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LABOR TRANSITION IN THE COAL SECTOR

SOUTHEAST EUROPE

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ABBREVIATIONS

AFL-CIO	American Federation of Labor and Congress of Industrial Organizations
ALMPs	Active Labor Market Programs
APL	Adaptable Program Loan
CEE	Central and Eastern Europe
CARDS	Community Assistance for Development and Stability
CIDA	Canadian International Development Agency
CITUB	Confederation of Independent Trade Unions in Bulgaria
CLC	County Labor Centers
CREP	Country Reviews of Employment Policy
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
ECSEE	Energy Community of South East Europe
EPL	Employment Protection Legislation
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
FSU	Former Soviet Union
GDP	Gross Domestic Product
ILO	International Labor Organization
ISC	Initiative for Social Cohesion
KEK	Korporata Energjetike e Kosovës (Energy Company of Kosovo)
KfW	Kreditanstalt für Wiederaufbau Bankengruppe (KfW Banking Group – Germany)
KTA	Kosovo Trust Agency
OECD	Organization for Economic Cooperation and Development
PEO	Public Employment Office
PHARE	Poland and Hungary Assistance for Reconstruction of their Economies
RS	Republika Srpska
SEE	Southeast Europe
SMEs	Small and Medium-sized Enterprises
TACIS	Technical Aid to the Commonwealth of Independent States
UK	United Kingdom
UN	United Nations
UNECE	United Nations Economic Commission for Europe
USAID	United States Agency for International Development
USD	United States Dollar
WSI	Worldwide Strategies, Inc.

Technical Terms:

GW	Gigawatt
MW	Megawatt
Mt	Million tons

CURRENCY EQUIVALENTS

(Exchange Rate Effective October 2006)

Currency Unit = Euro

Euro €1 = USD \$1.26

Euro €0.793 = USD \$1

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Appendix B: Bulgaria

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OVERVIEW

INTRODUCTION

During the course of the past fifteen years, throughout Southeast Europe (SEE) the coal sector has undergone profound transformation. Prior to the disintegration of centrally planned economic systems, the coal sector was the backbone of many SEE economies and workers migrated to communities where mining wages were relatively high.¹ The coal sector provided workers with heating and fuel supply, lifetime employment with benefits, and a particular “standing” for workers and their communities as essential economic players that contributed to national prosperity. Mine enterprises offered core and non-core employment ranging from coal mining to schools and clinics, transport, maintenance and other community support employment, all subsidized by state funds.

With the new orientation to free market approaches introduced to the region in the late 1980s, SEE economies could no longer afford to support the centrally planned coal sector model. That model, which generally operated as a local multi-enterprise monopoly, had survived with antiquated mine technology and processes, no capital upgrades, and virtually no free-market approach to production or demand.

The transition economies of SEE faced a new challenge that required reform of the institutions that regulated labor markets and social policy.² Under the system of central planning, the main objectives of employment were to guarantee jobs and benefits, most of them for life, for all working age citizens and to pay roughly equal wages.³ Consequently, a social system that included unemployment benefits was not required, and there was little need for poverty relief or social safety net programs.⁴

Persistently high unemployment in most SEE countries can be attributed to these dramatic socio-economic changes, and the existing legislative framework is not sufficiently equipped or able to address labor issues facing these economies in transition.

This report focuses on only the labor impact of coal sector restructuring. Clearly, there have been positive impacts of restructuring, such as new cross border commerce, reliable and affordable coal and power to communities, improved environmental impacts, more transparent and corporatized coal and power companies, and government oversight. Higher caliber jobs have also come, but they require more marketable skills that older workers have been less able to learn. This and other impacts on workers, as well as communities, comprise the core of this research.

¹ Michael Haney and Maria Shkaratan, *Mine Closure and its Impact on the Community: Five Years After Mine Closure in Romania, Russia and Ukraine*. Policy Research Working Paper 3083 (Washington: World Bank, Europe and Central Asia Region, Infrastructure and Energy Services Department, June 2003)

² Nicholas Barr, “From Transition to Accession,” in *Labor Markets and Social Policy in Central and Eastern Europe: The Accession and Beyond*, ed. Nicholas Barr (Washington: World Bank, 2005).

³ Benefits included housing, education, vacation, and health care. This practice made it possible for State Owned Enterprises to allow workers to continue employment with out pay as workers worked primarily for benefits rather than wages.

