 working days, including Saturdays |
| Germany | 24 working days on a 6 day workweek basis and 20 working days on a 5 day workweek basis |
| Greece | 25 (30 working days in a 6 day/week working regime) |
| Ireland | 20 |
| Italy | 4 calendar weeks by law |
| Luxembourg | 25 |
| Netherlands | 20 |
| Portugal | 22 |
| Spain | 30 calendar days (equivalent to 22 working days) |
| Sweden | 25 |
| United Kingdom | 24 |

Note: CA – collective agreements.
Source: World Bank (2008): World Bank *Doing Business 2009* database.

## *5.2. Maternity Leave*

In the socialist era, families with children were heavily protected by the state in different ways: through a system of family allowances, a heavily subsidized network of pre-school and school institutions, and other subsidized services and commodities for children, or by special housing programs. Women with small children and pregnant women also had strong employment guarantees. Employment rates of females were relatively high, and their jobs and salary levels were held for them while they were out on maternity or parental leave.

In the transition period, the employment guarantees for pregnant women or women with small children disappeared to a large degree. After being on maternity or parental leave, mothers discovered that not only had their job disappeared but the entire enterprise that employed them had gone bankrupt or changed ownership and/or profile. In addition, small private businesses are now hesitant to employ young women with children.

Families, especially women with small children, are indeed the most vulnerable in the labor market. By law, the employer is still obligated to give the female employee the same job when she returns from maternity or parental leave and to compensate any salary difference caused by inflation. Given the breaks in service, women lose experience and often are less eager to be retrained or to travel on lengthy business trips whereas employers must temporarily fill the vacancies. These considerations often limit a woman's opportunities for employment, especially in the emerging private sector.

As a reflection of these and other difficulties, birth rates have dropped sharply, to as low as 1.18 in Bosnia and Herzegovina, and 1.20 in Moldova. At the same time, enrollment rates of children in preschool institutions have dropped significantly during the transition (Table 5.2).

Low birth rates and concerns about the low employment rates of females, as well as the status of women with small children, have triggered additional protective measures in the labor laws of many ECA countries.

**Table 8: Total Fertility Rate, and Children at Preschool Institutions**

| | Total Fertility Rate* | | Children In Early Childhood Care, Aged 0-2 (%) | Children 3-6 Years Old Enrolled in Pre-Primary (ISCED 0) Education (%) |
|---|---|---|---|---|
| | 1989 | 2006 | 2006/07 | 2006/07 |
| Czech Republic | 1.87 | 1.33 | 6.3 | 79.4 |
| Hungary | 1.78 | 1.35 | 10.7 | 83.9 |
| Poland | 2.05 | 1.27 | - | 58.5 |
| Slovakia | 2.08 | 1.24 | 6.7*** | 73.7*** |
| Slovenia | 1.52 | 1.31 | 26.8 | 79.5 |
| Estonia | 2.22 | 1.55 | 21.9 | 86.0 |
| Latvia | 2.04 | 1.35 | 15.8 | 81.8 |
| Lithuania | 1.98 | 1.31 | 23.5 | 69.2 |
| Bulgaria | 1.90 | 1.38 | 11.9 | 73.9 |
| Romania | 2.20 | 1.31 | 2.4 | 75.0 |
| Albania | 2.96 | 1.40 | - | 50.2 |
| Bosnia and Herzegovina | 1.70 | 1.18 | - | 7.8 |
| Croatia | 1.63 | 1.38 | 14.0 | 55.3 |
| Montenegro | - | 1.64 | 11.7 | 33.4 |
| Serbia | - | - | 10.2 | 49.1 |
| FYR Macedonia | 2.09 | 1.46 | 5.4 | 39.6 |
| Belarus | 2.03 | 1.29 | 16.9 | 88.9 |
| Moldova | 2.46 | 1.20 | 13.1 | 68.5 |
| Russian Federation | 2.01 | 1.30 | 21.5 | 70.0 |
| Ukraine | 1.90 | 1.30 | 15.2 | 71.1 |
| Armenia | 2.61 | 1.35 | 6.6 | 26.3 |
| Azerbaijan | 2.79 | 2.33 | 0.3 | 22.9 |
| Georgia | 2.13 | 1.40 | 6.1 | 38.2 |
| Kazakhstan | 2.84 | 2.36 | 2.8 | 20.0 |
| Kyrgyzstan | 3.80 | 2.70 | 2.6 | 12.4 |
| Tajikistan | 5.08 | 3.27 | 2.1 | 7.0 |
| Uzbekistan | 4.07** | 2.60 | 8.3 | 21.2 |

Note: * - live births per woman aged 15-49. ** - 1990. *** - 2005/05.
Source: UNICEF TransMONEE (2008).

Basic standards regarding maternity leave entitlements are laid down in the ILO Maternity Protection Convention No. 183 from 2000, and Maternity Protection Recommendation No. 191 from the same year. In particular, the Convention calls for:

(i) Each Member shall, after consulting the representative organizations of employers and workers, adopt appropriate measures to ensure that pregnant or breastfeeding women are not obliged to perform work which has been determined by the

competent authority to be prejudicial to the health of the mother or the child, or where an assessment has established a significant risk to the mother's health or that of her child;

(ii) On production of a medical certificate or other appropriate certification, as determined by national law and practice, stating the presumed date of childbirth, a woman to whom this Convention applies shall be entitled to a period of maternity leave of not less than 14 weeks. Maternity leave shall include a period of six weeks' compulsory leave after childbirth, unless otherwise agreed at the national level by the government and the representative organizations of employers and workers;

(iii) The prenatal portion of maternity leave shall be extended by any period elapsing between the presumed date of childbirth and the actual date of childbirth, without reduction in any compulsory portion of postnatal leave;

(iv) On production of a medical certificate, leave shall be provided before or after the maternity leave period in the case of illness, complications or risk of complications arising out of pregnancy or childbirth;

(v) Cash benefits shall be provided at a level which ensures that the woman can maintain herself and her child in proper conditions of health and with a suitable standard of living. The amount of such benefits shall not be less than two-thirds of the woman's previous earnings or of such of those earnings as are taken into account for the purpose of computing benefits.

(vi) In order to protect the situation of women in the labor market, benefits in respect of the leave shall be provided through compulsory social insurance or public funds, or in a manner determined by national law and practice. An employer shall not be individually liable for the direct cost of any such monetary benefit to a woman employed by him or her without that employer's specific agreement.

(vii) It shall be unlawful for an employer to terminate the employment of a woman during her pregnancy or absence on leave or during a period following her return to work to be prescribed by national laws or regulations, except on grounds unrelated to the pregnancy or birth of the child and its consequences or nursing. The burden of proving that the reasons for dismissal are unrelated to pregnancy or childbirth and its consequences or nursing shall rest on the employer.

(viii) A woman is guaranteed the right to return to the same position or an equivalent position paid at the same rate at the end of her maternity leave.

(ix) A woman shall be provided with the right to one or more daily breaks or a daily reduction of hours of work to breastfeed her child.

Recommendation No. 191 adds the following: (i) Provision should be made for an extension of the maternity leave in the event of multiple births; (ii) To the extent possible, measures should be taken to ensure that the woman is entitled to choose freely the time at which she takes any non-compulsory portion of her maternity leave, before or after childbirth; and (iii)

A woman should be entitled to return to her former position or an equivalent position paid at the same rate at the end of her leave. The period of leave should be considered as a period of service for the determination of her rights.

With regard to maternity, the European Social Charter assigned special protections to employed women. In particular, the signatories are obliged (i) to provide either by paid leave, by adequate social security benefits or by benefits from public funds for employed women to take leave before and after childbirth up to a total of at least fourteen weeks; (ii) to consider it as unlawful for an employer to give a woman notice of dismissal during the period from the time she notifies her employer that she is pregnant until the end of her maternity leave, or to give her notice of dismissal at such a time that the notice would expire during such a period; (iii) to provide that mothers who are nursing their infants shall be entitled to sufficient time off for this purpose; (iv) to regulate the employment in night work of pregnant women, women who have recently given birth and women nursing their infants; (v) to prohibit the employment of pregnant women, women who have recently given birth or who are nursing their infants in underground mining and all other work which is unsuitable by reason of its dangerous, unhealthy or arduous nature and to take appropriate measures to protect the employment rights of these women.

Maternity leave is an important public policy measure to protect the health of the mother and child during the final months of pregnancy and the first few months after delivery. However, extended maternity leave can potentially affect women's labor market participation adversely. A long period of leave may reduce the attachment of women to the labor market and can lead to an actual or perceived erosion of skills. Employers may be reluctant to hire or promote women of child-bearing age due to the associated indirect costs (e.g., replacement workers) of maternity leave, particularly for extended leave. Extended leave entitlement, especially if accompanied by a decline in the number of childcare centers, may also enforce the notion of women as second earners and diminish their economic and social roles in favor of their maternal functions.

Lengthy maternity and family leaves, and other transfer-based pronatalist policies, seem to have been inadequate in raising fertility significantly and reversing demographic trends (Kurilo et al. 2007; World Bank 2007a). For such policies to be more effective, they need to be combined with a set of policy measures in various areas that would counteract the actual factors that contribute to the reluctance of couples to have more children. According to the UN study of demographic policy in Russia (UN 2008), an effective fertility policy should be able to: (1) assist young families to acquire housing; (2) improve social support and benefits system to families with children; (3) enable parents to combine work with parenthood; (4) increase access to preschool services; (5) strengthen family values, particularly the social prestige associated with raising multiple children; (6) reduce abortion rates by building awareness about family planning; and, (7) protect and improve reproductive health.

The shortest paid maternity leave of normal duration in the ECA region is found in Slovenia, 105 days and in Latvia, 112 days. The lengthiest maternity leave entitlement is provided in Albania, Croatia and Serbia, 365 days, and in Montenegro in which it can exceed one year. In particular, in the latter, an employed woman may start to use the maternity leave 45 days before the childbirth, but no later than 28 days before the childbirth, until the child turns one year of age. Extended duration of maternity leave is established, as a rule, for multiple births,

or for complicated confinement. In some countries, the leave is differentiated according to the order of birth. For example, in Serbia, the leave period for the third and each successive child is paid for two years (Annex Table A10).

Labor laws in many countries also regulate the number of days a pregnant woman can start her maternity leave, or must be used before the estimated date of delivery, upon submission to the employer of a medical certificate. It varies from two weeks in Poland to up to 70 days of prenatal leave in Estonia, Lithuania and most CIS states.

Pregnant women are entitled to a supplementary protection. As an example, in Belarus, night work is prohibited for pregnant women, women who are on postnatal leave and women with children under the age of three. Overtime work and night work are not permitted for pregnant women, for women who are on postnatal leave and women with children under the age of three. Dismissal of pregnant women, women with children under the age of three, single women with children under the age of fourteen (children with disabilities - under eighteen) is forbidden, except in the case of enterprise liquidation.

In Bosnia and Herzegovina, after expiry of maternity leave, a woman with a child of up to one year of age is entitled to work half time. This right may also be used by the employed father of the baby, if the woman works full work hours in that period.

In all EU15 countries, pregnant employees and mothers are entitled to a period of rest before and after confinement but as a rule, the duration is much shorter than in ECA countries. The duration and the character of the rest before and after the confinement differ from country to country. Currently the duration of paid maternity leave is less than 100 days in Germany, Ireland and Portugal. In Belgium, Germany and the Netherlands the expectant mother is entitled to six weeks of leave before confinement, and in Austria and Greece to eight weeks. In Belgium, Germany and the Netherlands, eight weeks of this rest is optional for the employee following confinement. In Greece and Luxembourg, the rest period following confinement is eight weeks.

### *5.3. Parental and Paternity Leave*

The possibility of a parental leave is also an important guarantee for combining work and family life. Many transition countries have established a partially paid parental (child care) leave of up to two to three years, usually a flat rate benefit paid from the state or a few cases from the social insurance budget. This is much less burdensome to the employers compared to lengthy maternity leave entitlements, if they are paying for the benefit through higher labor taxes and can avoid discrimination of female labor in the formal labor market.

During the parental leave, the working contract as such is not interrupted and is being continued but the employee’s obligation to work and the employer’s obligation to pay salary is suspended. Although the employer does not bear direct costs for parental leave, it does cause inconveniences associated with the need to find a replacement for the worker, or to secure a workplace upon the worker’s return. Due to direct and indirect costs to employers, an extensive usage of such entitlements may lead to restrictions in the hiring of parents, current or potential, of young children.

In most ECA countries, parental leave can also be granted, if so requested, to the mother or the father until the child reaches three years of age. However, in Latvia, the leave can be used for a period not exceeding 1.5 years up to the day the child reaches the age of eight years and is partially financed by the state social insurance. In Bulgaria, parental leave is differentiated: for the first, second and third child, until the child reaches two years of age, and six months for each subsequent child if not placed in a childcare establishment (Annex Table A10).

Minimum requirements designed to facilitate the reconciliation of parental and professional responsibilities for working parents are laid down in the Council Directive 96/34/EC of 3 June 1996 on the framework agreement on parental leave. According to the Directive:

(i) Men and women workers have an individual right to parental leave on the grounds of the birth or adoption of a child to enable them to take care of that child, for at least three months, until a given age up to eight years to be defined by Member States and/or management and labor;

(ii) In order to ensure that workers can exercise their right to parental leave, Member States and/or management and labor shall take the necessary measures to protect workers against dismissal on the grounds of an application for, or the taking of, parental leave in accordance with national law, collective agreements or practices;

(iii) At the end of parental leave, workers shall have the right to return to the same job or, if that is not possible, to an equivalent or similar job consistent with their employment contract or employment relationship;

(iv) Rights acquired or in the process of being acquired by the worker on the date on which parental leave starts shall be maintained as they stand until the end of parental leave.

(v) Member States and/or management and labor shall take the necessary measures to entitle workers to time off from work, in accordance with national legislation, collective agreements and/or practice, on grounds of force majeure for urgent family reasons in cases of sickness or accident making the immediate presence of the worker indispensable.

All EU15 Member States provide parental leave for both natural and adopted children.[38] To promote equal opportunities and equal treatment between men and women, and to encourage fathers to assume an equal share of family responsibilities, the right to parental leave should, in principle, be granted on a nontransferable basis. Member States themselves and/or management and labor may decide whether parental leave is granted on a full- or part-time basis, in a piecemeal way or in the form of a time-credit system.

For example, in Austria, the maximum age of the child where entitlement to leave arises on birth and, in general, on adoption is, as a rule, two years if taken as a block and four years if taken part-time. Variations apply depending on the private or public sector. For federal civil

[38] See Report from the Commission on the Implementation of Council Directive 96/34/EC of 3rd June 1996 on the framework agreement on parental leave concluded by UNICE, CEEP and the ETUC at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2003:0358:FIN:EN:PDF.

servants and federal contractual employees, additional leave can be granted until the child enters school. In Belgium, the maximum age of the child for an unpaid scheme is four years in the private sector (eight years if the child is seriously disabled) and ten years in the public sector. The period to notify the employer in order to take leave ranges from 10 days in Portugal to four months in Luxembourg.

In Germany, each parent is entitled to three years of leave (e.g., up to the third birthday of the child). Parents who decide to take full-time parental leave, that is, to have one parent taking the whole period and the other working the entire time, are not prevented from doing so. However, if parents decide to take part-time leave, both have to take some leave in order to use the full entitlement. Full-time parental leave is thus in fact transferable. Parents do not lose any leave if the mother takes up all the leave herself.

The Directive allows employers to postpone the granting of parental leave for justifiable reasons and allows special arrangements to meet the operational and organizational requirements of small firms (defined in each country individually). For example, in Belgium, small firms (defined as those with fewer than 50 employees) can make special arrangements for parental leave, and requests to take parental leave part-time must be agreed with employer. In Luxembourg, for firms with less than 15 employees, and in relation to seasonal work, the employer can delay granting parental leave for up to six months.

Typically parental leave can be used by one of the parents or a relative who is taking care of the child. For example, in Armenia, parental leave can be granted before the child is three years of age at the choice of the family to the mother (step-mother), father (the step-father), grandmother, grandfather or any other relative, who is actually raising the child, as well as to an employee who is the guardian of the child. The leave may be taken as a single period or distributed in portions. During the period of leave, the employee retains his/her job or position, except when the enterprise is liquidated or the employer is bankrupt.

In many ECA countries, in addition, a special paid paternity leave has been established for fathers to support the family in the most critical days. Slovenia has the most generous paternity leave, 90 days of which at least 15 days must be used during the maternity leave and the remaining 75 days – until the child is eight years old. Paternity leave is 14 calendar days in Azerbaijan and Estonia. In Poland, paternity leave is two weeks for a maternity leave of 16 weeks maternity (e.g., first child in the family), and four weeks if the mother is entitled to 18 weeks of maternity leave (e.g., second child and all following children). Only birthright fathers and legal guardians can benefit from the paternity leave. In Romania, male employees are entitled to five days of paid leave within the first eight weeks from the date of birth (Annex Table A10).

In order to better combine work and family life, the creation of a flexible and widespread network of childcare options is integral to ensuring equal opportunities for women in the market economy and relieving an unsustainable financial burden on the government related to maternity leave transfers (UNICEF 1999). The Council Decision of 15 July 2008 (2008/618/EC) on guidelines for the employment policies of the Member States in the context of the European Employment Strategy, sets the following targets and benchmarks in provision of childcare by 2010; (i) to at least 90 percent of children between three years old and the mandatory school age and at least 33 percent of children under three years of age.

According to the 2006 data for the provision of early childhood care to children aged 0-2, most EU10 countries were not even close to the target. The highest enrollment was found to be 27 percent in Slovenia and 24 percent in Lithuania, as compared to 2 percent in Romania. Enrollment in pre-primary education of children three to six years old (ISCED 0) is quite close to the target in Estonia at 86 percent of children but only 59 percent in Poland. In most other ECA countries, enrollment ratios were much lower (Table 5.2).

### *5.4. Administrative Leaves*

An important aspect of labor market flexibility is adjustments to be made in working time and/or wages if an enterprise experiences financial difficulties due to low demand, seasonal factors and so on. It reflects, in part, the use of internal flexibility (flexible working-time arrangements, short-time working, temporary suspension of production, etc.), which appears to have prevented significant labor reductions, especially in manufacturing, by allowing firms to use various means of internal adjustment rather than reduce their workforce. In the case of production stoppages or reduction in output, wage flexibility could also be an alternative to layoffs.

In most ECA countries, the employers can use administrative leave, paid or unpaid, temporary transfer of workers to another internal or external job, or forced part-time work to offset the costs and to adjust to current economic difficulties. For political and social reasons, especially in CIS states, local authorities may put pressure on the enterprises and public employment services to avoid massive layoffs, thus delaying the restructuring of the enterprises. Only a portion of the workers receive compensation from the firms. In some other transition countries, such as in Albania, FYR Macedonia and Montenegro, there are no legal provisions in the labor law for employers to adjust wages or working time in the case of work stoppages (Annex Table A11).

In Russia, forced administrative leave reached mammoth proportions. In the mid-1990s in the textile industry, the share of workers in part-time jobs or on administrative leave reached a level of 50 percent of total employment, including 37 percent in the manufacturing sector (GOSKOMSTAT of Russia 1996). In 2002, approximately two million workers were still on such leave (excluding small firms for which the data are not available). Until recently, the number of workers on administrative leave tended to decline. In 2006, in Russia, 567,000 individuals were on administrative leave and in Ukraine, 137,000 persons (Table 5.3).[39] In relative terms, the highest share of workers on administrative leave during the year was observed in Moldova, 4.8 percent, and in Azerbaijan, 3.4 percent.

[39] In February 2009, in Russia, 247,000 workers were on administrative leave.

**Table 9: Administrative Leaves in CIS States (2002 and 2006)**

| | Persons on Administrative Leave by Administration's Initiative | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | | | 2006 | | |
| | Total Number in January-December, 1000' | As % of Average Annual Number of Employed | Of Which Unpaid Leave, 1000' | Total Number in January-December, 1000' | As % of Average Annual Number of Employed | Of Which Unpaid Leave, 1000' |
| Armenia | 25.1 | 6.2 | 23.7 | 3.7 | 1.2 | 1.9 |
| Azerbaijan | 36.3 | 3.4 | 32.2 | 45.5 | 3.4 | 45.0 |
| Belarus | 231.0 | 6.4 | 106.4 | 70.3 | 2.0 | 29.3 |
| Kazakhstan | 69.7 | 2.6 | 63.5 | 25.4 | 0.8 | 22.8 |
| Kyrgyzstan | 33.5 | 6.4 | ... | | | |
| Moldova | 72.8 | 10.6 | ... | 31.1 | 4.8 | 25.0 |
| Russia | 1891.0 | 4.7 | 540.0 | 566.9 | 1.5 | ... |
| Tajikistan | 48.7 | 4.6 | 43.8 | 20.1 | 1.9 | 17.7 |
| Ukraine | 621.9 | 5.1 | ... | 137.2 | 1.2 | ... |

Note: Data are not available for Georgia, Kyrgyzstan, Turkmenistan and Uzbekistan.
Source: CIS STAT (2004, 2007).

According to statistics, between 40 percent in Belarus and almost all the workers in Azerbaijan on administrative leave received no compensation.[40] Another form of adjustment to the economic shocks has been reduced work hours imposed by an employer, affecting 577,000 Russian workers alone in February 2009.

In the case of work stoppage (idle time) due to a lack of necessary organizational or technical conditions, *force majeure* or other circumstances, the labor legislation or collective agreements in the ECA region offer the following options: temporary transfer to another position with the same pay as the former position; or employees may be granted a partially paid holiday by agreement of the parties. In many cases, the maximum duration of administrative leave is limited to between one month (Kyrgyzstan, Russia and Ukraine) and three months (Estonia and Moldova); yet, in most countries with relevant entitlements, this time period is not limited. A few examples follow.

The Estonian Employment Contracts Act provides that upon a temporary decrease in work volume or orders, an employer has the right, with the consent of a labor inspector and the employee, to establish part-time working time for an employee or to send the employee on a holiday with partial pay for up to three months per year. An employer is required to give an employee at least two weeks' advance notice in writing of the application of part-time working time or sending him or her on a holiday with partial pay. The duration of part-time working time must not be less than 60 percent of the standard working time prescribed in the employment contract, and the holiday pay payable during holidays with partial pay must not be less than 60 percent of the minimum wage.

The Armenian Labor Code allows paying for idle time not by the fault of the employee at the rate of at least two thirds of the average hourly rate for each idle hour, however, not less than

[40] An employee, as a rule, does not receive work remuneration for idle time due to the fault of the employee.

the minimal hourly rate established by the legislation. The employee may be offered another job at the enterprise, according to his/her profession, specialty and qualifications, in which he/she could work without causing harm to his/her health and should be paid at least two thirds of the average monthly wage for each idle hour that was used before the idle time. If the employee refuses the offered temporary job, compensatory wage should be not less than 30 percent of the minimum hourly rate.

On many occasions in ECA countries, idle workers may stay on the payroll of firms for a long period of time even if not paid. They may benefit from pension insurance (while still accumulating service years) or health insurance entitlements, perhaps for the whole family, while working informally, including in his/her own workplace for personal gain.

## Chapter 6. Contract Termination

### *6.1. Minimum Requirements*

Corporate restructuring is an important element of change. This requires striking the right balance between flexibility for businesses and security for workers - which is necessary to maintain human capital and employability. This is especially true for transition economies. High levels of labor hoarding and the need to restructure the whole enterprise sector as well as the public sector led to a mass retrenchment of labor as one of the most urgent tasks in further enhancing reforms.

At the initial stage of the transition reforms, governments were constrained by budget deficits and could provide only limited benefits to redundant workers. An appealing alternative to raising government benefits was to require employers, at that time predominantly state-owned enterprises (SOEs), to provide the bulk of social guarantees, including cash payments to workers they dismiss.

Social guarantees associated with separations and redundancies, including the amount of severance pay – and even the obligation to pay the benefit, usually depends on the circumstances of the separation from the company. Typical to ECA countries, formally voluntary resignations remain the most common reason for leaving a job. According to the data from CIS states, voluntary resignation in which the workers are not entitled to most, if any, of the benefits represents a major part of all job separations, including in 2006, three fourths of separations in Russia and up to 90 percent in Tajikistan. The share of separations in connection with staff reductions is "only" 2 percent in Belarus and Moldova, 7 percent in Kyrgyzstan, and 11 percent in Uzbekistan (Table 6.1). However, the term "voluntary" is misleading.

**Table 10: Labor Turnover in CIS States in 2006 (Except Small Firms)**

| | As Percentage of Total Employed | | | |
|---|---|---|---|---|
| | Hired | Left Enterprises | Of Which: | |
| | | | By Own Will | Connected to Staff Reduction |
| Armenia | 17.8 | 16.4 | 12.2 | 0.9 |
| Azerbaijan | 10.4 | 8.6 | 5.7 | 0.5 |
| Belarus | 25.5 | 24.5 | 19.6 | 0.4 |
| Kazakhstan | 33.1 | 29.7 | 24.7 | 1.1 |
| Kyrgyzstan | 20.8 | 19.6 | 16.0 | 1.3 |
| Moldova | 25.3 | 26.8 | 23.5 | 0.6 |
| Russia | 30.5 | 30.9 | 23.7 | 1.5 |
| Tajikistan | 5.0 | 4.8 | 4.2 | 0.3 |
| Ukraine | 28.2 | 29.9 | 25.8 | 1.2 |
| Uzbekistan* | 13.8 | 16.2 | 12.3 | 1.8 |

Note: Data are not available for Georgia and Turkmenistan. * - 1999.
Source: CIS STAT (2007).

There is a clear correlation between the rates and levels of voluntary resignation from sectors and firms, and the level of wages and wage growth: the lower the wages, the higher "voluntary" resignation from jobs.[41] Enterprises themselves have kept employment levels artificially high by placing workers on administrative leave or part-time work or by cutting wages. Sooner or later, many of these workers, having no future with the firm and no sources of income, are forced to quit on their own.

In many cases, the firms have no funds for severance payment, thus forcing workers to leave "voluntarily". For example, the following has been reported in the Ukraine as a widely accepted practice: When a newly hired employee signs a labor agreement, he/she also signs a written application for voluntary termination of the labor agreement without specified date as a precondition for hiring. All such applications from all employees are kept by the employer or the manager to be used when the needs arise to downsize the workforce without paying any severance (Kupets and Leshchenko 2008). Unfortunately, relevant institutions to effectively protect the interests of workers in such circumstances are weak or even nonexistent in most ECA countries.[42] Often induced retirements and disciplinary layoffs are also registered as voluntary. Sometimes, attachment to the firm, in addition to pension and health insurance entitlements, allows the worker to use the enterprise's tools and equipment for minor jobs and gainfully earn small amounts, or to consume enterprise-related social services by staying on the enterprise list, such as on administrative leave even without pay, for a certain period of time.

The same situation is reported among countries in the region. Only around 11 percent of job separations have been reported as dismissals in Serbia (OECD 2008b). Evidence from Hungary indicates that under random selection of redundancy and full compliance, the existing regulations would imply an eligibility ratio of 75 percent and an average severance pay exceeding two months' wages. However, a survey of 2001 indicated that only 5.7 percent of those made redundant were paid severance amounting, on average, to 0.4 of a month's wage. Therefore, payment receipt is limited by a strong bias towards redundancies for groups ineligible for severance rather than non-compliance with the regulations (Köllö and Nacsa 2007).

Contract termination is discussed in the ILO Termination of Employment Convention No. 158 from 1982.[43] As far as justification for termination is concerned, the Convention states that the employment of a worker shall not be terminated unless there is a valid reason for such termination connected with the capacity or conduct of the worker or based on the operational requirements of the undertaking, establishment or service. The employment of a worker shall not be terminated for reasons related to the worker's conduct or performance before he/she is provided an opportunity to defend against the allegations made, unless the employer cannot reasonably be expected to provide this opportunity. A worker whose employment is to be terminated shall be entitled to a reasonable period of notice or compensation in lieu thereof unless guilty of serious misconduct, that is, misconduct of such

[41] By surveys of VCIOM, in Russia in the 1990s, in about two thirds of cases, the major motive for voluntary resignation was low or unpaid wages (Khakhulina 1996).
[42] For example, the Labor Inspectorate was recently closed in Georgia. Labor disputes should be resolved in courts which is not a viable option for workers in many instances, for example, due to financial costs incurred.
[43] This Convention was ratified by 34 countries.

a nature that it would be unreasonable to require the employer to continue employment during the notice period.

A worker whose employment has been terminated shall be entitled, in accordance with national law and practice, to (a) a severance allowance or other separation benefits, the amount of which shall be based inter alia on length of service and the level of wages, and paid directly by the employer or by a fund constituted by employers' contributions; or (b) benefits from unemployment insurance or assistance or other forms of social security, such as old-age or invalidity benefits, under the normal conditions to which such benefits are subject; or (c) a combination of such allowance and benefits.

Respectively, the ILO Convention No. 158 does not require both severance pay and unemployment benefits. Indeed, it specifically states that a worker who does not fulfill the qualifying conditions for unemployment insurance or assistance under a scheme of general scope need not be paid any severance allowance or separation benefit solely because he/she is not receiving an unemployment benefit.

As far as consultation of workers' representatives is concerned, the Convention suggests that when the employer contemplates terminations for reasons of an economic, technological, structural or similar nature, the employer shall:

(a) provide the workers' representatives concerned in good time with relevant information including the reasons for the terminations contemplated, the number and categories of workers likely to be affected and the period over which the terminations are intended to be carried out;

(b) give, in accordance with national law and practice, the workers' representatives concerned, as early as possible, an opportunity for consultation on measures to be taken to avert or to minimize the terminations and measures to mitigate the adverse effects of any terminations on the workers concerned such as finding alternative employment.

However, the Convention also states that applicability of consultations may be limited to cases in which the number of workers whose termination of employment is contemplated is at least a specified number or percentage of the workforce (e.g., to group redundancies).

The European Social Charter stipulates that all workers have the right to protection in cases of termination of employment, including if the employment is terminated without a valid reason, to adequate compensation or other appropriate relief.[44] A worker who considers that his employment has been terminated without a valid reason shall have the right to appeal to an impartial body. Also according to the Charter, all workers should have the right to be informed and consulted in collective redundancy procedures.

Collective redundancies are reflected in the Council Directive 98/59/EC of 20 July 1998 on the approximation of the laws of the Member States relating to collective redundancies that will be discussed below. The most relevant directive regarding employers' obligations

[44] The terms "termination of employment" and "terminated" mean termination of employment at the initiative of the employer.

associated with individual dismissals is the Directive 2002/74/EC of the European Parliament and of the Council of 23 September 2002 amending Council Directive 80/987/EEC relating to the protection of employees in the event of their employer's insolvency. Article 3 of that Directive requires member states to establish relevant institutions guaranteeing payment of workers' claims against insolvent employers. The Directive specifically mentions "severance pay on termination of employment relationships," but requires a guarantee of severance pay only "where [severance pay is] provided for by national law." In other words, the EU Directive allows member states the choice of whether to mandate severance pay (Schwab 2004).

The ILO Termination of Employment Recommendation No 166 (1982) suggests a package of measures that should be considered with a view to averting or minimizing terminations of employment for reasons of an economic, technological, structural or similar nature. These might include, inter alia, restriction of hiring, spreading the workforce reduction over a certain period of time to permit natural reduction of the workforce, internal transfers, training and retraining, voluntary early retirement with appropriate income protection, restriction of overtime and reduction of normal hours of work. Also, where it is considered that a temporary reduction of normal hours of work would be likely to avert or minimize terminations of employment due to temporary economic difficulties, consideration should be given to partial compensation for loss of wages for the normal hours not worked, financed by appropriate methods under national law and practice.

In order to assess the job protection of workers with regular contracts, several main areas should be considered: (i) difficulty of dismissal, that is legislative provisions setting conditions under which a dismissal is "justified" or "fair"; (ii) procedural inconveniences that the employer may face when starting the dismissal process; (iii) advance notice; (iv) severance pay provisions; and (v) special provisions governing collective redundancies, which will be discussed below.

Regular employment contracts do not generally specify any duration for the employment relationship. Part of the role of the EPL is thus to define "just causes" or "serious reasons" for the termination of an employment relationship and the sanctions applicable to the employer in case of non-respect of this principle of just cause termination. The most comprehensive list of "just causes" for contract termination can be found in the Estonian Employment Contracts Act 1992 (as amended) as follows.

An employer may terminate an employment contract entered into for an unspecified or fixed term prior to expiry of the term of the contract:

(i) Upon liquidation of the enterprise, agency or other organization;

(ii) Upon the declaration of bankruptcy of the employer;

(iii) Upon layoff of employees;

(iv) Upon unsuitability of an employee for his or her office or the work to be performed due to professional skills or for reasons of health;

(v) Due to unsatisfactory results of a probationary period;

(vi) Upon breach of duties an employee;

(vii) Upon loss of trust in an employee;

(viii) Due to an indecent act by an employee;

(ix) Due to the long-term incapacity for work of an employee;

(x) When the employee reaches a certain age;

(xi) Upon hiring an employee for whom the position is a principal job;

(xii) Due to an act of corruption of an employee.

Some other causes for contract termination can be found in labor legislation from other ECA countries.

In most of the above-listed causes for contract termination, the employer has little control. Therefore, the key policy issue here concerns how difficult and/or costly it is for employers to terminate employees for economic or business-related reasons (e.g., at the initiative of the employer), which will be discussed in more detail.[45]

### *6.2. Procedural Inconveniences*

The termination of workers due to redundancy is legally authorized in all ECA countries. In some countries, the employer is obliged to notify a third party (typically workers' representatives) before terminating one redundant worker (Belarus, Croatia, Estonia, Kazakhstan, Kyrgyzstan, Latvia, Moldova, Montenegro, Russia, Slovakia and Tajikistan) but no approval is required in any of the countries.[46]

Labor laws in many ECA countries stipulate restricted rights to terminate the employment of specially protected workers. Dual criteria enter the decision-making process for retaining or releasing workers. In the case of redundancies, professional qualities like the worker's professional education and/or qualification for work and the necessary additional skills and capacities, work experience, job performance, or years of service may serve as the criteria (in this case, the Slovenian Employment Relationships Act). For the follow-up list of individuals with preferential rights to protection of the employment contract, the focus may be based on social criteria, such as new entrants within the term of one year, seniority-based criteria or advanced career workers completing the minimum conditions to collect an old-age pension

[45] "Economic" reasons include business-related causes for termination (e.g., declining demand, shrinking markets, increasing competitiveness, etc.) or technological and organizational changes in the business entity. This class of terminations stands in contrast to dismissals for "non-economic" reasons.

[46] No approval for dismissal is required in EU15 countries with two exceptions: (1) in Germany, approval is requested when dismissing an employee with special protection: works council members (from Works Council), a severely disabled person (from Integration Office), and an employee on maternity/parental leave (from Labor Inspectorate); and, (2) also under the Dutch Labor Law, the employer needs the approval of the Centre for Work and Income (CWI) when dismissing one or more redundant employees (World Bank *Doing Business 2009* database).

unless the right to the unemployment benefit has been ensured. In the Moldovan Labor Code, the list of protected employees includes 12 categories of individuals, in the Latvian Labor Law, ten categories, and in the Ukrainian Labor Code, nine categories (Annex Table A12). Among the protected categories in Latvia are individuals whose family members do not have a regular income, even though employers have no means to objectively verify the income status of the families of their employees.

Furthermore, a common group of protected categories of workers is a pregnant employee, a female employee on maternity leave, a female or male employee on parental leave, a single female or male employee caring for a child younger than three years of age, or an employee who personally cares for a close relative with severe disability (Estonia, Hungary, Lithuania, Slovakia, etc.). Older workers (within two to five years from pension entitlement depending on the country) are protected by an added burden on the employer to justify the dismissal: a particularly warranted reason has to be the ground of such dismissals.

Elected trade union officials have also been a traditionally protected category: their ordinary dismissal requires the consent of the superior trade union organ. In fact, the Kyrgyz Labor Code stipulates that even the dismissal of workers – members of trade union organizations – is not allowed without the consent of the worker's organization if the dismissal is associated with staff reduction due to reorganization of the firm, insufficient qualification of the worker or for disciplinary reasons. While advance notification of terminations is an appropriate option by the standards of industrialized countries, the possibility of a trade union veto is a substantial and unusual restriction on the right of the employer to adjust workforce size. Where similar entitlements exist, and especially noted in CIS states, it is known that prior to expected redundancies, as few as two workers in a firm can form a new trade union organization and *de facto* block any redundancies in the company (in Kyrgyzstan, three workers would be sufficient to form a new trade unions organization).

In the ECA region, priority rules applying to redundancies are stipulated in labor laws in the Albania, Armenia, Bosnia and Herzegovina, Bulgaria, Czech Republic, Georgia, Hungary, Kazakhstan FYR Macedonia and Serbia. In the EU15, priority rules apply to redundancy dismissals or layoffs in seven countries.

In the end, the employer especially in SMEs may have no other choice than to keep the protected individuals on the job and perhaps let some of the best professionals go. Employers must be reasonably free to choose the most suitable employees without state direction or interference. These priority rules for dismissals may conflict with the economic needs of the company.

In the labor laws of several ECA countries, restrictions or obligations on rehiring are stipulated. In Croatia, the law states that the employer who has given notice to a worker for economic, technological or organizational reasons must not employ another worker in the same job for the following six months. In Macedonia, if the employer terminates the employment contract due to business reasons, the employer may not employ a worker to perform the same job with the same professional training and occupation within one year from the date of termination of the labor relation. If prior to the expiration of the period a need occurs to carry out the same work, the employee who was previously terminated shall have the priority to conclude the employment contract.

Overall, priority rules applying to re-employment are valid in Albania, Bosnia and Herzegovina, Croatia, Estonia, FYR Macedonia, Poland, Romania, Slovenia, Serbia and Ukraine (World Bank 2008).

Seven out of the EU15 countries have legal provisions on priority rules for re-employment as well. For example, in Finland, if the employer within nine months after a collective termination needs manpower for similar work, the employer should inquire at the local labor office as to whether any such former employees are seeking work. In Italy, with regards to collective dismissals, the former employees have a priority right within a period of six months from the dismissal. In the Netherlands, the government agency that issues a dismissal permit ("CWI") may impose the condition on the issuance of its permit - only in case of a dismissal based on business economic reasons - that the employer may not hire someone else for the same activities of the dismissed employee within 26 weeks after issuing the dismissal permit, before the employer has offered such position to the dismissed employee. Although in Germany and Spain there is no obligation for re-hiring in general, some collective agreements do have provisions.

Labor laws may discourage employers from dismissing workers when it would be socially preferable to redeploy them within the firm, thereby bringing the profitability criterion into closer correspondence with social efficiency. However, doing so may result in significant implicit costs, such as the costs of keeping non-productive workers or of remaining overstaffed for significant periods of time following reductions in demand (OECD 2004). In some ECA countries, such as in Ukraine, concurrently with the warning of disengagement due to changes in the organization of production and labor, the employer is obliged to first offer the employee a different job at the same enterprise, organization or institution; where another job is not available, the employer may dismiss the employee. According to the World Bank *Doing Business 2009* database, only Albania, Azerbaijan, Bulgaria, Czech Republic, Georgia and Hungary have no retraining or reassignment obligation before an employer can make a worker redundant.

A retraining or reassignment obligation is stipulated in the labor law of most EU15 countries as well, namely in Finland, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Portugal, and Sweden. In the Netherlands, the obligation is not established by statute but in case law, and the government agency that issues the dismissal permit (CWI) will generally check for such possibilities. The United Kingdom has a similar situation whereby the employer, though not obliged, does have to consider suitable alternative employment.

As a rule, the employer is also not allowed to terminate a contract of employment during an employee's leave, including annual, maternity, parental, sick leave, unpaid or other leave, or during other justified absences from work. The employees themselves can manipulate this by taking a lengthy leave of absence while contract termination seems imminent.

Overall, enterprise restrictions on terminations in many ECA countries are considerable. The countries should consider eliminating or limiting some of these restrictions. Such a reform would give employers greater flexibility in responding to market fluctuations through their workforce. Employers must have reasonable freedom to dismiss employees. If not, they will be reluctant to hire them and will be more inclined to operate in the informal sector.

### *6.3. Advance Notice*

Advance notice is a means to give workers ample warning of future layoffs and thus facilitate job search. While the employee has no obligation to give a reason for notice of termination, the employer has to justify the cause for contract termination according to the law. If an employer wants a rapid reduction in its workforce, then both severance pay and notice pay for period must be paid. In that case, notice payments look much like severance payments.

The ILO Termination of Employment Recommendation No. 166 from 1982 suggests that: (i) the employer should notify a worker in writing of a decision to terminate his employment, and that (ii) a worker who has been notified of termination of employment or whose employment has been terminated should be entitled to receive, on request, a written statement from his employer of the reason or reasons for the termination.

While severance pay can serve to smooth the income of workers in the face of labor market risks, notice periods have more comprehensive insurance properties (Pissarides 2001). When jobs are threatened by a negative productivity shock and become unprofitable, the existence of a notice period *de facto* extends their duration. The period of notice is obviously a cost-factor for employers, especially when multiple employees have to be dismissed.

Most labor laws in the ECA region (except Georgia and Serbia) require employers to give advance notice before terminating workers and to pay workers dismissed without adequate notice the salary that they would have received in the notice period. Different legal solutions, however, address the advance notice provisions in the various countries. In seven ECA countries (e.g., Hungary, Poland and Slovakia), the length of notice has been made conditional on the period spent with the same employer, from one month up to 60 days in Hungary and from two weeks up to three months in Poland and Croatia (Annex Table A13). In most countries, the notice period is fixed with no regard to job tenure at the particular employer. Bosnia and Herzegovina allot not less than 14 days and in Romania, 15 days; Latvia, Kazakhstan, Kyrgyzstan and Montenegro, allocate one month; and in the rest of the countries, it is two months.