⁴ Mansoor Rashid, Jan Rutkowski, and David Fretwell, “Labor Markets,” in *Labor Markets and Social Policy in Central and Eastern Europe: The Accession and Beyond*, ed. Nicholas Barr (Washington: World Bank, 2005).

REPORT STRUCTURE

This report examines the impact and current trends in the coal sector labor market in Southeast Europe, focusing on Romania, Bulgaria, Bosnia and Herzegovina, Macedonia, Serbia, and Kosovo.

1. The first section provides a brief introduction to the SEE coal sector, examines coal and related power sector restructuring undertaken to date and summarizes workforce reductions in coal-fired power plants and mines. The section ends with a recap of the restructuring impact on coal dependent communities.
2. The second section examines national employment system frameworks and compares these to Central and Eastern Europe, European Union, and the Organization for Economic Cooperation and Development countries to assess readiness for further coal sector labor restructuring. Topics covered include current unemployment rates, restrictive labor market regulations, employment policies and labor market programs, common passive and active labor market interventions, a summary of those in place in SEE countries, and program spending levels. The section continues with information regarding the labor taxes and general wage rates that hinder small and medium size business development. Business environment improvements are reviewed for each country as well as the local business climate in eight communities. The section concludes with information about the opportunity to reform labor laws in conjunction with European Union integration efforts.
3. The third section examines key labor provisions for each country related to the coal sector. Topics includes collective agreements, union representation, early layoff warning mechanisms, company planning committees, and programs for pensions, severance payments, training and retraining, social support, and health and safety.
4. The fourth section includes a summary of the coal sector restructuring framework in the SEE countries and the current status of sector reforms. Tables are included that compare the restructuring progression and timeline for each country and the status of various reform activities. A table summarizes the impact on labor and communities from a range of restructuring activities to increase understanding between labor and energy experts. Additional information is provided regarding the different restructuring approaches used in each country, donor financing of regional, labor, and social sector reforms. The section ends with private sector involvement and potential opportunities arising from new environmental standards.
5. The fifth section presents best practices and lessons learned emerging from restructuring experience in Poland, Hungary, and Russia and summarizes experience in implementing or pilot testing Active Labor Market Programs (ALMPs) in Romania, Bulgaria, and Macedonia. The information in this section will help design future labor restructuring programs or improve existing labor redeployment approaches.
6. The final section offers next steps and areas for continued review. A table is provided to assist in tailoring ALMPs to specific country objectives. Areas that should receive additional emphasis are identified, concluding with key next steps for policymakers.

SECTION I

SEE COAL SECTOR

This section provides a brief introduction to the SEE coal sector, examines coal and related power sector restructuring undertaken to date, and summarizes workforce reductions in coal-fired power plants and mines. The section ends with a summary of the restructuring impact on coal dependent communities.

In 2005, a World Bank report cautioned that electricity supply in SEE may soon be insufficient to meet growing demand.⁵ Bosnia and Herzegovina, Bulgaria, and Romania export electricity throughout the region while most other countries are net importers.⁶ Electric power is used extensively for heating in all SEE countries except Romania.⁷

Primary fuel sources of energy are limited; most countries import gas and oil and rely on coal as the primary fuel source for electricity generation. Many countries produce low-quality lignite, particularly Bulgaria, Serbia, Macedonia, and Romania.⁸ Local energy resources have their own limitations including the high cost and environmental constraints of lignite and coal-fired power plants.⁹

Currently, coal is the primary energy fuel source for Bosnia and Herzegovina, Macedonia, Serbia, and Kosovo. In Bulgaria, coal-fired power generation will continue over the next ten years when nuclear generation is expected to become the predominant source of electricity. In Romania, coal-fired power generation plays an important role in a diversified energy market. A preliminary assessment for the World Bank by the Electricity Coordinating Center in Belgrade found that SEE has about 49.5 GW capacity, consisting of 55% thermal, 35% hydro, and 10% nuclear in 2004.¹⁰ Table I.1 shows the average percentage of electricity generation by primary fuel sources in each of the study countries.

⁵ World Bank, *Project Appraisal Document on a Proposed Loan in the Amount of Euro 20.7 Million (US\$25 Million Equivalent) to AD PRENOS na Electricna Energija I Upravuvanje so Elektroenergetskiot Sistem, Vo Drzavana Sopstvenost, Skopje (AD MEPSO The Macedonian Power Transmission System Operator) with the Guarantee of the Former Yugoslav Republic of Macedonia in Support of the Third Phase of the US\$1,000 Million Energy Community of South East Europe Program*, Report No: 34613-MK, Infrastructure and Energy Sector Unit; South East Europe Country Unit; Europe and Central Asia Region (Washington: World Bank, 8 December 2005): 23.

⁶ David Kennedy and John Besant-Jones, *World Bank Framework for Development of Regional Energy Trade in South East Europe*. (Washington,.: The International Bank for Reconstruction/The World Bank Group, The Energy and Mining Sector Board, 2004): 9.

⁷ *Ibid.*: 18.

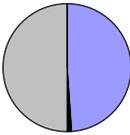
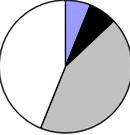
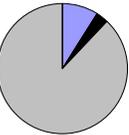
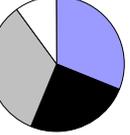
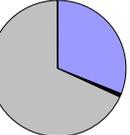
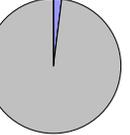
⁸ European Commission. *Transport and Energy Infrastructure in South Eastern Europe* (May 2001).

⁹ *Ibid.*

¹⁰ Kennedy and Besant-Jones 2004: 17.

Table I.1**Average Percentage of Electricity Generation by Primary Fuel Source (2002)¹¹**

	Bosnia and Herzegovina	Bulgaria	Macedonia ¹²	Romania	Serbia	Kosovo ¹³
Hydro	49%	6%	9%	31%	31%	2%
Gas/Oil	1%	7%	3%	25%	1%	-
Coal	50%	43%	88%	34%	68%	98%
Nuclear	-	44%	-	10%	-	-

	Bosnia and Herzegovina	Bulgaria	Macedonia ¹²	Romania	Serbia	Kosovo ¹³
						

	Hydro
	Gas/Oil
	Coal
	Nuclear

Across the region, coal consumption is dictated by electricity demand. The largest coal producers in SEE are Bulgaria, Serbia, and Romania, each with an annual production of more than 20 million tons a year. The operating costs of producing coal in SEE are well above international averages.¹⁴ Romania began the process of restructuring the mining industry nationwide in 1997 and continues to work toward developing a viable mining sector. Bulgaria launched coal sector reforms in 1998 but the unbundling process did not begin until 2001. Table I.2 summarizes the most current publicly available information on coal production and mine employment for each of the studied countries.

Table I.2
SEE Coal Mine Employment and Production Levels (2004/2006)

	Employment	Production (million tons)
Bosnia and Herzegovina	16,000	8.90
Bulgaria	16,687	29.13
Macedonia	1,389	6.94
Romania	28,880	23.30
Serbia	13,765	35.69
Kosovo	3,698	7.05

¹¹World Bank Group, Europe Central Asia Data Depository.

¹² Calculations based on information provided by the Energy Regulatory Commission of Macedonia. Presentation titled *Energy Sector of the Republic of Macedonia* (March 2004), http://www.narucpartnerships.org/Presentations/Macedonia/Mar03/industry_overview_eng.pdf.

¹³ Kosovo Energy Company (KEK), Corporate Website, http://www.kek-energy.com/WEB_EN/aboutkek/aboutkek2.htm.

¹⁴ Kennedy and Besant-Jones 2004: 22.

COAL SECTOR LABOR DATA

A 2004 study reported an estimated workforce size that would be required to support a viable coal industry, as shown in Table I.3. Macedonia and Kosovo were not included in these estimates.