In some countries, the advance notice period is differentiated according to social criteria. In Lithuania, it is typically two months but four months if the redundant worker is entitled to the full old-age pension in not more than five years, and also for persons less than 18 years of age, disabled persons and employees raising children under 14 years of age. In Croatia, given the difficulties in finding a new job for older workers, the notice period is extended by two weeks if the worker has reached 50 years of age and by one month if the worker has reached 55 years of age. Furthermore, notice due to business or personal reasons is allowed in Croatia only if the employer cannot train or qualify the worker for work at another job, or if the circumstances are such that it is not reasonable to expect the employer to train or qualify the worker for work at another job.

In FYR Macedonia, the notice period is extended in case of mass redundancies: where more than 150 employees, or alternatively, not less than five percent of the total number of employees with the employer prior to termination of the labor relation, have experienced termination of contracts the duration is extended from one to two months.

The ILO Termination of Employment Recommendation No. 166 suggests that the worker should, for the purpose of seeking other employment, be entitled to a reasonable amount of time off without loss of pay, taken at times that are convenient to both parties. This is the practice in many ECA countries. In Poland, within a minimum two week period of notice, the worker has the right to take two to three days leave from work for the purpose of seeking new employment depending on the duration of the notice period. In Lithuania, this length of time should not be less than ten percent of the employee's rate of working time during the term of notice. Time off from work shall be granted in accordance with the procedure agreed between the employee and the employer. In the Republika Srpska, during the notice period, the employer shall enable the worker to take a day off a week to seek another job. In Croatia and Montenegro, during the notice period, the worker has the right to be absent from work not less than four hours per week with salary compensation, for the purpose of seeking new employment.

The EU15 countries have quite different practices regarding advance notice but most countries have more generous entitlements in this regard. For example, a worker with 20 years of service at the employer can receive a notice varying from 30 calendar days in Spain, eight weeks in Ireland, and two months in Portugal and France but up to six months in Finland, Germany and Sweden. In several countries, a different notice period is used for white collar and blue collar workers: In Austria, it is four months for white collar worker but only two weeks for blue collar worker, and in Belgium, 65 weeks for white-collars, and 16 weeks for blue-collars (for 20 years of service). In Greece, for a blue-collar worker paid on a daily basis, it is possible to dismiss without a notice but with a severance of 120 days, or with notice of 120 days plus 60 days severance. For a white-collar worker, it is possible to dismiss without a notice (with a severance of 16 months) or with a notice of 16 months plus 8 months severance pay (Table 6.2).

**Table 11: Mandated Notice Period and Severance Pay for Redundancy Dismissal after 20 Years of Continuous Employment in EU15 Countries (2007/08)**

| | Notice period for redundancy dismissal after 20 years of continuous employment | Severance pay for redundancy dismissal after 20 years of continuous employment (wages for) |
|---|---|---|
| Austria | 2 weeks | N/A |
| Belgium | 16 weeks | N/A |
| Denmark | N/A | N/A |
| Finland | 6 months | N/A |
| France | 2 months | 5.3 months |
| Germany | 6 months | 10 months |
| Greece | N/A | 120 business days |
| Ireland | 8 weeks | 16.4 weeks |
| Italy | 2.5 months | N/A |
| Luxembourg | 6 months | 3 months |
| Netherlands | 4 months | N/A |
| Portugal | 60 calendar days | 20 months |
| Spain | 30 calendar days | 12 months |
| Sweden | 6 months | N/A |
| United Kingdom | 12 weeks | 2.3 months |

Note: firm and worker characteristics by Doing Business criteria.

Source: World Bank Doing Business 2009 database

In some EU15 countries, the notice period is differentiated according to job tenure. In the United Kingdom, notice period is one week for each year of service, with a cap of 12 weeks. In Germany, the notice period equals one month if employment in the business or the company has persisted for two years, to up to seven months if employment has persisted over 20 years. Overall, for the cost of a notice period not to affect the hiring behavior of firms, especially if job search activates are to be paid, employees may have to accept lower wages.

### *6.4. Severance Pay*

High severance pay and a lengthy notice period makes layoffs more costly and the process more difficult for employers. Enterprise management should thus be forced to look for alternative solutions to dismissals, such as the enhancement of the functional flexibility of personnel through better human development policy and stronger motivation of workers in the framework of, for example, enterprise restructuring, technological upgrading and improved marketing.

By discouraging firing, employment protection legislation (EPL) may slow down adjustment to shocks and impede the reallocation of labor, with potentially negative implications for productivity growth and adaptation to technological change. At the same time, generous severance pay imposes additional costs on employers and thus hinders job creation, and leads to informality in developing countries. On the other hand, countries with stringent dismissal regulations tend to have more durable or stable jobs (Young 2003).

Studies also show that high severance pay contributes to part-time employment, self-employment and informality. There is also mounting evidence that severance pay reduces inflows to and outflows from unemployment. By doing so, it contributes to longer unemployment spells that is, a stagnant unemployment pool (For a summary of discussions, see OECD 2004 and 1999).[47]

In all EU15 countries, the state assumes a large part of the risk through income support in the case of unemployment (unemployment benefits) and measures to help workers find a new job (active labor market policies). In most ECA countries, however, the state pays very little unemployment benefits, placing income support on the employer through high severance payments. By the available data, on average in the region only one fifth of the unemployed receive unemployment benefits. (Brusentsev and Vroman 2008). In June 2009, in the Federation of Bosnia and Herzegovina, only 2 percent of the registered unemployed received unemployment benefits; in Kazakhstan, 3 percent (March 2009; in Kazakhstan, in addition, around 20,000 registered unemployed, or one-fourth of the total, receive targeted social assistance); in Azerbaijan, 7 percent; in Moldova, 16 percent; and in Armenia, 23 percent. In Tajikistan in August 2009, only 385 registered unemployed out of 45,000 received the benefit. The reason is that long-term unemployed dominate among the registered unemployed who have exhausted their entitlement, or many first-time job seekers do not

[47] See also Addison and Teixeira (2003) for a review of both theoretical and empirical effects of potential efficiency gains and losses associated with severance pay.

have a sufficient insurance record to claim the benefit. There is no unemployment benefit system in Georgia.

State unemployment benefits are pooled resources that are a form of social insurance, generally financed by payroll taxes. They reduce the burden for firms in bad times. By provisioning a fund, resources are accumulated in good times and made available in bad times. Mandatory severance pay comes from a single employer and therefore has no insurance pooling.

While transition countries all mandate severance pay, the countries differ in important details. These include the extent of coverage, eligibility conditions, generosity of benefits and whether benefits should vary with seniority.[48]

Some countries require minimum years of seniority before a worker is entitled to severance pay for dismissals. In Hungary and Albania, it is three years, and in Serbia and Slovenia, one year.[49] A few countries in the region—including the Czech Republic, Hungary, Poland, and Slovakia—also explicitly state that severance pay is not required when employment relations transfer to a new employer.

A distinguishing feature of severance-pay laws is whether the benefits do or do not vary with the seniority of the terminated worker. Ten countries in the region use a sliding scale connected to years of employment, and 15 countries use flat benefits in the amount from one to up to six monthly wages (Annex Table A13). By design, a sliding-scale country is more generous to its more senior workers than its less senior workers. In general, however, sliding-scale countries mandate more generous benefits overall than do fixed-benefit countries. Also workers with shorter tenure (young, females) are cheaper to dismiss and are expected to suffer higher dismissal probabilities in downturns (Boeri et al. 2008).

The most generous seniority-related benefit is in Albania where longevity of service reaps rewards: the severance formula is 15 days of wages for each complete service year. Besides, Albania is among the ECA countries with the lengthiest duration of unemployment benefits – up to 12 months depending on the service record.

The most generous flat rate severance pay in the region is in Montenegro where each redundant worker is entitled to six months of pay with no regard to job tenure. Moreover, the Labor Law stipulates that the employer is obliged to pay severance to a disabled employee who is proclaimed redundant: a minimum of 24 average wages if the disability is caused by injury outside the workplace or illness, and a minimum of 36 average wages if the disability is caused by injury at work or an illness stemming from the profession.

By making the dismissal of disabled employees for economic reasons more difficult or costly, these employment protection rules are intended to increase job security.[50] However,

[48] Severance payments in the late 1990s/early 2000s in 18 ECA countries are also discussed by Schwab 2004.

[49] The Czech Republic and Slovakia are among only seven OECD countries that have severance pay for workers with less than one year of service (two months' pay in the Slovak Republic and three months' pay in the Czech Republic (OECD 2008a).

[50] It is estimated that there are around 12,000 disabled workers in the formal sector, or around 11 percent of workforce in Montenegro.

the tradeoff is that employers may be reluctant to hire – especially older workers with a higher risk of becoming disabled due to illness – if constraints inhibit future dismissal for reasons related to business. As a result, we can expect that these measures will lengthen job tenure and reduce turnover of this group of workers but will have a negative effect on new hiring of regular employees at risk of disability. The very high rate of inactivity for older workers (55-64 years of age) of 68.6 percent, according to the 2005 LFS, reflects the fact that early retirement has been chosen as an instrument to remove older workers from the labor market.

Alternatively, supplementary severance payments to this group of workers can be covered from the unemployment insurance fund, or from special budgetary allocations. Also, the government may consider other strategies for developing efficient activation programs for groups with limited work capacity, such as improving their job-search skills, vocational rehabilitation, subsidies to private employment, sheltered employment or adaptation of the workplace and post-employment counseling.

In several countries, workers are also entitled to severance pay for a variety of other dismissals. These other dismissals are generally for individual reasons, such as when the worker proves incompetent for the position or is disabled by health reasons—reasons perhaps due more to the worker than the employer. Other dismissals can arise for a variety of reasons spelled out in the statutes, including reinstating a previous worker in the position or the worker quitting for military service. Countries mandating severance pay in these situations include Azerbaijan, Bulgaria, Estonia, Latvia, Lithuania, Kazakhstan, Russia and Ukraine.[51] In three of these countries (Latvia, Lithuania and Kazakhstan), workers get the same level of severance pay regardless of the reason of dismissal. In the other five countries, however, the severance pay varies with the type of dismissal. For example, Russia mandates only two weeks of severance pay for dismissals for personal reasons while severance associated with layoffs varies from one to three monthly wages (Schwab 2004).

In the Czech Republic, the regular severance pay of three months can be extended to 12 months if the redundant individual is not allowed to work due to an industrial injury or occupational disease. In Poland, only the employee who is eligible for disability or an old-age pension, and whose employment relationship expired as a result of retirement or pensioning, is entitled to severance pay in the amount of one monthly remuneration. In Romania, severance pay is negotiated through the collective labor contracts and varies across the industries.

In most CIS states, the duration of severance pay is conditional to finding a new job and/or registration at the employment service within a certain period of time. For example, in Russia, typically severance pay equals one average monthly wages. However, his or her average monthly wages are preserved for the period of taking up a job but not more than for two months from the date of dismissal (considering also a dismissal allowance). In exceptional cases, the average monthly wages are preserved for the employee during the third month from the date of dismissal on the basis of the decision made by the employment agency providing that the employee applied to the employment agency within two weeks

[51] Bosnia and Herzegovina and Croatia do not detail the triggering events in their labor laws, and so are not listed in either group.

after dismissal but was not placed in a job. In Kyrgyzstan, the pay is normally not less than two monthly wages but can be extended for the period of up to three months if he or she is still looking for another job and in 10 days after contract termination the person registers himself at the state employment service.

According the World Bank *Doing Business 2009* database employment indicators, severance pay for redundancy dismissal after 20 years of employment is the most generous in Albania, 42.9 weeks of pay, followed by 28.9 weeks of pay in Slovenia, and Bosnia and Herzegovina. The lowest severance is in Armenia, Bulgaria, Georgia, Kazakhstan and Ukraine one month of pay. As noted, there is no mandatory severance in Poland and in Romania where it is established by collective agreements.

The EU15 countries offer various experiences in regard to severance pay. In practice, seven EU15 countries require employers to make severance payments to eligible dismissed workers, and eight countries leave this to collective agreements and private contracting. Countries without mandatory severance pay include Austria, Belgium, Denmark (blue-collar workers), Finland, Germany, Italy, the Netherlands and Sweden. In many of these countries, though, employers customarily give severance pay to dismissed workers even when not required to do so by law. In the Netherlands, courts may grant severance pay.

In Germany, there is no compulsory severance payment. However, a voluntary severance offer by the employer, in order to avoid a claim being filed in the labor court by the employee, must be calculated on the basis of a half-month salary per each year of service. In the case of a mass redundancy, the severance arrangements must be negotiated with the Works Council of the company under codetermination provisions in the law. The size of severance allotments is not established by law; yet, it is normally between 40 percent and 150 percent of the employee's last monthly gross compensation per year of employment.

In Austria, workers who started their jobs before the beginning of 2003 had two options: (i) a system where the employer makes a 1.53 percent contribution to a fund from which they may withdraw if made redundant after employment of at least 36 months; (ii) standard severance pay; the mandated amount for a worker, for example, with 20 years of service being nine months of pay. Workers who started their jobs after the beginning of 2003 no longer have the second option.

In Italy, under the provisions of the Civil Code, employers must deposit the equivalent of the employee's salary divided by 13.5 in a special fund (called the TFR) on an ongoing basis over the course of the employee's employment. The amount accumulated is payable to the employee in the event of redundancy dismissal. The employer does not have to pay any additional severance payment at the time of redundancy dismissal.

Several EU15 countries also use sliding scale. In France, severance is one fifth of monthly wages for each of first 10 years of service, and one third of monthly wages for each year beyond 10 years of service. In Ireland, it is one week of salary plus two weeks of salary for each year of service. A week's pay is capped at €600. The employer is eligible for a rebate of 60 percent of the required payment from the state redundancy fund.

In sum, although mandatory severance payments in most ECA countries are relatively modest, severance obligations may still be a major problem in the sense that many firms that need to restructure may be cash strapped and have no funds for severance payments.

### *6.5. Special Funds for Severance Pay*

In order to ease the burden of individual employers associated with enterprise restructuring and downsizing, several ECA countries have established special funds or set aside allocations from the existing funds to finance dismissal costs. A few examples follow.

In Estonia, according to the Unemployment Insurance Act, upon collective termination of employment contracts, an employee has the right to receive a benefit from the unemployment fund as follows: (i) one month's average wages of the employee, if the employee has been continuously employed by or in the service of the employer for up to 5 years; (ii) 1.5 times one month's average wages of the employee, if the employee has been continuously employed by or in the service of the employer for 5 to 10 years; and (iii) in the amount of two months' average wages of the employee, if the employee has been continuously employed by or in the service of the employer for over 10 years. A benefit upon termination of an employment contract that is paid by the employer pursuant to the Employment Contracts Act or a benefit upon release from service that is paid pursuant to the Public Service Act should be reduced by the amount of the benefit paid from the unemployment fund.

In Romania, the establishment of a guarantee fund for the payment of wage debts was introduced into the Labor Code of 2003. The guarantee fund is supported mainly by employer contributions. All employers are obliged to contribute to the guarantee fund by paying a monthly contribution of 0.25 percent of the payroll. The guarantee fund is used for paying wage debts owed by the employer in case of insolvency – unpaid salaries, compensations for paid leave the employees did not take, compensations owed to the employees according to the individual employment contracts and collective labor agreements in case of termination of employment relationships, in case of occurrence of work accidents or professional diseases, and other indemnities the employers are obliged to pay to the employees in case of temporary interruption of activity. The total amount paid from the guarantee fund shall not exceed three average monthly gross salaries at the national level in case of each employee. Where the insolvency procedure is closed due to the fact that an employer's activity has been restored to normality, the employer is obliged to reimburse the guarantee fund the amounts paid to the employees within six months. The guarantee fund is administrated by the National Employment Agency.

A similar wage guarantee fund was established in Hungary already in 1994. The relevant act stipulates that the support provided for the firm, taking into account the average payroll of all employees in the firm, cannot be more than the five times the average gross monthly salary of the second preceding year. Importantly, the fund provides only loans to the firms for relevant payments. The Wage Guarantee Fund is a part of the Labor Market Fund.

Transition reforms are associated with mass privatization, restructuring, downsizing or closure of a number of enterprises. In the short term, this process entails major labor displacement. These reforms require sufficient public resources to provide a safety net that offers adequate protection against temporary and permanent reduction in income of laid-off workers and their families. Potential investors are generally reluctant to bid for companies where they would face the prospect of laying off large parts of the workforce in order to become profitable. Therefore, the government may become involved in designing, financing and administering the divestiture process prior to and during privatization and restructuring.[52]

Governments in several ECA countries have established special funds to support labor redeployment in particular sectors, such as the coal mining sector in Poland, or nationwide. The most elaborate government Social Program for the employed whose employment terminates in the process of restructuring of enterprises and preparation for privatization, bankruptcy and liquidation was adopted in Serbia in March 2002.[53] Between 2002 and 2006 alone, the Social Program provided support in financing redundancy costs to around 155,000 redundant workers in 320 enterprises.

In July 2005, the government adopted a revised version of the social program. The adjusted program slightly changed the benefit formula for extended severance payments, and basically offered three options to redundant workers:[54]

- Remuneration amounting to 10 average gross wages in the industry sector for employees with more than 10 years of insurance record;
- Remuneration amounting to Euro 100 per year of service in Dinar equivalent; or
- Severance pay according to the Labor Law.

Redundant workers and employees are entitled to additional services provided by the National Employment Service or former enterprise, such as training and retraining programs, self-employment assistance, counseling and training for business start-ups, reassignment to other jobs, etc.

As part of the World Bank/DFID-sponsored Employment Promotion Project, in 2004-2006 three waves of tracer surveys of redundant workers were conducted in four locations in Serbia that provided important insights to the government social program and labor aspects of enterprise restructuring in general. Most former employees used severance to pay off debts and cover consumption needs: 84 percent of the funds received was spent on consumption expenditures (of which 13 percent for purchases of durable goods), followed by investments,

[52] There are basically three options for labor redeployment: (a) let the new investor deal with them; (b) have the government assist prior to the sale; or (c) combine both approaches. All have their advantages and disadvantages, both in terms of the financial gains to the government and in terms of the process of labor shedding and its social mitigation.

[53] Officially the Program for Resolving Redundancy in the Process of Rationalization Restructuring and Preparation for Privatization.

[54] The benefits offered through the social program in Serbia are in line with relevant entitlements in many other countries in the region with specially designed severance programs for particular groups of workers. For the programs with additional training benefits and severance payment for each redundant worker, the Czech Republic spent US$2000 per beneficiary, US$2500 in Hungary and US$3700 in Poland (DFID 2002).

11 percent, and savings, 5 percent. Given that many workers had low wages prior to redundancy, expenditures of received monies on daily consumption might be the first priority. Only 10 percent of investment expenditures were spent on education and training, and among younger workers, 20 percent of relevant spending. Highly educated employees and workers invested more on education thus enhancing their competitive edge in the labor market.

As for the current labor market status, the largest number of displaced workers who were surveyed during the third wave (e.g., two to three years after being made redundant) and who were beneficiaries of the social program remained unemployed (64 percent). A number of them (5 percent) have remained out of the labor market, whereas 31 percent found new employment. By their job profile, most displaced workers were blue-collar workers with narrowly specialized skills. This makes their redeployment a more challenging task. Unemployment rates are also especially high in Serbia, and the number of vacancies is limited. Nevertheless, albeit smoothing consumption and supporting family incomes, these extended severance payments were not particularly effective in facilitating job placement of redundant workers.

### *6.6. Collective Redundancies*

According to the ILO Termination of Employment Convention No. 158, when the employer contemplates terminations for reasons of an economic, technological, structural or similar nature, the employer shall provide the workers' representatives concerned in good time with relevant information including the reasons for the terminations contemplated, the number and categories of workers likely to be affected and the period over which the terminations are intended to be carried out. The Convention specifically states that the applicability of this paragraph may be limited to cases in which the number of workers whose termination of employment is contemplated is at least a specified number or percentage of the workforce. Also the workers' representatives concerned, as early as possible, should be given an opportunity for consultation on measures to be taken to avert or to minimize the terminations and measures to mitigate the adverse effects of any terminations on the workers concerned such as finding alternative employment.

Social guarantees associated with collective redundancies are reflected in the Council Directive 98/59/EC of 20 July 1998 on the approximation of the laws of the Member States relating to collective redundancies. The Directive restricts the employer’s right to dismiss its employees in order to assure adequate preparation and participation for those affected.

The Directive determines the criteria for collective redundancy as follows: “Collective redundancies” means dismissals effected by an employer for one or more reasons not related to the individual workers concerned where, according to the choice of the Member States, the number of redundancies is either, over a period of 30 days:

- at least 10 in establishments normally employing more than 20 and less than 100 workers;

- at least 10 percent of the number of workers in establishments normally employing at least 100 but less than 300 workers;
- at least 30 in establishments normally employing 300 workers or more;
- or, over a period of 90 days, at least 20, whatever the number of workers normally employed in the establishments in question.

By the Directive, where an employer is contemplating collective redundancies, consultations with the workers' representatives should begin in good time with a view to reaching an agreement. These consultations should, at least, cover ways and means of avoiding collective redundancies or reducing the number of workers affected, and of mitigating the consequences by recourse to accompanying social measures aimed, inter alia, at aid for redeploying or retraining workers made redundant. To enable workers' representatives to make constructive proposals, the employers should in good time during the course of the consultations submit detailed information about the upcoming redundancies. Employers should also notify the competent public authority in writing of any projected collective redundancies.

Criteria for collective redundancies are important since these thresholds instigate special procedures associated with mass layoffs. However, employers in some countries attempt to carry out foreseeable redundancies in such a way that the applicable provisions governing collective redundancies can be avoided. In general, this is accomplished by discharging a correspondingly smaller number of employees over a longer period of time for economic reasons. The shorter the period for counting the redundancies to be reckoned as collective redundancy, the easier this becomes.

The factors, such as “number of redundancies”, “size of the enterprise” and the time period in which the redundancies are named as criteria in all ECA countries. While EU10 countries have largely transposed the Council Directive 98/59/EC21 into the national legislation, most other countries have utilized their own definitions. For example, Bosnia and Herzegovina, which has relatively few large enterprises, considers collective redundancy if an employer employing over 15 employees has an intention to cancel employment contracts over a six month period to at least 5 employees. In Croatia, layoffs are considered collective if at least 20 labor contracts are being terminated in the period of 90 days (Annex Table A14).

In EU15 countries, the lowest values are in Portugal where more than two redundancies within three months in smaller enterprises with up to 50 employees are already considered as collective redundancies.[55] The numerical thresholds are significantly higher in other countries. A distinction is usually made in the three segments small, medium and large enterprises (establishments). There are often no regulations governing collective redundancies in establishments with less than 20 employees. The time period for the redundancies also differs significantly. A 30 day rule applies in most countries (Austria, Denmark, Germany and Ireland,), but the period is considerably longer in others. Some specify a period of 90 days (Portugal, Spain, Sweden and the UK) and other countries go

[55] Implementation arrangements regarding collective redundancies in EU15 countries see: http://ec.europa.eu/employment_social/labour_law/docs/01_collectivereds_implreport_en.pdf.

even further, like Italy, for example, where a period of 120 days is decisive for one type of collective redundancy.

When the employer plans to execute collective dismissals from work, he/she is obliged to inform a third party, typically the employees' organization recognized as the representative of the employees. According to the World Bank *Doing Business 2009* database, there is no such requirement before terminating a group of 25 redundant but nonunionized workers except in Azerbaijan, Georgia, and Ukraine. However, in Azerbaijan, the advice and prior agreement by trade unions is required if the dismissed worker is a member of the trade union.

In all EU15 countries, the companies must inform the responsible state labor institutions before notifying dismissals. In several countries, relevant authorities should not only be notified but also consulted, such as in Austria, Finland, Ireland, the Netherlands and Portugal. These entities are the labor administrations in most cases. But the rights of state entities to be included in the consultation process are weak everywhere. By their very nature, the state entities have the task of monitoring compliance with the rules for restructuring processes in the respective country and also the subsequent pertaining sanction rights.

Approval of the collective redundancy by the third party is required only in Greece, the Netherlands and Spain. For example, in Greece the employer and the employees' representatives must meet in order to reach an agreement. If this is not successful within 20 days, the consultation can be extended for 20 more days by decision of the Prefect or the Minister of Labor and Employment. In case a common solution is not reached, it is up to the Prefect or the Minister of Labor to accept or reject the demand for collective dismissals within ten days.

In many ECA countries, such as in Romania and also in Bosnia and Herzegovina, in addition to notification and consultations, the employer is obliged to prepare a program of measures aimed at mitigating the impact of mass layoffs and to discuss this with employees' representatives. In Croatia, a redundancy social security plan must state:

- Reasons why the redundancies occurred;
- Possibility of introducing changes in technology and organization of work in order to provide work for redundant employees;
- Possibility of assigning the worker to another job;
- Possibility of finding employment with other employers;
- Possibility of retraining or additional training for workers;
- Possibility of reducing working hours.

In addition, labor laws in several ECA countries stipulate re-employment guarantees to employees made redundant as a result of mass layoffs. In Romania, the employer who initiated collective dismissals cannot employ new people for the positions of the employees dismissed for a period of 12 months from the date of their dismissal. Also by the labor law in Republica Srpska, if within a year after the termination of employment contract to former

employees, the employer intends to conclude contracts of employment with a number of employees that are required to have qualifications similar to the former employees, the jobs shall be offered to the former employees first.

Overall, these provisions become especially acute at times of an economic depression when mass layoffs become a reality for many.

## Conclusion

This study focuses on internationally accepted labor standards and norms governing the individual employment contract, and practices in labor legislation in ECA countries. Despite similar origin of country labor laws, current set of regulations in the region provides a wide array of legal solutions. The minimum content of the employment contract in most ECA countries coincides, and even goes beyond, the requirements of the ILO Conventions, the European Social Charter, or EU Directives even in the non-signatories countries of relevant treaties.

In this decade of the 2000s, the second generation of reforms in labor legislation are being carried out in many ECA countries. Ten countries became a member of the European Union, which demanded the effort of transposing the whole *acquis communautaire* into the national labor law. Other countries are making adjustments in regulatory framework that reduce and eliminate unnecessary rigidities in order to ensure that the benefits to enterprises entering the formal sector outweigh the costs of working within the rules of the formal economy. Overall, reform of national employment protection legislation in the region in the last two decades has focused on easing existing regulation to facilitate more contractual diversity.

Best practices indicate that employment protection legislation could be restricted to focus on core and enforceable labor standards and provide a greater role for trade unions and employers' associations to determine employment relations through collective bargaining with the aim to find the balance between flexibility and security. On the other hand, the role of labor legislation as a safeguard for workers is much more essential in ECA than, for example, in EU15 countries where the majority of workers are somehow covered by collective arrangements.

Recent changes in the world of work have created a demand for a wider variety of employment contracts. Fixed-term contracts, part-time contracts, on-call contracts, zero-hour contracts, contracts for workers hired through temporary employment agencies, freelance contracts, etc., have become an established feature of modern labor markets. Not surprisingly, recent reforms in labor legislation in the region are also largely associated with easing the recourse to temporary forms of employment while leaving existing provisions for regular or permanent contracts practically unaltered.

Atypical work can provide considerable economic and social benefits. It opens up the labor market to people for whom full-time employment is unfeasible or unattractive. It also provides more flexibility, mobility and dynamism to the labor market, which in turn may contribute to an innovative culture, improved economic performance and efficiency.

Despite the fact that part-time work provides flexibility to the worker that allows him or her to combine a paid job with care activities within the household and those legal provisions exist, sometimes even the same regulations applying to part-time employees, as to full-time employees, in the ECA region relevant work arrangements are not so common. The main reason for working part-time is lack of work, or the unavailability of full-time jobs.

Employees also cannot afford to work part-time because of low wage levels in the region, and because associated costs in relation to earnings are too high.

One of the commonly used indicators of flexible arrangements in labor relations is also regulation of overtime work. The labor law in all countries establishes standard working time duration as not exceeding 40 hours per week, but overtime provisions and pay premiums vary significantly. While in Ukraine, an employee cannot even agree to overtime without exceptional circumstances, in Azerbaijan the law does not regulate overtime at all.

As far as minimum wage policies are concerned, international evidence demonstrates that if the minimum wage is set at a moderate level then it is not likely to entail substantial employment losses. At the same time, minimum wages tend to have only a limited and often transitory impact on the earnings of low wage workers. However, if minimum wages (in relation to the average wage) are set too high, they can be counterproductive. Higher minimum wages can have a non-negligible adverse impact on employment in low wage sectors. An important consideration in setting the level of the minimum wage is how it interacts with the tax system, since there is evidence that a high minimum wage magnifies the negative impact of the labor tax wedge on employment.

The effect of minimum wages on poverty reduction is relatively weak. The main reason for this is that poverty is predominantly associated with non-employment (including unemployment), rather than with low wages. Many poor families have no one working and many minimum wage workers live in households with above-average incomes. The effect on poverty is larger in those countries where minimum wages in the formal sector have a signaling effect for wages in the informal sector.

If labor market conditions and productivity vary considerably across sectors of the economy and regions, a differentiation of the minimum wage can be an effective policy tool. For example, in economically depressed regions with high unemployment, the regional minimum wage can then be lower than in regions with more buoyant labor markets. Having differentiated minimum wages, including lower levels for youth, can possibly reduce the negative employment consequences of too high national minimum wages.

It would also be preferable for the countries in the ECA region to set the minimum wage at a lower level and enforce it effectively. This is a more efficient and equitable approach than setting the minimum wage at a higher level but with weak or selective enforcement.

Low birth rates and other factors have triggered additional protective measures in labor laws of many ECA countries. In particular, various family leave entitlements have been introduced or extended in a number of countries; thus, having positive implications for the care of children, as well as for encouraging entry into the labor market and enabling people to remain at work.

However, extended maternity and other family leave entitlements can potentially adversely affect women's but also men's labor market participation if the father decides to take a lengthy parental leave that may reduce their labor market attachment and can lead to actual or perceived erosion of skills. In particular, employers may be reluctant to hire or promote women of child-bearing age since the employers may associate indirect costs (e.g.,

replacement workers) with maternity leave, particularly if the leave is long. Such measures should be combined with better access to childcare facilities.

An important aspect of labor market flexibility is adjustments to be made in working time and/or wages if an enterprise experiences financial difficulties due to low demand, seasonal factors and so on. It reflects in part a use of internal flexibility (e.g., flexible working-time arrangements, short-time working and temporary suspension of production), which appears to have prevented significant labor reductions, especially in manufacturing, by allowing firms to use various means of internal adjustment rather than reduce their workforce. In the case of production stoppages or reduction in output, wage flexibility could also be an alternative to layoffs.

In most ECA countries the employers can use administrative leaves, paid or unpaid, temporary internal or external transfer of workers to another job or forced part-time work to offset the costs and to adjust to economic difficulties. Especially in times of economic downturn, these provisions may limit mass redundancies in the economy.

It is important that employers have the right to adjust their workforces to economic and technological realities but labor laws usually limit excessive termination conditions. Various policy instruments in this area are utilized in this regard, including regulations governing: (i) difficulty of dismissal, that is legislative provisions setting conditions under which a dismissal is "justified" or "fair"; (ii) procedural inconveniences that the employer may face when starting the dismissal process; (iii) advance notice; (iv) severance pay provisions; and (v) special provisions governing collective redundancies.

The countries may consider shifting the focus of employment protection from protecting jobs to protecting workers in case of unemployment. Many ECA countries have relatively generous severance obligations (which tend to discourage formal employment) while counting on an unemployment insurance system that offers limited support for unemployed workers because of fairly strict eligibility requirements and relatively low benefit levels. The job security provided by employment protection legislation can only partly compensate for the weak employability policies in the region.

In order to make labor legislation more business friendly, the countries may consider adopting a lifecycle approach to work, which may require shifting from the concern to protect particular jobs to a framework of support for employment security, including social support and active measures to assist workers during periods of transition.

Overall, labor law in ECA countries tends to be more onerous, particularly with regard to dismissal. Yet, in only a small portion of cases are contract terminations associated to business decisions.

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# ANNEX

**Table A 1: Main Labor Market Indicators in ECA Countries; Statutory Pensionable Age and Minimum Age of Entry into Employment**

| | Employment rate (aged 15-59, %), 2006 | Unemployment rate, % of labor force, 2006 | Employment growth in 2002-2006, % | Statutory pensionable age in 2008 | | Minimum age of entry into employment contract** |
|---|---|---|---|---|---|---|
| | | | | Men | Women | |
| Czech Republic | 72.2 | 7.1 | 0.9 | 61.8 | 56.3 | 15 |
| Hungary | 61.7 | 7.5 | 1.3 | 62 | 61 | 15 |
| Poland | 58.7 | 12.2 | 3.4 | 65 | 60 | 16 |
| Slovakia | 63.4 | 13.3 | 3.5 | 62 | 56.75 | 15 |
| Slovenia | 74.1 | 5.9 | 2.9 | 62.5 | 56 | 15 |
| Estonia | 76.0 | 5.9 | 5.8 | 63 | 60.5 | 15 |
| Latvia | 74.6 | 6.8 | 6.1 | 62 | 61.5 | 15 |
| Lithuania | 69.7 | 5.6 | 3.8 | 62.5 | 60 | 16 |
| Bulgaria | 63.8 | 8.9 | 8.3 | 63 | 59.5 | 16 |
| Romania | 66.1 | 7.3 | 0.4 | 63.25 | 58.25 | 16 |
| Albania | 47.4 | - | -2.2 | 65 | 60 | 16 |
| Bosnia and Herzegovina | - | - | - | 65 | 65 | 15 |
| Croatia | 58.7 | 10.5 | 2.5 | 65 | 60 | 15 |
| Montenegro | 45.3 | 29.6 | - | 63.5 | 58.5 | 15 |
| Serbia | 57.0 | 20.9 | -8.2 | 63.5 | 58.5 | 15 |
| FYR Macedonia | 42.8 | 36.0 | -0.5 | 64 | 62 | 15 |
| Belarus | 67.6 | - | -1.7 | 60 | 55 | 16 |
| Moldova | 51.3 | 7.4 | -12.7 | 62 | 57 | 16 |
| Russian Federation | 70.9 | 7.2 | 0.2 | 60 | 55 | 16 |
| Ukraine | 68.1 | 6.8 | 0.1 | 60 | 55 | 16 |
| Armenia | 50.8 | 28.1 | -4.8 | 63* | 60.5* | 16 |
| Azerbaijan | 69.8 | 6.8 | -3.1 | 62* | 57* | 15 |
| Georgia | 61.9 | 13.6 | -7.7 | 65* | 60* | 16 |
| Kazakhstan | - | 7.8 | - | 63* | 58* | 16 |
| Kyrgyzstan | 64.9 | 8.3 | 3.1 | 62* | 57.8* | 16 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Tajikistan | 52.7 | - | -0.6 | 63 | 58 | 16 |
| Uzbekistan | 63.7 | - | -0.2 | 60* | 55* | 16 |

Note: * - 2006; ** - persons who have not reached their legal age for entry into employment contract may work under exceptional circumstances under a labor contract with the consent of one of the parents, adopter or guardian.
Source: U.S. Social Security Department 2006 and 2008; UNICEF 2008; national authorities.

**Table A 2: Number of Ratified ILO Conventions, Accepted Paragraphs of European Social Charter, Rank in Employing Workers Index**

| | No. of ratified ILO Conventions | Signed or ratified European Social Charter | Including No. of accepted paragraphs* | *Doing Business 2009* rank in Employing Workers index**** |
|---|---|---|---|---|
| Czech Republic | 62 | Ratified 1999 | 52** | 59 |
| Hungary | 58 | Ratified 1999 | 41** | 84 |
| Poland | 81 | Ratified 1997 | 58** | 82 |
| Slovakia | 62 | Ratified 1998 | 60** | 83 |
| Slovenia | 73 | Ratified 1999 | 95 | 158 |
| Estonia | 32 | Ratified 2000 | 79 | 163 |
| Latvia | 47 | Ratified 2002 | 25** | 103 |
| Lithuania | 40 | Ratified 2001 | 86 | 131 |
| Bulgaria | 82 | Ratified 2000 | 62 | 60 |
| Romania | 48 | Ratified 2000 | 66 | 143 |
| Albania | 42 | Ratified 2002 | 64 | |
| Bosnia and Herzegovina | 69 | Ratified 2008 | 53 | 117 |
| Croatia | 57 | Ratified 2003 | 40** | 146 |
| Montenegro | 68 | Signed 2005*** | - | 104 |
| Serbia | 69 | Signed 2005 | - | 91 |
| FYR Macedonia | 69 | Ratified 2005 | 41** | 125 |
| Belarus | 42 | - | - | 49 |
| Moldova | 38 | Ratified 2001 | 64 | 119 |
| Russian Federation | 53 | Signed 2000 | - | 101 |
| Ukraine | 55 | Ratified 2006 | 74 | 100 |
| Armenia | 29 | Ratified 2004 | 67 | 54 |
| Azerbaijan | 54 | Ratified 2004 | 47 | 15 |
| Georgia | 16 | Ratified 2005 | 63 | 5 |

| | | | | |
|---|---|---|---|---|
| Kazakhstan | 17 | - | - | 29 |
| Kyrgyzstan | 53 | - | - | 81 |
| Tajikistan | 46 | - | - | 128 |
| Uzbekistan | 12 | - | - | 76 |

Note: * - out of the revised Charter's 98 paragraphs. ** - out of the Charter's 72 paragraphs. *** - following to the declaration of independence of 3 June 2006, Montenegro declared that it considers itself bound by all the relevant conventions and protocols to which the State Union of Serbia and Montenegro had previously been a Party. **** - rank among 181 countries in the world .
Source: ILO at http://www.ilo.org/ilolex/english/newratframeE.htm; Council of Europe at: http://www.coe.int/t/dghl/monitoring/socialcharter/Presentation/Overview_en.asp; World Bank at http://www.doingbusiness.org.

**Table A 3: List of the Reviewed National Labor Laws in ECA Countries**

| | Title of the law | Adopted | Amended as of |
|---|---|---|---|
| Czech Republic | Labor Code | 2006 | |
| Hungary | Labor Code | 1992 | 2003 |
| Poland | Labor Code | June 26, 1974 | January 2004 |
| Slovakia | Labor Code | 2001 | June 2007 |
| Slovenia | Employment Relationships Act | April 24, 2002 | |
| Estonia | Employment Contracts Act | December 17, 2008 | |
| Latvia | Labor Law | June 20, 2001 | September 2006 |
| Lithuania | Labor Code | June 4, 2002 | December 2005 |
| Bulgaria | Labor Code | April 1, 1986 | June 2004 |
| Romania | Labor Code | February 5, 2003 | |
| Albania | Code of Labor | July 12, 1995 | 2004 |
| Bosnia and Herzegovina, Federation of B&H | Labor Law | 1999 | July 2000 |
| Bosnia and Herzegovina, Republica Srbska | Law on Labor | October 24, 2000 | November 2000 |
| Croatia | Labor Act | 1995 | September 2004 |
| Montenegro | Labor Law | 2008 | |
| Serbia | Labor Law | March 2005 | June 2005 |
| FYR Macedonia | Employment Relations Law | July 22, 2005 | July 2008 |
| Belarus | Labor Code | July 26, 1999 | December 2007 |
| Moldova | Labor Code | March 28, 2003 | |
| Russian Federation | Labor Code | December 31, 2001 | |
| Ukraine | Labor Code | December 10, 1971 | April 2008 |

| | | | |
|---|---|---|---|
| Armenia | Labor Code | November 9, 2004 | |
| Azerbaijan | Labor Code | February 1, 1999 | May 2008 |
| Georgia | Labor Code | May 25, 2006 | |
| Kazakhstan | Labor Law | December 10, 1999 | |
| Kyrgyzstan | Labor Code | August 4, 2004 | March 2009 |
| Tajikistan | Labor Code | May 15, 1997 | May 2004 |
| Uzbekistan | Labor Code | December 21, 1995 | September 2005 |

**Table A 4: List of ILO Conventions and Recommendations, and EU Legislation Discussed in the Paper**

| **ILO Conventions and Recommendations** | Page |
|---|---|
| Employment Relationship Recommendation No. 198, 2006 | 21 |
| Minimum Age Convention No. 138, 1973 | 24 |
| Worst Forms of Child Labor Convention No. 182, 1999 | 24 |
| Minimum Wage Fixing Convention No. 131, 1970 | 39 |
| Hours of Work (Industry) Convention No. 1, 1919 | 52 |
| Forty-Hour Week Convention No. 47, 1935 | 52, 58 |
| Part-Time Work Convention No. 175, 1994 | 56 |
| Part-Time Work Recommendation No. 182, 1994 | 56 |
| Night Work Convention No. 171, 1990 | 61 |
| Holidays with Pay Convention (Revised) No. 132, 1970 | 65 |
| Maternity Protection Convention No. 183, 2000 | 70 |
| Maternity Protection Recommendation No. 191, 2000 | 70 |
| Termination of Employment Convention No. 158, 1982 | 80, 95 |
| Termination of Employment Recommendation No. 166, 1982 | 82, 86 |
| **EU legislation** | |
| Directive 2002/14/EC of the European Parliament and of the Council of 11 March 2002 establishing a general framework for informing and consulting employees in the European Community - Joint declaration of the European Parliament, the Council and the Commission on employee representation | 21 |
| Council Directive 91/533/EEC of 14 October 1991 on an employer's obligation to inform employees of the conditions applicable to the contract or employment relationship | 22 |
| Council Directive 94/33/EC of 22 June 1994 on the protection of young people at work | 25 |
| 82/857/EEC: Council Recommendation of 10 December 1982 on the principles of a Community policy with regard to retirement age | 27 |
| Council Directive 1999/70/EC of 28 June 1999 concerning the framework agreement on fixed-term work concluded by ETUC, UNICE and CEEP | 29 |

| | |
|---|---|
| Council Directive 2001/23/EC of 12 March 2001 on the approximation of the laws of the Member States relating to the safeguarding of employees' rights in the event of transfers of undertakings, businesses or parts of undertakings or businesses | 37 |
| Directive 2003/88/EC of the European Parliament and of the Council of 4 November 2003 concerning certain aspects of the organization of working time | 52, 58, 62, 66 |
| Council Directive 97/81/EC of 15 December 1997 concerning the Framework Agreement on part-time work concluded by UNICE, CEEP and the ETUC | 56 |
| Council Directive 96/34/EC of 3 June 1996 on the framework agreement on parental leave concluded by UNICE, CEEP and the ETUC | 73 |
| Council Directive 98/59/EC of 20 July 1998 on the approximation of the laws of the Member States relating to collective redundancies | 82, 95 |
| Directive 2002/74/EC of the European Parliament and of the Council of 23 September 2002 amending Council Directive 80/987/EEC on the approximation of the laws of the Member States relating to the protection of employees in the event of the insolvency of their employer | 82 |

Source: ILO on-line at: http://www.ilo.org/global/What_we_do/InternationalLabourStandards/lang--en/index.htm; EU on-line at: http://eur-lex.europa.eu/RECH_legislation.do.

**Table A 5: Characteristics of Employing Workers Indices in ECA Countries**

| | Czech R. | Hungary |
|---|---|---|
| A. Difficulty of Hiring Index | 33 | 30 |
| 1. Are fixed-term contracts prohibited for permanent tasks? | No | No |
| 2. Maximum duration of fixed-term contracts (incl. renewals; in months) | 24 | 60 |
| 3. Ratio of mandated minimum wage to the average value added per worker | 0.22 | 0.25 |
| B. Rigidity of Hours Index | 40 | 80 |
| 4. Can the work week extend to 50 hours (including overtime) for 2 months per year to respond to a seasonal increase in production? | Yes | Yes |
| 5. Maximum number of working days per week | 6 | 5 |
| 6. Are there restrictions on night work? | Yes | Yes |
| 7. Are there restrictions on “weekly holiday” work? | Yes | Yes |
| 8. Paid annual vacation (in working days) for an employee with 20 years of service | 20 | 28 |
| C. Difficulty of Firing Index | 10 | 10 |
| 9. Is the termination of workers due to redundancy legally authorized? | Yes | Yes |
| 10. Must the employer notify a third party before terminating one redundant worker? | No | No |
| 11. Does the employer need the approval of a third party to terminate one redundant worker? | No | No |
| 12. Must the employer notify a third party before terminating a group of 25 redundant workers? | Yes | Yes |
| 13. Does the employer need the approval of a third party to terminate a group of 25 redundant workers? | No | No |
| 14. Is there a retraining or reassignment obligation before an employer can make a worker redundant? | No | No |

| | | |
|---|---|---|
| 15. Are there priority rules applying to redundancies? | No | No |
| 16. Are there priority rules applying to re-employment? | No | No |
| D. Firing costs (weeks of salary) | 21.7 | 34.5 |
| 17. Notice period for redundancy dismissal after 20 years of continuous employment (weeks) | 8.7 | 12.9 |
| 18. Severance pay for redundancy dismissal after 20 years of employment (weeks of salary) | 13.0 | 21.7 |
| 19. Legally mandated penalty for redundancy dismissal (weeks of salary) | 0 | 0 |
| E. Rigidity of Employment Index | 28 | 30 |

Source: World Bank *Doing Business 2009* database.

| | Poland | Slovakia | Slovenia | Estonia | Latvia | Lithuania | Bulgaria | Romania | Albania |
|---|---|---|---|---|---|---|---|---|---|
| A. | 11 | 17 | 78 | 33 | 50 | 33 | 29 | 67 | 44 |
| 1. | No | No | Yes | Yes | Yes | Yes | No | Yes | Yes |
| 2. | No limit | 36 | 24 | 120 | 36 | 60 | 36 | 24 | No limit |
| 3. | 0.26 | 0.21 | 0.30 | 0.21 | 0.22 | 0.24 | 0.25 | 0.23 | 0.36 |
| B. | 60 | 60 | 60 | 80 | 40 | 80 | 60 | 80 | 40 |
| 4. | Yes | Yes | Yes | Yes | Yes | No | Yes | No | Yes |
| 5. | 6 | 6 | 6 | 5 | 6 | 6 | 5 | 5 | 6 |
| 6. | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 7. | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 8 | 26 | 25 | 24 | 24 | 20 | 25 | 20 | 21 | 20 |
| C. | 40 | 30 | 40 | 60 | 40 | 30 | 10 | 40 | 20 |
| 9 | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 10. | No | Yes | No | Yes | Yes | No | No | No | No |
| 11. | No | No | No | No | No | No | No | No | No |
| 12 | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 13 | No | No | No | Yes | No | No | No | No | No |
| 14 | Yes | Yes | Yes | Yes | Yes | Yes | No | Yes | No |
| 15 | Yes | No | Yes | Yes | Yes | Yes | No | Yes | No |
| 16 | Yes | No | Yes | Yes | No | No | No | Yes | Yes |
| D. | 13.0 | 13.0 | 37.5 | 34.7 | 17.3 | 30.3 | 8.6 | 8.3 | 55.9 |
| 17 | 13.0 | 0 | 8.6 | 17.3 | 4.3. | 8.7 | 4.3 | 4.0 | 13.0 |
| 18 | 0 | 13.0 | 28.9 | 17.3 | 13.0 | 21.7 | 4.3 | 4.3 | 42.9 |
| 19. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| E. | 37 | 36 | 59 | 58 | 43 | 48 | 29 | 62 | 35 |

| | Bosnia&Herze-govina | Croatia | Montenegro | Serbia | FYR Macedonia | Belarus | Moldova | Russia | Ukraine |
|---|---|---|---|---|---|---|---|---|---|
| A. | 67 | 61 | 33 | 67 | 50 | 27 | 44 | 33 | 44 |
| 1. | No | Yes | Yes | Yes | Yes | No | Yes | Yes | Yes |
| 2. | 24 | 36 | 60 | 12 | 48 | No limit | No limit | 60 | No limit |
| 3. | 1.02 | 0.33 | 0.10 | 0.24 | 0.24 | 0.16 | 0.47 | 0.09 | 0.29 |
| B. | 40 | 40 | 40 | 20 | 60 | 40 | 40 | 60 | 60 |
| 4. | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | No |
| 5. | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| 6. | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 7. | Yes | Yes | Yes | No | Yes | Yes | Yes | Yes | Yes |
| 8 | 18 | 18 | 21 | 20 | 26 | 15 | 20 | 22 | 18 |
| C. | 30 | 50 | 40 | 30 | 30 | 40 | 40 | 40 | 30 |
| 9 | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 10. | No | Yes | Yes | No | No | Yes | Yes | Yes | No |
| 11. | No | No | No | No | No | No | No | No | No |
| 12 | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | No |
| 13 | No | No | No | No | No | No | No | No | No |
| 14 | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 15 | No | Yes | Yes | No | No | Yes | Yes | Yes | Yes |
| 16 | Yes | Yes | No | Yes | Yes | No | No | No | Yes |
| D. | 30.9 | 39.0 | 39.0 | 25.3 | 26.0 | 21.7 | 37.3 | 17.3 | 13.0 |
| 17 | 2.0 | 13.0 | 13.0 | 0 | 4.3 | 8.7 | 8.7 | 8.7 | 8.7 |
| 18 | 28.9 | 26.0 | 26.0 | 25.3 | 21.7 | 13.0 | 28.7 | 8.7 | 4.3 |
| 19. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| E. | 46 | 50 | 38 | 39 | 47 | 27 | 41 | 44 | 45 |

| | Armenia | Azerbaijan | Georgia | Kazakhstan | Kyrgyzstan | Tajikistan | Uzbekistan |
|---|---|---|---|---|---|---|---|
| A. | 33 | 0 | 0 | 0 | 33 | 33 | 33 |
| 1. | Yes | No | No | No | Yes | Yes | Yes |
| 2. | 60 | No limit | No limit | No limit | 60 | 120 | 60 |
| 3. | 0.19 | 0.19 | 0 | 0.12 | 0.11 | 0.07 | 0.15 |
| B. | 40 | 0 | 20 | 40 | 40 | 80 | 40 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 4. | Yes | Yes | Yes | Yes | Yes | No | Yes |
| 5. | 6 | 6 | 7 | 6 | 6 | 6 | 6 |
| 6. | Yes | No | No | Yes | Yes | Yes | Yes |
| 7. | Yes | No | No | Yes | Yes | Yes | Yes |
| 8 | 20 | 20 | 24 | 18 | 20 | 28 | 15 |
| C. | 200 | 10 | 0 | 30 | 40 | 40 | 30 |
| 9 | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 10. | No | No | No | Yes | Yes | Yes | No |
| 11. | No | No | No | No | No | No | No |
| 12 | Yes | No | No | Yes | Yes | Yes | Yes |
| 13 | No | No | No | No | No | No | No |
| 14 | Yes | No | No | Yes | Yes | Yes | Yes |
| 15 | No | Yes | No | No | Yes | Yes | Yes |
| 16 | No | No | No | No | No | No | No |
| D. | 13.0 | 21.7 | 4.3 | 8.7 | 17.3 | 21.7 | 21.7 |
| 17 | 8.7 | 8.7 | 0 | 4.3 | 4.3 | 8.7 | 8.7 |
| 18 | 4.3 | 13.0 | 4.3 | 4.3 | 13.0 | 13.0 | 13.0 |
| 19. | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| E. | 31 | 3 | 7 | 23 | 38 | 51 | 34 |

Source: World Bank *Doing Business 2009* database at: http://www.doingbusiness.org.

## Table A 6: Probationary (Trial) Period, and Conditions for Fixed-Term Contracts in Labor Legislation in ECA Countries

| | Probationary (trial) period | Regulation of fixed-term contracts | | | |
|---|---|---|---|---|---|
| | | Valid cases | Maximum number of successive contracts | Maximum duration for a single fixed-term contract, not including any renewals | Maximum cumulated duration of successive contracts |
| Czech Republic | Up to 3 months | No restrictions | No limit specified | 2 years | 2 years |
| Hungary | 30 days; a shorter or longer trial period, not | No restrictions | No limit provided the aggregate if term does | 5 years | 5 years subject to the derogation for the |

| | | | | | |
|---|---|---|---|---|---|
| | to exceed three months, may be stipulated in the collective agreement, or agreed upon by the parties | | not exceed 5 years | | case of official approval |
| Poland | Up to 3 months | No restrictions | No limit; 2 renewals allowed beyond original term | No limit | No limit |
| Slovakia | Up to 3 months | No restrictions | No renewal beyond 3 years without specific justification | 3 years | 3 years |
| Slovenia | Up to 6 months | For work which by its nature is of limited duration; replacing a temporarily absent worker, temporarily increased volume of work; managerial staff; seasonal work, etc. (12 cases listed in the law) | No limit specified | 2 years | 2 years |
| Estonia | Up to 4 months; not applied to minors, and upon hiring disabled persons for employment (professional) positions which are prescribed for them | For completion of a specific task; for replacement of an employee who is temporarily absent; for a temporary increase in work volume; for performance of seasonal work, and | May be renewed only once if contract is for the completion of a specific task or a temporary increase in work volume. Otherwise, no limit on renewals | 5 years | 10 years if contract is for the completion of a specific task or a temporary increase in work volume; in other cases, no limit |

| | | | | | |
|---|---|---|---|---|---|
| | | few other cases | | | |
| Latvia | Up to 3 months | For seasonal work; replacement of an employee; casual work; emergency work, etc. (7 cases listed) | No renewal beyond 3 years | 3 years | 3 years |
| Lithuania | Up to 3 months; not applied to minors; employed to a post by competition or elections, as well as those who have passed qualification examinations for a post, and few other cases | Prohibited if work is of a permanent nature | No renewal beyond 5 years | 5 years | 5 years |
| Bulgaria | Up to 6 months | Until completion of some specified work; for substitution for an employee who is absent from work,, and few other cases | No renewal beyond 3 years | 3 years | 3 years |
| Romania | Up to 5 working days for unskilled workers; up to 30 calendar days for executive positions; up to 50 calendar days when employing disabled persons; up to 90 calendar days for management | Replacement of an employee; a temporary increase in an employer's activity; seasonal activities, and few other cases | 2 renewals within the maximum term of 2 years | 2 years | 2 years |

| | | | | | |
|---|---|---|---|---|---|
| | positions, and 3-6 months for hiring higher-educated graduates | | | | |
| Albania | Not regulated | Temporary nature of the assignment | No limit specified | No limit | No limit |
| Bosnia and Herzegovina, Federation of B&H | Up to 3 months | Seasonal jobs; replacement of a temporarily absent employee; engagement on a specific project; temporary expansion in the volume of jobs, and other cases as determined by the collective agreement | No renewal beyond 2 years | 2 years | 2 years |
| Bosnia and Herzegovina, Republica Srpska | Up to 3 months; exceptionally and with consent of both the employer and the employee - may be extended for additional 3 months | No limit | No renewal beyond 2 years | 2 years | 2 years |
| Croatia | Up to 6 months | Work determined by a specific time limit, performance of a specific task or occurrence of a specific event | No renewal beyond 3 years | 3 years | 3 years |
| Montenegro | Up to 6 months | No limits | No limit specified | No limit | No limit |

| | | | | | |
|---|---|---|---|---|---|
| Serbia | Up to 6 months | Seasonal jobs, work on a specific project, increase of volume of work for a definite period of time and the like | No renewal beyond 12 months. The worker can conclude new fixed-term contracts only if he has been unemployed more than 30 days between contracts | 12 months | 12 months |
| FYR Macedonia | Up to 6 months | No restrictions | No limit specified | 5 years | 5 years |
| Belarus | Up to 3 months; not applied to minors, graduates; upon hiring disabled persons; in case of temporary and seasonal employment, and few other cases | Work which by its nature is of limited duration | No limit specified | 5 years | No limit |
| Moldova | Up to 3 months; 15 calendar days for unqualified workers | For performing temporary work; with the persons studying or have retired; with scientific workers, etc. (13 cases listed) | No limit specified | 5 years | No limit |
| Russian Federation | Up to 3 months but up to 6 months for executives and managers; not applied to minors, graduates, pregnant women, employed after a competition and few other cases | For replacing a temporarily absent employee; performing temporary or seasonal work; with persons enrolling in SMEs as well as working for individual employers, etc. (in total 18 cases listed) | No renewal beyond 5 years | 5 years | 5 years |
| Ukraine | For workers up to 1 | When labor relations | No limit specified. | As agreed by the | As agreed by the |

| | | | | | |
|---|---|---|---|---|---|
| | months; otherwise up to 3 months, and up to 6 months in certain cases if agreed upon with trade unions | cannot be established for an indefinite period in view of the category of the pending work or conditions of its fulfillment, or the interests of the employee and in other cases | (However the court may consider a fixed-term contract being renewed at least once to be concluded for an indefinite term.) | parties | parties |
| Armenia | As a rule, up to 3 months but up to 6 months in the cases specified in legislation; not applied to minors; accepted to work by election or for those passing qualification exam, and in few other cases | Work which by its nature is of limited duration, such as personal services; in-house workers; seasonal work; a temporary job (with a term of up to two months) | No limit specified | 5 years | No limit |
| Azerbaijan | Up to 1 month | No limit | No limit specified | 5 years | No limit |
| Georgia | Up to 6 months | No limit | No limit specified | No limit | No limit |
| Kazakhstan | Up to 3 months | No limit | No renewals allowed. Any renewal beyond the original term will cause the contract to become indefinite term | No limit | No limit |
| Kyrgyzstan | Up to 3 months; 6 months for managerial positions; not applied to minors, graduates, seasonal workers and | Work which by its nature is of limited duration, and with employees in small enterprises (less than | No renewal beyond 5 years | 5 years | 5 years |

| | | | | | |
|---|---|---|---|---|---|
| | few other cases | 15 employees) for 1 year; with managers, scientists, pedagogues, etc. (in total 17 cases listed) | | | |
| Tajikistan | Up to 3 months; not applied to minors, graduates and few other cases | No limit | 1 renewal is allowed | 5 years | 10 years |
| Uzbekistan | Up to 3 months; not applied to pregnant women, women with children up to 3 years of age; in case of temporary employment up to 6 months | Work which by its nature is of limited duration; with managers, and in other cases stipulated in law | No limit specified | 5 years | 5 years |

Source: National labor legislation; World Bank *Doing Business 2009* database.

**Table A 7: Minimum Wages in ECA Countries**

| | Ratio of minimum wage to average value added per worker, 2007* | Minimum wage for a 19-year-old worker in his or her first job (per month; gross), 2007** | Ratio of minimum wage to average gross wage in 2007** | Percentage of full-time employees on the minimum wage in 2007 | Method of setting | Frequency of adjustment | Type of rate | Enforcement |
|---|---|---|---|---|---|---|---|---|
| Czech Republic | 0.22 | 7200 CZK | 33.2 | 2.2 | Government based on negotiations with the tripartite Council of Economic and Social Agreement. In addition, the government sets 12 minimum tariff rates | Usually once a year | Monthly and hourly | Labor office |
| Hungary | 0.24 | 69000 HUF | 37.3 | 2.1 | Government based on recommendations of the tripartite Interest Reconciliation Council | Usually once a year | Monthly | Labor Inspection |
| Poland | 0.25 | 900.80 PLN | 33.7 | 2.3 | Government based on negotiations with the Tripartite Commission | Once or twice a year, based on government forecasts of inflation | Monthly | |
| Slovakia | 0.22 | 8100 SKK/ | 40.2 | 1.6 | Based upon the | Yearly | Monthly, | National Labor |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 238 EUR | | | coefficient of adjustment determined by agreement of the State, representatives of employers and representatives of employees acting within the Council of Economic and Social Concertation. Only if there is no agreement on the coefficient of adjustment, unilaterally by the government | | hourly | Inspectorate |
| Slovenia | 0.30 | 566.53 EUR | 40.8 | 3.4 | The minister responsible for labor after consulting the social partners | Yearly | Monthly | Labor Inspectorate |
| Estonia | 0.21 | 4350 EEK | 38.8 | 4.8 | Government following the conclusion of a bipartite agreement between the workers' and employers' organizations | Annually | Monthly, hourly | Labor Inspectorate |
| Latvia | 0.22 | 160 LVL | 40.2 | 9.2 | Government; the National Tripartite Co-operation Council must be consulted | | Monthly, hourly | State Labor Inspectorate |
| Lithuania | 0.23 | 800 LTL | 44.4 | 7.0 | Government following recommendations by the Tripartite Council | | Monthly | State Labor Inspectorate |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Bulgaria | 0.24 | 220 BGN | 51.0 | 12.4 | Government following consultations within the National Council for Tripartite Partnership | Not fixed | Monthly | General Labor Inspectorate |
| Romania | 0.27 | 500 RON | 35.7 | 1.8 | By the government following consultation with the social partners | Not regulated | Monthly | Specialized supervisory bodies of the Ministry of Labor and Social Protection |
| Albania | 0.37 | 14000 LEK | 51.2 | | Council of Ministers; tripartite National Council of Labor is consulted | No relevant provision identified | Monthly | |
| Bosnia and Herzegovina | 1.07 | 680 BAM a) | 102.7 | | Collective agreement and rulebook | | | |
| Croatia | 0.34 | 2747 Kuna*** | 36.4 | | Law | Annually | Monthly | |
| Montenegro | 0.14 | 55 EUR | 11.1 | | Law, collective agreement and contract of employment. | | | |
| Serbia | 0.24 | 56 Dinars per hour b) | 24.7 | | Decision of the Social and Economic Council | | | |
| FYR Macedonia | 0.27 | 5005 Denars c) | 20.7 | | Law and collective agreement | | | |
| Belarus | 0.21 | 188,400 Bel. Rbl. | 27.1 | | Legislation | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Moldova | 0.12 | 400 Lei | 19.3 | | By the State | | | |
| Russian Federation | 0.06 | 2300 RUR | 16.9 | | Federal government following consultation with the social partners | Not regulated | Monthly | Labor inspectors and trade unions |
| Ukraine | 0.34 | 460 UAH | 34.0 | | Supreme Council of Ukraine on the recommendation of the Cabinet of Ministers of Ukraine, after consultations with social partners | As a rule, once a year, in the course of approval of the State Budget of Ukraine. | Monthly | State Tax Inspectorate, trade unions; the Procurator General of Ukraine and by procurators subordinated to him. |
| Armenia | 0.20 | 20,000 AMD | 27.7 | | By law | | | |
| Azerbaijan | 0.25 | 50 AZN | 23.2 | | By the State | | | |
| Georgia | - | - | - | | No minimum wage | | | |
| Kazakhstan | 0.17 | 9,800 Tenge | 18.7 | | By law | | | |
| Kyrgyzstan | 0.12 | 340 Soms | 8.5 | | By law; should not be less than subsistence minimum for able bodied person | | | |
| Tajikistan | 0.11 | 20 Somoni | 12.2 | | President of the Republic of Tajikistan | | | |
| Uzbekistan | 0.13 | 18,630 Soums | … | | By legislation | | | |

Notes: a) 400 BAM/net, corresponding to 680 BAM/month gross (gross = approx 1.7x net); b) 80% of the national minimum wage (trainee wage); c) Minimum wages are determined for individual industries by the Ministry of Labor and Social Policy; 50% is established as the minimum in the labor code; 80% is more commonly used by businesses; * World Bank *Doing Business 2009* database; Due to a lack of consistent cross-country data on average earnings, by the *Doing Business* methodology, the minimum wage level is expressed as a share of average GNI per capita that is used as a proxy for average earnings. The ratio is adjusted to percentage of population in working age to total population. ** - CIS states: minimum wages at the end of 2007 to average wages in 2007. *** - 2008.
Source: National labor legislation; ILO at http://www.ilo.org/travaildatabase/servlet/minimumwages; CIS STAT 2008; Eurostat on-line.

**Table A 8: Overtime Limits and Wage Premium for Overtime, Night and Weekend Work**

| | Overtime an employee generally can agree to work | Overtime the company generally can require an employee to work | Pay premium for overtime | Night work restrictions | Pay premium for night work | Pay premium for work on weekly rest day |
|---|---|---|---|---|---|---|
| Czech Republic | 8 hours per week and 150 hours per year; in excess of the 15 hour limit is permissible with the consent of the employee, but must not exceed 8 hours per week. | | 25%; instead of the premium the worker may be granted a compensatory time off for the hours she/he worked overtime | May not perform more than 8 hours within 24 consecutive hours. Where this is not feasible for operational reasons, the employer shall schedule normal weekly working hours so that the average length of a shift does not exceed 8 hours within 26 consecutive weeks. | | At least 10% of his average earnings for work on Saturday and/or Sunday; work on public holidays: the worker is entitled to normal wage plus compensatory time off or 100 per cent additional pay for work performed on public holidays. |
| Hungary | 200 hours per calendar year, may be extended to 300 hours per calendar year by a collective agreement | Same | 50%; 100% on rest days and on public holidays; no wage supplement for public servants, only additional free | | 15%; | 100% but 50% if the employee receives another rest day as compensation |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | time. | | | |
| Poland | 150 hours in a calendar year but only 8 hours a week on the average in reference period; the annual limit can be increased up to 416 hours | Same | 50%; 100% on Sundays and holidays | | | 100% premium if no time off in lieu is granted |
| Slovakia | 8 hours/week averaged over a period of at most 4 consecutive months (12 months with consent of the employees' representatives); 150 hours/year, plus an additional 250 hours/year for a total of 400 hours/year | 150 hours/year. 8 hours/week averaged over a period of at most 4 consecutive months (12 months with consent of the employees' representatives). Note: the employer can only require the employee to work overtime (aside from under exceptional circumstances) | 25% (35% for dangerous work); an employee can take time-off in compensation for overtime work, the employee is entitled to an hour of time-off for each hour of overtime work. In this case, he or she is not entitled to an additional wage | Mandatory medical exam and maximum 8-hour shift per day averaged over a 4-month period | At least 20% | Work on public holidays can only be required exceptionally and upon prior negotiation with workers' representatives |
| Slovenia | 8 hours per week, 20 hours per month and 180 hours per year | | Determined by collective agreements | | | |

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| Estonia | Employers and employees may agree on a longer working time not to exceed, on average, 52 hours per seven days over a calculation period of 4 months. | Overtime is only permitted by agreement between parties | 50% | | 25% | 100% |
| Latvia | 144 hours within a four-month period | 144 hours within a four-month period | 100% | 7 hours shift | | 100%. Work on Saturdays has to end earlier. |
| Lithuania | 4 hours over a two day period and 120 hours per year; an annual limit of more than 120 hours may be established by collective agreement up to 180 hours per year. | Same | 50% | 7 hours shift except if the worker is employed specifically for the night work or in case of continuous manufacture | At least 50% | 100%, or should be compensated for by granting to the worker another rest day during the month or by adding that day to his/her annual leave. |
| Bulgaria | 150 hours per year, not exceeding: 30 day hours or 20 night hours per month; 6 day hours or 4 night hours per week; 3 day hours or 2 night hours over 2 consecutive days; the workweek | Same | 50% for weekdays; 75% for weekends; 100% increase for public holidays | 7 hours shift; the employees must be medically examined in advance in order that the employer is sure that the night work may not harm their health | Premium rate agreed upon by the parties, but not less than the amount set by Ministerial Order. | In addition to an increased pay for such work, also to an uninterrupted weekly rest period of not less than 24 hours during the succeeding working week |

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| | cannot be longer than 48 hours (full-time workers) and 40 hours (part-time workers). These hours can be worked in 60 working days per calendar year but not for more than 20 consecutive working days | | | | | |
| Romania | 48 hour weekly maximum limit (normal and overtime hours) | None (without employee's consent) | Appropriate time off within the next 30 days or payment of a premium for overtime work amounting to at least 100% of the base salary, according to the collective bargaining agreement at national level | Employees either have their work duration reduced by one hour without said reduction affecting their base salary or receive a night bonus amounting to minimum 15% of the base salary (the collective bargaining agreement sets the amount of the night bonus at 25% of the base salary) | 15% (25% by collective agreement) | 100% established at the National level Collective Agreement |
| Albania | 10 hours per week | Same | 25%, 50% on weekly and public | | | 25%, or compensatory |

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| | | | holidays | | | leave 25% higher than the work performed |
| Bosnia and Herzegovina, Federation of B&H | 10 hours per week | Same | 50% for normal working days, 75% for weekends, 100% for statutory holidays | | Pay premium in accordance with the collective agreement, rulebook or employment contract. | Pay premium in accordance with the collective agreement, rulebook or employment contract. |
| Bosnia and Herzegovina, Republica Srbska | | | | | | |
| Croatia | 10 hours per week; must be notified to a Labor Inspector if by a particular worker it lasts more than four consecutive weeks or more than twelve weeks during one calendar year, or if overtime work by all workers of a certain employer exceeds 10 percent of the total working hours in a particular month | Same | Overtime rates are set by individual employment contract, employers' employment rules or collective agreement; in practice 50% is commonly agreed to | Shift workers may not perform consecutive night work for more than one week. | A worker has the right to an increased salary for night work | A worker has the right to an increased salary for work on holidays and other days that are not working days according to the law. Salary compensation is set by individual employment contract, employer's employment rules or collective agreement. |
| Montenegro | May last only | Same | Determined in the | | Determined in | Determined in the |

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| | during the time necessary to remove the causes due to which it has been introduced, but no longer than 10 hours per week | | collective agreement or contract of employment | | the collective agreement or contract of employment | collective agreement or contract of employment |
| Serbia | None, overtime work is not allowed for a seasonal increase in work that the employer knows about ahead of time. | 4 hours/day, 8 hours/week, but only for cases of force majeure, unexpected increase of the volume of work and in other instances when it is necessary to finish unplanned work by a set deadline | 26% | Before introducing night work, employer must ask advice of trade union on security measures and employee health re: night work. If shift work, need employee's consent to have employee do more than 1 consecutive week of night work | 26% | 26% |
| FYR Macedonia | 10 hours per week and 190 hours per year | Same | Workers who perform more than 150 overtime hours during a year and are not absent for more than 21 days are entitled to one extra month's | | | |

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| | | | salary | | | |
| Belarus | 4 hours per 2 working days, 120 hours per year | Same | 100% | | | |
| Moldova | Workday 12 hours in total (including overtime); 120 hours per calendar year for overtime that is required by the employer. The duration of overtime work can be increased with the consent of the representatives of employees up two 240 hours per calendar year | Same | 50% (first 2 hours); 100% (subsequent hours). Compensation of overtime work in the form of time-off is not permitted | 7 hour shift | 50% | |
| Russian Federation | 4 hours per day, but not more than 1/2 of the regular monthly work time (the average 20 hours per week) (if the overtime is initiated by the employee - co-employment or secondary employment); no more than 120 hours per year | No more than 4 hours per two consecutive days and no more than 120 hours per year | 50% (first 2 hours), 100% (subsequent hours); Compensatory rest may be granted for overtime hours performed | Generally 7 hour shift | | Consent of the worker required to work on rest day. Special premiums for work, or compensatory leave |

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| Ukraine | None. Employee cannot even agree to overtime without exceptional circumstances | None | 50% first 2 hours; 100% after | 7 hour shift | 20% | 100%; the employee may request for a compensatory time off for holiday work |
| Armenia | Total work hours (normal + overtime) limited to 12 | 4 hours per 2 consecutive days; 8 hours per week; 120 hours per year | 50%; 0% if the overtime is agreed between the parties | Yes. Articles 148 and 184 (shorter time shifts and special premiums for night work) | | Pay premium but not defined |
| Azerbaijan | Not specified by law | Over a period of 2 consecutive working days an employee may not be required to work more than 4 hours' overtime works. Employees working under the heavy and hazardous conditions - may not be required to work more than 2 hours overtime | For fixed salary employees: 50%. For employees working on an hourly basis: 100% | 7 hour shift only in work places with hard or hazardous labor conditions | | |
| Georgia | Terms are defined upon consent of the parties | Terms are defined upon consent of the parties | In general, it is left to the parties to decide; however, overtime without compensation is | | | |

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| | | | required to avert natural disasters or deal with their results | | | |
| Kazakhstan | 2 hours per day, 12 hours per month, 120 hours per year | None. Overtime work without the consent of the employee is only allowed under the exceptional circumstances defined by law | 50% | | 50% | Work on public holiday requires the written consent of the worker. 100% pay increase or the worker can take a day off rest |
| Kyrgyzstan | None | None | 50% for the first 2 hours; 100% for hours beyond 2 hours | 7 hour shift | 50% | Employee's consent needed |
| Tajikistan | None, employee can only work overtime in exceptional circumstances and employee must agree to it | Same | 100% | 7 hour shift | 100% | Work on weekends is prohibited (unless falls under one of the specified exceptional circumstances); 100 % pay premium for weekend work or compensatory rest |
| Uzbekistan | 4 hours in 2 successive days, and 120 hours per year | None. (The employee must agree to overtime) | 100% (minimum) | | 50% | Allowed only basing on the collective agreement concluded |

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| | | | | | | between employer and employees, or on the basis of agreement of employer with trade union; 100% pay premium, or compensatory rest |

**Source: National labor legislation.**

**Table A 9: Annual Paid and Unpaid Leave, and Family Leave**

| | Minimum annual leave | Supplementary leave | Family leave | Unpaid leave |
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| Czech Republic | 4 weeks; state and local government employees – 5 weeks; pedagogical and academic employees – 8 weeks | Workers engaged in hard or harmful work – one twelfth for every 21 days of work done in such areas | | |
| Hungary | 20 working days but 21 days for employees over 25; 22 days for employees over 28; 23 days for employees over 31; 24 days for employees over 33; 25 days for employees over 25; 26 days for employees over 37; 27 days for employees over 39; 28 days for employees over 41; 29 days for employees over 43; 30 | Minors – 5 extra days;<br>single parent - a) two days a year for one child, b) four days a year for two children,<br>c) a total of seven days a year for more than two children under sixteen years of age; blind employees – 5 extra days | | |

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| | days for employees over 45<br>years of age. | | | |
| Poland | 20 days if the employee has been employed for less than 10 years;<br>26 days if the employee has been employed for at least 10 years (including previous employment) | | | Upon a written request of the employee |
| Slovakia | 4 weeks; 5 weeks if have worked at least 15 years after the age of 18 | | | |
| Slovenia | 4 weeks | An older worker, a disabled person, a worker with at least 60 % physical impairment, and a worker, who takes care of a physically or mentally handicapped child - at least 3 additional days; one additional day for every child under the age of 15 | | |
| Estonia | 28 calendar days | Minors, disabled persons, and state officials and local government officials, in total 35 calendar days; an employee receiving incapacity pension or national pension based on incapacity for work - 35 calendar days; teachers | | At the request of an employee, for taking the state examinations , or in other cases prescribed by law, a collective agreement or employment contract |

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| | | and academic staff – 56 calendar days | | |
| Latvia | 4 weeks | 3 days to employees with 3 or more children under the age of 16 years or a disabled child, and to employees exposed to special risk | | |
| Lithuania | 28 calendar days | Minors, disabled persons and single parents raising a child before he has reached the age of 14 (16 if disabled child); employees whose work involves greater emotional and intellectual strain and professional risk | For a wedding – at least 3 calendar days, and for a funeral of a family member – at least 3 days of unpaid leave | Employees raising a child under 14 years of age - for up to 14 calendar days; 2) employees raising a child with disabilities before he has reached sixteen years - for up to 30 calendar days; disabled persons – for up to 30 calendar days |
| Bulgaria | 20 work days | Categories specified by the Council of Ministers; for work under unhealthy or special conditions, and for work on open-ended working hours – not less than 5 working days | For a wedding – at least 2 working days, and for a funeral of a family member – at least 2 working days of leave (remuneration as provided for in the collective agreement or as agreed between the employee and the employer) | Upon the request of the employee; up to 30 working days for one calendar year |
| Romania | 20 working days | The employees who work under difficult, dangerous, or harmful conditions, disabled persons, and minors under 18 - additional holiday of | Paid days off for special family events as determined by the law, the collective labor contract, or the company's rules and regulations | According to rules and regulations established by the collective agreement or by the company's rules and regulations |

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| | | at least 3 working days | | |
| Albania | 4 weeks | | In the case of the marriage or death of any of the spouses, of his/her direct predecessors and descendants - 5 days of paid leave; in the case of the serious sickness of his/her direct predecessors or descendants, which is certified by medical report – up to 10 days of paid leave | |
| Bosnia and Herzegovina, Federation of B&H | 18 working days | Work which poses a health hazard – at least 30 working days | Up to 7 working days in one calendar year - paid leave in the case of marriage, wife's confinement, serious disease or death of a close family or household member; up to 4days to meet religious/traditional needs of which 2 days with salary compensation | Upon request of the employee |
| Bosnia and Herzegovina, Republica Srpska | 18 working days | Minors – at least 24 working days; work which poses a health hazard – at least 30 working days | Up to 3 working days in one calendar year – leave with pay in case of: wedding, wife's birth-giving, serious disease or | Upon request of the employee |

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| | | | death of a close family member and in other cases provided under the collective agreement and rule book; up to 3 working days of unpaid leave for religious or national and traditional purposes | |
| Croatia | 18 working days | Minors – at least 24 working days; work which poses a health hazard – at least 30 working days | Paid leave for a maximum of 7 working days for important personal needs - marriage, childbirth, serious illness or death of a member of the immediate family | Upon request of the employee |
| Montenegro | 18 working days | Minors – not less than 24 working days | up to 7 working days in case of: matrimony, childbirth, death of an immediate family member, moving, passing examination and in other cases defined in the collective agreement | As defined by the collective agreement |
| Serbia | 20 working days | | Up to 7 working days in cases of getting married, spouse's childbirth, serious illness of a member of immediate family, and in other cases as determined in the collective agreement and the employment contract; in addition, 5 working days | An employer may grant to an employee a leave without compensation |

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| | | | due to death of an immediate family member | |
| FYR Macedonia | 20 working days | An older employee, a disabled employee, an employee with at least 60% of physical impairment, and employee who takes care of a physically or mentally handicapped child - additional 3 working days; minors – additional 7 working days | Up to 7 working days of paid leave due to personal or family circumstances - marriage, childbirth (only for the father) and/or death of immediate family member | In cases and under conditions determined by collective agreement, but not exceeding three months in one calendar year |
| Belarus | 24 calendar days | for work on open-ended working hours – up to 7 working days; for work which poses a health hazard as determined by the government | | Up to 14 days to women with children up to 14 years of age (16 years if the child is disabled); veterans of the Great Patriotic War, disabled workers, for taking care of sick family member, and in other cases as determined by law, a collective agreement or employment contract |
| Moldova | 28 calendar days | Employees working in harmful conditions, blind persons and minors – additional leave not less than 4 calendar days | | On family circumstances and other valid reasons the employee - with the consent of the employer - up to 60 calendar days; women having two or more children under the age of fourteen (or a child - |

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| | | | | invalid under the age of sixteen), single parents - not less than 14 calendar days |
| Russian Federation | 28 calendar days | Employees working in harmful conditions, for work on open-ended working hours, employees working in the Far North regions – as defined by the government, collective agreement or by local acts | | Upon request of the employee, including participants of the Great Patriotic War – up to 35 calendar days; working pensioners – 1 days; working disabled persons – up to 60 days; employees in cases of a childbirth, wedding, death of close relatives - up to five calendar days |
| Ukraine | 24 calendar days | Minors – 31 calendar days | | Upon request of the employee but not more than 15 calendar days |
| Armenia | 28 calendar days | Employees working in harmful and stressful conditions - in total up to 35 calendar days (the list of employees is determined by the government) | | Upon the request of an employee to the disabled employee or to the employee taking care of a sick family member – up to 30 calendar days; marriage – 3 calendar days; for funerals of a family member – at least 3 calendar days |
| Azerbaijan | 21 calendar days | Agricultural employees, public officials, scientific personnel, pedagogical and medical staff and some | | Upon the request of an employee for family and personal reasons up to 14 calendar days |

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| | | other categories – in total not less than 30 days; employees engaged in underground work or in hazardous or arduous work, with increased mental and physical stress - additional 6 calendar days as determined by the relevant authority; depending on seniority: 5-10 years of work – 2 additional calendar days; 10-15 years – 4 additional days, over 15 years – 6 additional calendar days; working women with 2 children under the age of 14 – 2 additional calendar days, and if 3 or more children of this age (16 years of age with a disabled child) – 5 additional calendar days | | |
| Georgia | 24 working days | | | Upon the request of an employee – not less than 15 calendar days; also not less than two weeks for childcare before the child turns 5 |
| Kazakhstan | 18 calendar days | Employees working in harmful and stressful conditions as determined | | By agreement between the parties |

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| | | by the competent public authority | | |
| Kyrgyzstan | 28 calendar days | State employees, minors – 30 calendar days; employees working in harmful and stressful conditions as determined by the government | | Upon the request of the employee and by agreement between the parties; participants of the Great Patriotic War, disabled war veterans – up to 14 calendar days; disabled workers – up to 60 calendar days; marriage, childbirth, death of an immediate family member – up to 5 calendar days; |
| Tajikistan | 24 calendar days | In total 10 privileged groups with lengthier minimum annual leave, including minors – 30 calendar days, and disabled persons – 35-42 calendar days | Up to 7 working days of unpaid leave due to personal or family circumstances - marriage, childbirth (only for the father) and/or death of immediate family member | Upon the request of the employee and by agreement between the parties; participants of the Great Patriotic War, disabled war veterans, working pensioners – up to 14 calendar days; disabled workers – up to 60 calendar days |
| Uzbekistan | 15 working days | Minors, and disabled persons - 30 calendar days; employees working in harmful and stressful conditions as determined by the government or in the employment contract | | Upon the request of an employee; participants of the Great Patriotic War and other war veterans, disabled workers, and for women with a child between 2 and 3 years of age, or with 2 and more |

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| | | | | children at age 12 years - up to 14 calendar days |

Source: National labor legislation.

**Table A 10: Paid Maternity Leave, Parental Leave and Paternity Leave in ECA Countries**

| | Paid maternity leave: normal duration | | Duration of parental leave | Duration of paternity leave |
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| | Total duration | Including must be used before giving birth | | |
| Czech Republic | 28 weeks | | Granted if so requested to the mother or the father but no longer than the child reaches the age of 3 years | |
| Hungary | 4 weeks before and 20 weeks after the expected date of childbirth or for 24 weeks after the expected date of childbirth, depending on the mother's choice | | Leave of absence without pay a) until the child reaches the age of three, in order to care for the child at home; b) until the child reaches the age of ten, during the period of eligibility for child-care allowance, provided that the employee cares for the child at home; c) in order - in the event of the child's illness - to provide home care | Five days which the employer shall allocate within the two-month period following the date of birth on the days requested by the father |
| Poland | 16 weeks in case of first delivery; 18 weeks with each next delivery | 2 weeks | Maximum 3 years before the child has reached the age of 4; can be taken by | Only own fathers and legal carers; 2 weeks in case of 16 weeks |

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| | | | both parents or legal carers | maternity leave; 4 weeks if 18 weeks maternity leave |
| Slovakia | 28 weeks (may not be shorter than 14 weeks) | 6 weeks | A mother or father shall be granted parental paid leave for raising a child up to 3 years of age; | |
| Slovenia | 105 days | 28 days | After the expiration of maternity leave, one of the parents have the right to paternity leave for a period of up to 260 days paid by Parental Leave Insurance Fund | Total period of 90 days; at least 15 days must be used during the maternity leave, and the remaining 75 days – until the child is 8 years old |
| Estonia | 140 days | A woman has the right to commence leave up to 70 days before the estimated date of delivery | A mother or father shall be granted parental leave for raising a child up to 3 years of age; additional paid child care leave of 3 calendar days if one or two children under 14 years of age, and 6 calendar days if 3 or more children under 14 years of age or at least one child under 3 years of age; additional unpaid leave up to 10 working days | A father has the right to an up to ten working days of paternity leave during the two months before the estimated birth date and during the two months after the birth of the child. |
| Latvia | 112 calendar days | Prenatal leave 56 calendar days | For a period not exceeding 1.5 years up to the day the child reaches the age of 8 years | 10 calendar days but not later than within a two-month period from the birth of the child. It is |

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| | | | financed by state social insurance | financed by the state social insurance. |
| Lithuania | 126 days | Entitled to 70 days | Before the child has reached the age of 3 paid by state social insurance | |
| Bulgaria | 135 days | 45 days | For 1st, 2nd and 3rd child until they reach 2 years of age, and 6 months for each subsequent child if not placed in a child-care establishment; benefit paid by social insurance | |
| Romania | 126 days | Granted for 63 days before childbirth | Can be used by one of the parents or other relative until the child reaches the age of 2 years paid by the state social insurance fund | |
| Albania | 365 days | 35 days | Paid leave no longer than 15 days when child is sick (children up to 3 years of age); additional unpaid leave of absence up to 30 days a year | |
| Bosnia and Herzegovina, Federation of B&H | 365 days (but not shorter than 42 days following the birth of the child) | 28 days | Until the child reaches the age of 3 years | Paid absence up to 7 working days in the case of wife's confinement |
| Bosnia and Herzegovina, Republica Srpska | | | | |
| Croatia | 6 months (mandatory maternity leave); | 28 days | Until the child reaches the age of 3 years | Up to 7 working days of paid leave for personal |

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| | maximum 365 days. After 6 months of mandatory leave, the right to leave can be exercised by the child's father | | | needs, for example childbirth |
| Montenegro | an employed woman may start to use the maternity leave 45 days before the childbirth, but no later than 28 days before the childbirth.<br>until the child turns one year of age. | 45 days before the childbirth, but no later than 28 days | One of the parents shall be entitled to be absent from work until the child turns three years of age | An employee shall be entitled to absence from work, with wage compensation (paid absence), in case of: getting married, his wife giving birth, serious illness of an immediate family member, taking a professional examination and in other cases duration determined by the collective agreement and contract of employment. |
| Serbia | For the first and second child begins 28 days before the expected date of childbirth and is paid for<br>365 days. The leave period for the third and each successive child is paid for 2 years | | | |
| FYR Macedonia | 9 months | 28 days | | Up to 7 working days. Paid absence from work |

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| | | | | determined by collective agreement |
| Belarus | 126 days | 70 days | Until the child reaches the age of 3 years paid by the state social insurance fund | |
| Moldova | 126 days | Prenatal leave 70 days | Can be used by the mother, the father or any relative who takes care of the child until the child reaches the age of 3 years paid by the state social insurance; | |
| Russian Federation | 140 days | Can be granted 70 days before childbirth | Upon the request of a female worker, she is granted a child care leave until the child reaches the age of 3 years paid by the state social insurance; can be granted also to father or other relative | |
| Ukraine | 126 days | | | |
| Armenia | 140 days (70 days before and 70 days after the expected date of childbirth) | | | |
| Azerbaijan | 126 days | 70 days | A single parent or another family member who is caring for a child until the age of 3 can take a social leave partially paid by social protection | Unpaid leave for up to 14 calendar days for men whose wives are on maternity leave |

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| | | | fund | |
| Georgia | 126 days | | In total 477 days for the reason of pregnancy, childbirth and childcare | |
| Kazakhstan | 126 days | | | |
| Kyrgyzstan | 126 days | | | |
| Tajikistan | 140 days | | Can be used by the mother, the father or any relative who takes care of the child until the child reaches the age of 18 months paid by the state social insurance; additional unpaid leave can be requested until the child reaches 3 years of age | |
| Uzbekistan | 126 days | Can be granted 70 days before childbirth | Can be used by the mother, the father or any relative who takes care of the child until the child reaches the age of 2 years paid by the state social insurance; additional unpaid leave can be requested until the child reaches 3 years of age | |

Source: US Social Security Administration at:
http://www.socialsecurity.gov/policy/docs/progdesc/ssptw/2008-2009/europe/ssptw08euro.pdf.
ILO at: http://www.ilo.org/travaildatabase/servlet/maternityprotection.

**Table A 11: Administrative Leave Arrangements in ECA Countries**

| | **Payment in case of idle time, and other conditions** |
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| Czech Republic | As a rule, compensatory wage of average earnings: at least 50 % of his/her average earnings if an employee is unable to perform work due to adverse effects of weather; if an employer outlined in a written agreement with employees' representatives substantive operational reasons that prevent the employer from designating an employee work, this shall constitute an obstacle on the part of the employer for which an employee shall be entitled to wage compensation in the amount stipulated in the agreement, being a minimum of 60 % of average earnings. |
| Hungary | If the employer temporarily reduces the working time stipulated in the employment contract of an employee on account of economic reasons, the employee shall be entitled to his/her personal basic wage for such time lost, unless provisions pertaining to labor relations provide otherwise. |
| Poland | If the employee is ready to perform work but he or she is prevented from it for reasons attributable to the employer, he or she shall be entitled to remuneration for the period not worked in accordance with his or her individual rate of pay expressed as an hourly or monthly rate, and if such component of the remuneration is not specified in the conditions of remuneration – in the amount of 60% of the remuneration. In any case, such remuneration shall not be less than the minimum remuneration for work established pursuant to separate regulations. |
| Slovakia | Compensatory wage of average earnings: 60% of average earnings if a written agreement with employees' representatives; 50% of average earnings if unable to perform work due to adverse effects of weather. |
| Slovenia | If the worker cannot work due to force majeure, he shall be entitled to half of the payment he would have received if he was working but not less than 70% of the minimum wage.. |
| Estonia | In case of work stoppage due to a lack of necessary organisational or technical conditions, *force majeure* or other circumstances: temporary transfer to other position, and he or she is paid remuneration according to the position, but not less than at the rate of hourly wages in the former position; upon a temporary decrease in the volume of work or orders, employees may be granted a partially paid holiday for up to three months by agreement of the parties and with the approval of the labor inspector of the employer's location (residence), and the employees shall be notified thereof in writing at least two months in advance; partial pay shall not be less than 60 per cent of the minimum salary rate. |
| Latvia | If an employer does not provide work to an employee: compensatory wage of average earnings for the whole |

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| | period of idle time. |
| Lithuania | Idle time without any fault on the part of an employee: he or she can be transferred to another work with written consent of an employee for the period of idle time with compensatory wage of average earnings; if not transferred, at least one-third of the average monthly wage but not less than the minimum hourly pay. Where the employee refuses in writing the offered job according to his profession, speciality, and qualifications, in which he could work without causing harm to his health, he shall be paid at least 30 percent of the hourly pay established by the Government for each idle hour. |
| Bulgaria | Part-time work can be introduced by the employer as a means of having the employees' share the burden of the unfavorable current situation. |
| Romania | At least gross national minimum basic wages shall be guaranteed if the employee is present for work, according to the schedule, but he/she cannot carry out his/her activity due to reasons not imputable to him/her, except for strikes. |
| Albania | |
| Bosnia and Herzegovina, Federation of B&H | |
| Bosnia and Herzegovina, Republica Srpska | |
| Croatia | A worker has the right to salary compensation during a period of time when work is interrupted due to the fault of the employer or due to other circumstances for which the worker is not responsible. |
| Montenegro | The employee shall be entitled to wage compensation in the amount determined by the collective agreement and labor contract during the time of work interruption without the employee's fault. |
| Serbia | During an interruption of work which occurred without employee's fault: at least 60% of the average earnings for the period not exceeding 45 workdays in a calendar year. |
| FYR Macedonia | The employee shall be entitled to salary compensation in cases when he does not carry out the work due to reasons on the side of the employer. |
| Belarus | Earnings determined by mutual consent between the employer and employee if not fixed in the collective agreement or employment contract. |
| Moldova | Duration cannot exceed 3 months in a calendar year, and compensatory wage is not less than 75% of average |

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| | earnings |
| Russian Federation | Compensatory wage of not less than two-thirds of average earnings. The worker can be transferred to another job for not more than one month in a year, and wages must be paid basing on the new job position, but should not be less than average wages on the previous position. Employee can be transferred to a job position that requires lower qualification with his written consent. |
| Ukraine | In case of the idle time, employees may be transferred to another position at the same enterprise, institution or organization for the whole duration of the idle time or to another enterprise, institution or organization in the same locality for a period up to one month subject to their consent and taking into account their specialty and qualification. |
| Armenia | For idle time not by employee's fault: compensatory wage of not less than two-thirds of average hourly rate for every idle hour but not less than the minimum hourly rate if offered another job; if the employee refuses the offered temporary job, compensatory wage not less than 30% of the minimum hourly rate |
| Azerbaijan | An employee may be temporarily transferred to another job without his consent for up to one month for business reasons and to prevent idle time. An employee may not be transferred to a job, which has a negative effect on his health or to a job with a lower skill rating. While on the other job, the employee shall be compensated on the basis of work performed, but no less than his previous monthly wage. |
| Georgia | Unless otherwise addressed by the employment agreement, in case of coercive suspension of the employee for the reason of the employer, the employee is entitled to receive full amount of labor compensation. |
| Kazakhstan | In the event of production necessity the employer shall be entitled to transfer the worker without his consent for a period of up to one month to another post not stipulated in the individual contract of employment in the same establishment, in the same locality with remuneration of the labor corresponding to the work performed, but not lower than an average monthly pay at the former post. |
| Kyrgyzstan | Can be transferred to another job for not longer than one month with compensatory wage of not less than his/her average earnings. |
| Tajikistan | Can be transferred to another job in the same firm, or to another firm with his/her consent, for not longer than one month with compensatory wage of not less than his/her average earnings. |
| Uzbekistan | Compensatory wage of not less than two-thirds of average earnings |

Source: National labor legislation.

**Table A 12: Restricted Right to Terminate Employment of Specially Protected Workers in Case of Layoffs in ECA Countries**

| | | Categories of specially protected workers from contract termination |
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| Czech Republic | | |
| Hungary | | |
| Poland | | An employee who will have acquired the right to receive a retirement pension from the Social Security Fund within less than two years. This provision shall not apply if the employee becomes eligible for a disability pension because of the total incapacity to work |
| Slovakia | | As a rule, an employer cannot immediately terminate the employment relationship with a pregnant employee, a female employee on maternity leave, or a female or male employee on parental leave, with a solitary female or male employee caring for a child younger than three years of age, or with an employee who personally cares for a close person with severe disability. |
| Slovenia | | A. Criteria for determining redundant workers: (i) the worker's professional education and/or qualification for work and the necessary additional skills and capacities, (ii) working experience, (iii) job performance, (iv) years of service, (v) health condition, (vi) the worker's social condition, (vii) that he or she is a parent of three or more minor children or the sole bread-winner in the family with minor children. When determining the workers whose work will become redundant, under the same criteria the priority shall be given to the preservation of jobs by those workers who are in a bad social condition.<br>B. Preferential right to protection of employment contract: (i) new workers within the term of one year, (ii) the older worker, without written consent of this worker, until this worker completes the minimum conditions upon which the right to old-age pension is conditioned, unless he is assured the right to the unemployment benefit or until the fulfillment of minimum conditions for old-age pension, (iii) the female worker during the period of pregnancy and all the time she is breastfeeding (iv) parents in the period when they are on parental leave in the form of a full absence from work. (Notwithstanding the provisions of (iii) and (iv), the employer may terminate the employment contract after the preliminary consent by the labor inspector, if there are reasons for extraordinary termination or due to the introduction of the procedure for the termination of the employer.) (v) a disabled worker because of an established disability of second or third degree or for a business reason, unless<br>it is possible to assure him another appropriate work or part-time work in accordance with the regulations on pension and invalidity insurance, and some other categories of disabled individuals. |
| Estonia | | An employer may not cancel an employment contract due to the following: 1) an employee is pregnant or has the right to pregnancy and maternity leave; 2) an employee performs important family duties; 3) an |

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| | | employee does not, in the short term, cope with the performance of duties due to their state of health; 4) an employee represents other employees on the basis provided by law; 5) a full-time employee does not want to continue working part-time or a part-time employee does not want to continue working full-time; 6) an employee is in military service or alternative service.<br>Termination of employment contracts with the employees is only permitted with the consent of the labor inspector. Of the persons who are employed in a principal job, preference is given to those who have better performance results. In the case of equal performance results, preference is given to employees who have contracted an occupational disease or received a work injury by the fault of the employer; who have worked for the employer longer; who have dependants; or who are developing their professional skills and expertise in an educational institution which provides special education. |
| Latvia | | Preference to continue employment relations shall be for those employees who have higher performance results and higher qualifications. If performance results and qualifications do not substantially differ, preference to remain in employment shall be for those employees: 1) who have worked for the relevant employer for a longer time; 2) who, while working for the relevant employer, have suffered an accident or have fallen ill with an occupational disease; 3) who are raising a child up to 14 years of age or a disabled child up to 16 years of age;<br>4) who have two or more dependants; 5) whose family members do not have a regular income; 6) who are disabled persons or are suffering from radiation sickness; 7) who have participated in the rectification of the consequences of the accident at the Chernobyl Atomic Power Plant; 8) for whom less than five years remain until reaching the age of retirement; 9) who, without discontinuing work, are acquiring an occupation (profession, trade) in an educational institution; and 10) who have been granted the status of politically repressed person.<br>As a rule, an employer is prohibited from giving a notice of termination of an employment contract to (i) a pregnant woman, as well as to a woman following the period after birth up to one year, but if a woman is breastfeeding – during the whole period of breastfeeding; (ii) an employee who is declared to be a disabled person, (iii) an employee – member of a trade union – without prior consent of the relevant trade union. |
| Lithuania | | Preferential groups: (i) employees who will be entitled to the full old age pension in not more than five years; (ii) persons under 18 years of age; (iii) disabled persons, and (iv) employees raising children under 14 years of age. Contracts with these employees may be terminated only in extraordinary cases where the retention of an employee would substantially violate the interests of the employer.<br>Restrictions on the termination of an employment contract: 1) an employee during the period of temporary disability, as well as during his leave; 2) an employee called up to fulfil active national defence |

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| | | service or other duties of the citizen of the Republic of Lithuania,<br>Additional guarantees: as a rule, an employment contract may not be terminated with (i) a pregnant woman from the day on which her employer receives a medical certificate confirming pregnancy, and for another month after maternity leave, (ii) with employees raising a child (children) under three years of age; (iii) employees, who have lost their functional capacity as a result of injury at work or occupational disease, until they recover their functional capacity or a disability is established; (iv) employees, who are elected to representative bodies of employees - without the prior consent of the body concerned during the period for which they have been elected.<br>In the event of reduction in the number of employees on economic or technological grounds or due to the restructuring of the workplace, the right of priority to retain the job shall be enjoyed by those employees: 1) who sustained an injury or contracted an occupational disease at that workplace; 2) who are raising children (adopted children) under 16 years of age alone or caring for other family members recognised as the disabled of group I or II; 3) whose continuous length of service at that workplace is at least ten years, with the exception of employees, who have become entitled to the full old age pension or are in receipt thereof; 4) who will be entitled to the old age pension in not more than three years; 5) to whom such a right is granted in the collective agreement; 6) who are elected to the representative bodies of employees. The priority to retain the job shall apply only to those employees whose qualification is not below the qualification of the other employees of the same speciality, who work in that enterprise, establishment or organisation. |
| Bulgaria | | An employer may dismiss only with prior consent of the labor inspectorate for each specific case: (i) employees - mothers of children younger than 3 years of age, or spouses of persons who have entered their regular military service; (ii) employees who have been reassigned due to reasons of health; (iii) employees suffering from certain diseases, listed in a Regulation of the Minister of Health. |
| Romania | | Employees' dismissal shall not be ordered: (i) for the duration of the temporary industrial disablement: (ii) for the duration an employed woman is pregnant, if the employer learnt about this fact prior to the issuance of<br>the dismissal decision; (iii) for the duration of the maternity leave; (iv) for the duration of the leave for raising a child up to the age of 2, or, in case of a disabled child, up to the age of 3; (v) for the duration of the leave for looking after a sick child up to the age of 7 or, in case of a disabled child, for intercurrent diseases, up to the age of 18; (vi) for the duration of the military service. |
| Albania | | Termination of employment contract is invalid in the period during which the woman receives the benefit income from Social Insurance because of child delivery or adoption. |
| Bosnia and | | |

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| Herzegovina, Federation of B&H | | |
| Bosnia and Herzegovina, Republica Srbska | | |
| Croatia | | During pregnancy, maternity leave, the exercise of the right to shortened working hours by parents or adoptive parents, adoption leave and leave for taking care for the child with serious developmental problems, and during a period of fifteen days after the cessation of pregnancy or the cessation of the exercise of these rights, the employer may not dismiss from work a pregnant woman or a person exercising one of the rights mentioned. |
| Montenegro | | An employer shall not cancel the labor contract with the parent who works half of the full time due to attending a child with severe development difficulties, a single parent of a child under seven years of age, or a child with severe disability, or with a person using one of the aforementioned rights. |
| Serbia | | |
| FYR Macedonia | | The employer must not terminate the employment contract to the female employees during the period of pregnancy, childbirth and parenthood or absence for the purpose of taking care of children. |
| Belarus | | Preferential groups: workers with higher labor productivity and qualification, and other cases according to th legislation. An employer cannot terminate the employment relationship with a pregnant employee, with a female employee caring for a child younger than three years of age, with a solitary female employee caring for a child between three years and fourteen years of age (disabled child(ren) – up to 18 years of age), except in case of liquidation of the firm or organization and in few other cases according to legislation. |
| Moldova | | In case of equal qualification and labor productivity the priority right to be kept on work have: a) employees who have a family and have two or more persons to take care of; b) employees in whose families there are no other persons with an independent income; c) employees having a greater work experience at the enterprise;<br>d) employees who had to suffer because of a production accident or got an occupational disease at the given enterprise; e) employees raising their qualification in higher and secondary specialized educational institutions without work discontinuance; f) war invalids and members of the military men families who died or have disappeared without any trace; g) participants to military operations for the protection of the territorial integrity and independence of the Republic of Moldova; h) inventors; i) persons who got or have suffered from radiation sicknesses or others diseases connected to the irradiation, because of the |

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| | | accident at the Chernobyl atomic power station; j) invalids for whom there has been established the causal relationship between their physical inability and the accident at the Chernobyl atomic power station, participants at the liquidation of<br>the consequences of the failure on the Chernobyl atomic power station in the zone of alienation in 1986-1990;<br>k) employees who have more encouragements for successes in work and don't have disciplinary sanctions; l) employees who have no more than two years up to the pension on age. |
| Russian Federation | | Preferential groups: (i) married employees having two or more dependants (disabled members of the family who are dependent on the employee for support or who receive assistance form him which is the only source of means of subsistence for them); (ii) employees in whose families there are no other employees having independent earnings; (iii) employees who got a maiming in work or a professional disease in this organization; (iv) invalids of the Great Patriotic War and invalids of military actions in defending the Motherland; (v) employees sent by the employer to improve their qualifications while continuing their work. |
| Ukraine | | Preferential groups: 1) persons with two or more family dependants; 2) persons that are the only breadwinner in their families; 3) persons with a long uninterrupted job tenure with a given enterprise, organization or institution; 4) employees that study part-time at higher and secondary special schools while continuing normal work; 5) former combatants, war invalids and other persons; 6) authors of inventions, utility designs, industrial prototypes and rationalization proposals; 7) employees that developed an occupational disease or were mutilated during their work at the enterprise, organization or institution; 8) former deportees, for the first five years after their return to Ukraine for permanent residence; 9) former servicemen of the military service and alternative (non-military) service, for the period of two years after discharge. |
| Armenia | | Preferential groups: (i) pregnant women from the day on which their employer receives a medical certificate confirming pregnancy, and for another month after maternity leave, as well as with employees taking care of a child till the age of one year; (ii) employees, who have lost their functional capacity as a result of injury at work or occupational disease until they recover their functional capacity or are granted a disability status ; (iii) employees, who have temporary lost their functional capacity, if they are absent from work due to temporary loss of functional capacity for not more than 120 successive days or for not more than 140 days within the last 12 months; (iv) employees elected to representative bodies of |

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| | | employees (trade unions), during the period for which they fulfil their authorizations without the preliminary consent of the state labour inspector. |
| Azerbaijan | | A. Preferential groups: (i) Members of families of *shekhids* (martyrs); (ii) war veterans; (iii) spouses of soldiers and officers; (iv) individuals supporting two or more children under the age of 16; (v) individuals disabled on the job or who contracted job-related ailments at that enterprise; (vi) persons with refugee and displaced status; (vii) other employees as stipulated in collective agreements and employment contracts.<br>B. Employees whose employment contracts may not be terminated**:** (i) pregnant women and women with children under age three; (ii) employees whose only income source is the enterprise where they work and who are bringing up children under school age alone; (iii) employees temporarily disabled; (iv) individuals because they are members of trade unions or other political parties; (v) individuals on vacation or on a business trip or engaged in collective bargaining |
| Georgia | | |
| Kazakhstan | | |
| Kyrgyzstan | | Preferential groups: workers with higher labor productivity and qualification, and according to other criteria established in collective agreement or employment contract. |
| Tajikistan | | Preferential groups: 1) persons with two or more family dependants; 2) persons that are the only breadwinner in their families; 3) persons with a long uninterrupted job tenure with a given enterprise, organization or institution; 4) employees that study part-time at higher and secondary special schools while continuing normal work; 5) employees that developed an occupational disease or got occupational injury during their work at the enterprise, organization or institution; (6) invalids of the Great Patriotic War and invalids of military actions; (7) persons who got or have suffered from radiation sicknesses or others diseases connected to the irradiation; (8) inventors. |
| Uzbekistan | | Preferential groups: 1) persons with two or more family dependants; 2) persons that are the only breadwinner in their families; 3) persons with a long uninterrupted job tenure with a given enterprise, organization or institution; 4) employees that study part-time at higher and secondary special schools while continuing normal work; 5) employees that developed an occupational disease or got occupational injury during their work at the enterprise, organization or institution; (6) invalids of the Great Patriotic War and invalids of military actions; (7) persons who got or have suffered from radiation sicknesses or others diseases connected to the irradiation. |

Source: National labor legislation.

**Table A 13: Minimum Advance Notice and Severance Payments Preconditioned by Changes in the Volume of Production, Economic and Technological Conditions and Conditions of Organization of Work, as well as by Production Needs in ECA Countries**

| | Minimum advance notice | Minimum months of employment with the employer to qualify | Severance pay depending on the duration of employment (month of wages) | | | **Severance formula** |
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| | | | Employ-ment 9 months | Employ-ment 4 years | Employ-ment 20 years or more | |
| Czech Republic | 2 months | - | 3 | 3 | 3 | 3 months; 12 months if not allowed to work due to an industrial injury or occupational disease |
| Hungary | 1 month but shall be extended<br>a) by five days after three years of service,<br>b) by fifteen days after five years of service,<br>c) by twenty days after eight years of service,<br>d) by twenty-five days after ten years of service,<br>e) by thirty days after fifteen years of service,<br>f) by forty days after eighteen years of service,<br>g) by sixty days after twenty years of employment at the employer. | - | 1 | 2 | 6 | a) one month for up to three years of service;<br>b) two months for up to five years;<br>c) three months for up to ten years;<br>d) four months for up to fifteen years;<br>e) five months for up to twenty years;<br>f) six months for up to twenty-five years<br>of employment. |

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| Poland | 1) Two weeks, if the employee has been employed for less than six months;<br>2) One month, if the employee has been employed for at least six months;<br>3) Three months, if the employee has been employed for at least three years. | - | - | - | - | Only the employee who is eligible for disability or old age pension, and whose employment relationship expired as a result of retirement or pensioning, shall be entitled to a severance pay in the amount of one monthly remuneration. |
| Slovakia | Minimum 2 months; 3 months if an employee has worked for the employer for at least five years | - | 2 | 2 | 3 | 2 months; three months if an employee has worked for the employer for at least five years |
| Slovenia | 30 days if the worker's period of service with the employer is less than five years,<br>45 days if the worker's period of service with the employer is at least five years,<br>75 days if the worker's period of service with the employer is at least 15 years,<br>150 days if the worker's period of service with the employer is at least 25 years. | 12 months | 0 | 0.8 months | 6 months | 1/5 of average wages for each year of employment with<br>the employer, if the worker has been employed for more than one and up to five years;<br>1/4 of wages for the period from five to fifteen years;<br>1/3 of wages for the period exceeding fifteen years. |

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| Estonia | 1) less than one year of employment – no less than 15 calendar days; 2) one to five years of employment – no less than 30 calendar days; 3) five to ten years of employment – no less than 60 calendar days;<br>4) ten or more years of employment – no less than 90 calendar days. | - | 1 | 1 | 1 | One monthly wage of the employee |
| Latvia | 1 month | - | 1 | 1 | 4 | 1 monthly wages if employed for a period up to 5 years; 2 monthly wages for 5-10 years; 3 monthly wages for 10-20 years; and 4 monthly wages for more than 20 years |
| Lithuania | 2 months; 4 months if entitled to the full old age pension in not more than five years, persons under 18 years of age, disabled persons and employees raising children under 14 years of age | - | 1 | 3 | 6 | 1) employment under 12 months – one monthly average wage;<br>2) 12 to 36 months – two monthly average wages;<br>3) 36 to 60 months – three monthly average wages;<br>4) 60 to 120 months – four monthly average wages;<br>5) 120 to 240 months – five monthly average wages;<br>6) over 240 months – six monthly average monthly wages. |
| Bulgaria | 1 month | - | 1 month | 1 month | 1 month | 4 months if on the initiative of employer and without cause |

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| Romania | 15 days | - | … | … | … | Severance pay is negotiated through the collective labor contracts and varies across the industries |
| Albania | 1 month for up to one year of work; 2 months for 2-5 years of work, and 3 months for more than 5 years of work | 3 years | 0 | 1 month | 10 months | Wages for 15 days of work for each complete service year |
| Bosnia and Herzegovina, Federation of B&H | Not less than 14 days | - | 1.33 monthly wages | 2 | 3 | 1.33 monthly wages for up to 5 years of work; 2 monthly wages for 5-10 years of work; 2.66 monthly wages for 10-20 years of work; 3 monthly wages for over 20 years of work |
| Bosnia and Herzegovina, Republica Srpska | Not less than 30 days | - | 0 | 1.3 monthly wages | 6.6 monthly wages | At least one third of the average monthly wage for each year of service |
| Croatia | Two weeks for less than one year of service; one month for one year of service; one month and two weeks for two years of service; two months for five years of service; two months and two weeks for ten years of service; three months for twenty years of service. The notice period is extended by two weeks if the worker has reached 50 years of age, and by one month if the worker has reached 55 years of age. | - | 0 | 1/3 monthly wages | 6.6 monthly wages | Not less than one-third of the average monthly wage for each year of employment |

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| Montenegro | 1 month | - | 6 | 6 | 6 | Minimum 6 monthly wages; minimum in the amount of 24 average wages in the Republic if disability is caused by injury out of work or disease:<br>2) minimum in the amount of 36 average wages in the Republic if disability is caused by injury at work or occupational disease |
| Serbia | - | 1 year | 0 | 1.3 monthly wages | 5 monthly wages | Not less than one-third of the salary of the employee for each completed year of employment for the first 10 years of employment and one fourth of the salary of the employee for each subsequent completed year of employment for over 10 years of employment |
| FYR Macedonia | 1 month; 2 months in case of termination of employment contracts to more than 150 employees or 5% of the total number of employees with the employer prior to termination of the labor relation | - | 1 | 1 | 5 | up to 5 years of employment – in the amount of one salary;<br>from 5 to 10 years of employment – in the amount of two salaries;<br>from 10 to 15 years of employment - in the amount of three salaries;<br>from 15 to 20 years of employment - in the amount of four salaries;<br>from 20 to 25 years of employment - in the amount of five salaries; and<br>over 25 years of employment – in the amount of six salaries. |
| Belarus | 2 months | - | 3 | 3 | 3 | Not less than 3 monthly wages |
| Moldova | 2 months | - | 3 | 3 | 3 | a) the average week wage payments for every year worked at the given enterprise, but it should not be less |

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| | | | | | | than one average monthly wages;<br>b) preservation of the average monthly wages for the period of looking for another job, but no more than three months, including the severance pay. For the third month the average wages are kept provided that, the employee in a fortnight term after the dismissal has applied to the employment agency, has been enlisted as unemployed and has not been employed, confirmed by the corresponding certificate. |
| Russian Federation | 2 months | - | 3 months | 3 months | 3 months | One average monthly wages. His or her average monthly wages are preserved for the period of taking up a job but not more than for two months from the date of dismissal (considering a dismissal allowance). In exceptional cases the average monthly wages are preserved for the employee during the third month from the date of dismissal on the base of the decision made by the employment agency providing that the employee applied to this employment agency within two weeks after dismissal but was not placed in a job. |
| Ukraine | 2 months | - | 1 monthly wage | 1 monthly wage | 1 monthly wage | 1 monthly wage |

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| Armenia | 2 months | - | 1 monthly wage | 1 monthly wage | 1 monthly wage | 1 monthly wage |
| Azerbaijan | 2 months | - | 3 months | 3 months | 3 months | the lowest average monthly wage; the average monthly wage for the second and third months after dismissal until he finds a new job. |
| Georgia | 0 | - | 1 monthly wage | 1 monthly wage | 1 monthly wage | Not less than 1 monthly wage |
| Kazakhstan | 1 month | - | 1 monthly wage | 1 monthly wage | 1 monthly wage | 1 monthly wage |
| Kyrgyzstan | 1 month | - | Up to 4 monthly wages | Up to 4 monthly wages | Up to 4 monthly wages | Not less than 2 monthly wages for first month of severance, and for period of up to 3 months if looking for a job and in 10 days after contract termination registers at the state employment service |
| Tajikistan | 2 months | - | 1 monthly wage | 1 monthly wage | 1 monthly wage | Not less than 1 monthly wage |
| Uzbekistan | 2 months | - | 3 monthly wages | 3 monthly wages | 3 monthly wages | One average monthly wages but up to 3 monthly wages for the period of looking for job if registered at the local employment authority in 10 days from the date of dismissal (considering also a dismissal allowance) |

Source: National labor legislation.

**Table A 14: Collective Redundancies in ECA Countries: Criteria and Procedures**

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| Czech Republic | Criteria: An employer intends to terminate the employment relationship (a) of at least ten workers, when employing more than 20 and less than 100 employees; b) of 10 percent of the employees, when employing 100 or more, but less than 300 employees; c) of at least 30 persons, when employing 300 or more employees.<br>Procedure: Before giving a notice to employees, the employer has to inform the trade union organization or the works council in time, latest 30 days in advance and to provide relevant information. |
| Hungary | Criteria: An employer intends to terminate the employment relationship (a) of at least ten workers, when employing more than 20 and less than 100 employees; b) of 10 percent of the employees, when employing 100 or more, but less than 300 employees; c) of at least 30 persons, when employing 300 or more employees within a period of 30 days.<br>Procedure: When an employer is planning to implement collective redundancies, he shall begin consultations with the workers' council or, in the absence of a workers' council, with the committee set up by the local trade union branch and by the workers' representatives within 15 days prior to the decision, and shall continue such negotiations until the decision is adopted or until an agreement is reached. |
| Poland | |
| Slovakia | Criteria: An employer terminates an employment relationship by giving notice with at least 20 employees over a period of 90 days.<br>Procedure: With a view to reaching an agreement, the employer shall be obliged, at least one month prior to commencement of collective redundancies, to negotiate with the employees' representatives measures enabling avoidance of collective redundancies of employees, or reduction thereof, mainly negotiate the possibility of placing them in appropriate employment at the employer's other workplaces, and measures for mitigating the adverse consequences of collective redundancies of employees. An employer shall negotiate with the National Labor Office such measures enabling prevention of collective redundancies or its limitation. |
| Slovenia | Criteria: An employer within the period of 30 days the work terminates contract with (i) at least 10 workers with the employer employing more than 20 and less than 100 workers; (ii) at least 10 percent of workers with the employer employing at least 100 workers, and less than 300 workers; (iii) at least 30 workers with the employer employing 300 or more workers.<br>Procedure: An employer is obliged to elaborate the dismissal program for redundant workers.<br>The employer must as soon as possible inform the trade unions and the Employment Service. |
| Estonia | Criteria: Within thirty days (i) an employer who employs up to 19 employees terminates the employment contracts of at least 5 employees or releases at least 5 employees from service; (ii) an employer who employs 20 to 99 employees terminates the employment contracts of at least 10 employees or releases at least 10 employees from |

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| | service; (iii) an employer who employs 100 to 299 employees terminates the employment contracts of at least 10 percent of the employees or releases at least 10 per cent of the employees from service; (iv) an employer who employs at least 300 employees terminates the employment contracts of at least 30 employees or releases at least 30 employees from service.<br>Procedure: The employer shall consult with the representatives of the employees, and shall apply for the approval of the labor inspectorate. The labor inspectorate shall approve the collective termination of employment contracts if the employer has complied with the requirements provided for collective termination of employment contracts. |
| Latvia | Criteria: A reduction in the number of employees within a 30-day period (i) at least five employees if the employer normally employs more than 20 but less than 50 employees in the undertaking; (ii) least 10 employees if the employer normally employs more than 50 but less than 100 employees; (iii) at least 10 percent of the number of employees if the employer normally employs at least 100 but less than 300 employees; or (iv) 4) at least 30 employees if the employer normally employs 300 and more employees.<br>Procedure: An employer shall in good time commence consultations with employee representatives, and shall, not later than 60 days in advance, notify the State Employment Agency and the local government. |
| Lithuania | Criteria: An employer intends to make redundant within 30 calendar days: (i) 10 and more employees where an enterprise employs up to 99 employees; (ii) over ten percent of employees where an enterprise employs 100 to 299 employees; (iii) 30 and more employees where an enterprise employs 300 and more employees.<br>The procedure and characteristics of collective dismissal shall be established by the Government. |
| Bulgaria | Criteria: reasons, under Article 328, Paragraph 1, items 1-4, in cases where the number of discharge is: (i) at least 10 in enterprises, where the list of the employed staff during the month, which is before the general discharge, is more than 20, and less than 100 workers and employees for the period of 30 days; (ii ) at least 10% of the number of workers and employees in enterprises, with at least 100, but not more than 300 workers and employees for the period of 30 days; (iii) at least 30 in enterprises, where the list of the employed staff is at least 300, or more workers and employees for the period of 30 days; (iv) at least 20 in enterprises, notwithstanding of the number of workers and employees for the period of 90 days.<br>Procedure: In cases where the employer intends to undertake collective redundancy, he/she shall be obliged to undertake consultations with the worker and employee representatives timely, but not later than 45 days before the redundancy act, and to lay efforts for achieving an agreement with them so that be avoided, or limited the collective redundancy, and to relieve its consequences. |
| Romania | Criteria: Within 30 calendar days of: (i) at least 5 employees, if the employer who is dismissing them has more than 20 employees and less than 100 employees; (ii) at least 10 percent of the employees, if the employer who is dismissing them has at least 100 employees but less than 300 employees; (iii) at least 30 employees, if the employer who is dismissing them has at least 300 employees. |

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| | Procedure: The employer has (i) to draw up a plan of social measures, after having consulted the trade union or the employees representatives; (ii) to propose vocational training program (iii) to place at the disposal of the trade union all the relevant information about the collective dismissal, with a view to receiving proposals from them. The employer shall notify in writing the trade union, the territorial labor inspectorate and the territorial employment agency. The employer cannot employ new people for the positions of the employees dismissed for a period of 12 months from the date of their dismissal. |
| Albania | Criteria: Within 90 days (i) at least 10 employees for the enterprises employing up to 100 employees; (ii) 15 for the enterprises employing 100-200 employees; (iii) 20 for the enterprises employing 200-300 employees; and (iv) 30 for the enterprises employing more than 300 employees.<br>Procedure: The employer is obliged to inform the employees organization recognized as the representative of the employees. In absence of this, the employer informs his/her employee through advertisements put on the workplace, which can be easily seen. The employer submits to the Ministry of Labor and Social Affairs a copy of this notice. |
| Bosnia and Herzegovina, Federation of B&H | Criteria and procedure: An employer employing over 15 employees who intends, because of economic, technical or organizational reasons, to cancel, over a 3 month period, the employment contracts of more than 10% of employees but not less than 5 employees, shall consult with the works council in the enterprise or, in the absence of a works council, with all trade unions representing at least 10% of employees. The employer is obliged to prepare a program to manage the excess employees. Within a two year period, the employer may not employ another person with identical qualifications or identical degree of training. |
| Bosnia and Herzegovina, Republica Srbska | Criteria: An employer employing more than 15 employees intends to terminate employment contracts to at least five or 10 percent of the total number of employees over the following three months.<br>Procedure: The employer shall consult the employees' council or, if there is no employees' council established with the employer, with all trade unions representing at least 10 percent of the employees. If within a year after the termination of employment contract the employer intends to conclude contracts of employment with a number of employees which are required to have qualifications similar to the former employees, the jobs shall be offered to the former employees first. |
| Croatia | Criteria: At least 20 labor contracts being terminated in the period of 90 days.<br>Procedure: The employer must prepare a redundancy social security plan, and shall consult with the workers' council and the competent employment service. |
| Montenegro | Criteria: Dismissal due to technological, economic and restructuring changes within the period of 30 days at least (i) 10 employees with the employer employing more than 20, and less than 100 employees; (ii) 10% of employees with the employer employing minimum 100 and maximum 300 employees; (iii) 30 employees with the employer employing more than 300 employees; (iv) at least 20 employees within the period of 90 days, regardless of the total number of employees. |

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| | Procedure: The employer shall immediately inform the trade union, i.e. representatives of the employees, and the Employment Agency of Montenegro. The employer shall adopt the program of measures for resolving redundancy. |
| Serbia | Criteria: Contract termination within a 30 day period of at least: (i) 10 employees with an employer who employs more than 20, and less than 100 employees; (ii) 10 percent of employees with an employer engaging a minimum of 100, and a maximum of 300 employees; (iii) 30 employees with an employer employing more than 300 employees.<br>Procedure: The employer shall develop a social program. The employer shall be bound to communicate the proposal of the program to the trade union referred to the republic organization in charge of employment, within eight days at the latest, from the day of developing the proposal of the program, in order to obtain an opinion. |
| FYR Macedonia | Procedure: The employer shall be obliged to notify of the intention, and not later than 30 days prior to passing the decision on termination of the labor relation to a larger number of employees due to business reasons, of the reasons for ceasing the need for work of the employees, of the foreseen number and category of redundant employees and of the foreseen period within which the need for work of the employees will cease, the representative trade union at the employer, and if there is no such than the employees' representative, and must consult them about the possible ways of preventing and limiting the number of terminations and about the possible measures for preventing and mitigating the harmful consequences. |
| Belarus | Criteria: Termination of 20% of contracts (but not less than 25 individuals) within one months in firms and organizations with the number of employees of less than 1,000; 15% in firms with 1,001 to 2,000 employees; 10% in firms with 2,001 to 5,000 employees; 10% within two months in firms with 5,001 to 10,000 employees; and 5% within two months in firs with more than 10,000 employees.<br>Procedure: The employer has to inform two months in advance the State Employment Service about the expected mass redundancies. |
| Moldova | |
| Russian Federation | Procedure: If a decision on reduction of the staff or number of employees and possible termination of labor agreements with employees is taken, the employer must inform elected trade union authority about this decision in written form no later than two months prior to the commence of the according measures, and if the decision on reduction of the staff or number of employees can lead to mass dismissal of employees - no later than three months prior to the commence of the according measures. Criteria of mass dismissal is defined in industrial and (or) territorial agreements |
| Ukraine | |
| Armenia | Criteria: Termination of contracts within two month period of more than ten percent of the total number of employees, but not less than 10 employees.<br>Procedure: The employer shall submit the information about the number of the dismissed employees to the State Employment Service and the representative of the employees not later than three months in advance. |

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| Azerbaijan | Criteria: Termination of contracts within three months (i) in firms with the number of employees from 100 to 500, more than 50 percent of the staff; (ii) 5 in firms with 500 to 1000 employees, more than 40 percent of the staff; (iii) in firms with more than 1000 employees, more than 30 percent of the staff. |
| Georgia | |
| Kazakhstan | |
| Kyrgyzstan | |
| Tajikistan | In order to prevent or mitigate collective redundancies, the employer is obliged, in consent with the trade unions and employment agencies, to implement the following measures: (i) limit or freeze new hirings; (ii) limit overtime; (iii) introduce administrative leave; (iv) conduct staff reduction by stages; (v) introduce other relevant measures. |
| Uzbekistan | |

Source: National labor legislation.

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**Summary Findings**

This study focuses on internationally accepted labor standards and norms governing the individual employment contract, including ILO conventions and recommendations, EU labor standards (Directives) and the European Community Social Charter (Charter of Fundamental Social Rights of Workers). The study also analyzes relevant provisions in the main labor law of each Eastern European and Central Asian (ECA) country associated with commencing or terminating employment and during the period of employment. References are made to relevant practices from EU15 countries. Overall, despite similar origin of country labor laws, the current set of labor regulations in the region provides a wide array of legal solutions. The minimum content of the employment contract in most ECA countries coincides, and goes beyond, the requirements of the labor standards even in the countries that are non-signatories of relevant treaties. Some of these entitlements, however, have the potential to adversely affect labor market participation.

HUMAN DEVELOPMENT NETWORK