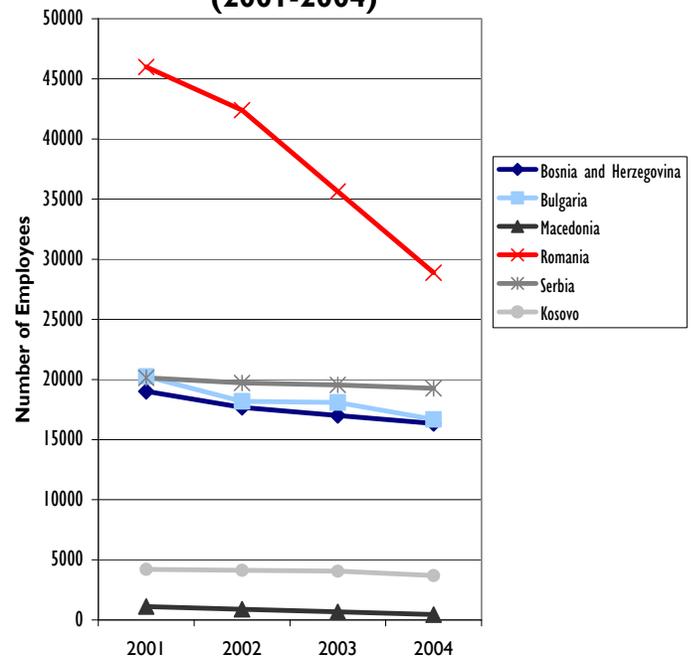
Employment in the coal sector across SEE has fallen but remains high. Typically, mine liquidation or privatization has started with underground mining because of its high operating costs and safety risks. Most recent job shedding has been through divestitures and job transfers rather than actual job loss. For example, in Romania, the Turceni power complex shed 911 of 2,420 employees by outsourcing maintenance activities.¹⁶

Romania and Bulgaria have taken significant steps to restructure the coal sector. Both countries' first rounds of mine closures (four in Bulgaria and eighteen in Romania) were followed by delays as the speed of restructuring became politically and socially volatile.¹⁷ As restructuring progressed, resources and severance packages became less generous. Chart I.1 illustrates the coal mine employment trends from 2001-2004 for each studied country.

Table I.3
Workforce Needed for Viable Coal Industry¹⁵

	Estimated Workforce Size
Bosnia and Herzegovina	3,000
Bulgaria	5,000
Romania	7,000
Serbia	8,000

Chart I.1
Coal Mine Employment Trends (2001-2004)



¹⁵ Ibid.: 22.

¹⁶ Emerging Markets Group, Information Memorandum for the Turceni Energy Complex, USAID Privatization, Investment and Development of Energy (PRIDE) project (Washington: USAID, 2005): 214.

¹⁷ World Energy Council, *Restructuring the Coal Industries in Central and Eastern Europe and the CIS* (London: World Energy Council, August 2000): 9.

Following is a summary of coal-fired power plant and coal mine restructuring activities as well as workforce reductions that have occurred in SEE since the late 1990s. Charts 1.2 and 1.3 illustrate 2006 employment levels within coal-fired power plants and coal mines across the region. Bosnia and Herzegovina's two political entities are Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS). Information on coal-fired power plant employment in RS was not available.

BOSNIA AND HERZEGOVINA

Sector Restructuring

Power Plants: FBiH and RS each operate two coal-fired power plants. In FBiH, coal-fired power plants operate separately from coal mines, while in RS the plants and coal mine operations are bundled. Improvements to extend production capabilities and to decrease emissions are underway.

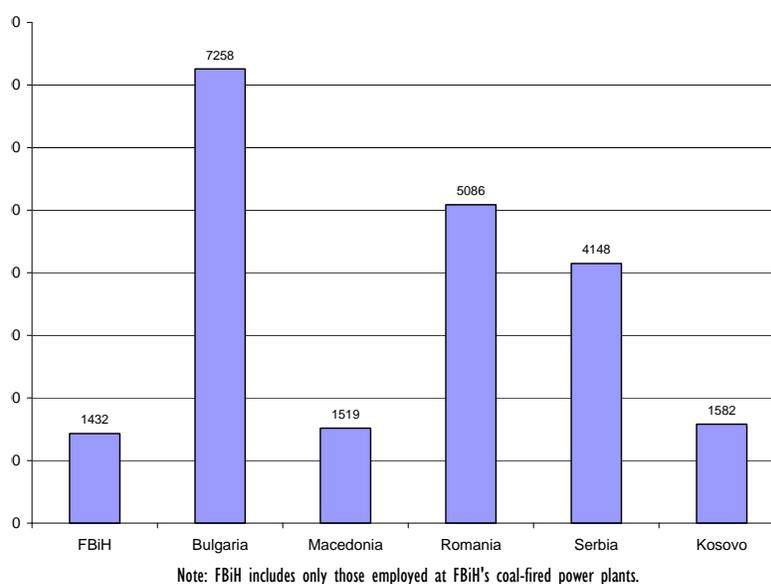
Coal Mines: In FBiH, eight mining groups and one independent entity operate coal mines. In RS, the utility controls two mines integrated with its power plants. Two other mines have been privatized. A 2001 investment profile noted that production costs were higher than the cost of imported coal and the industry operated at a loss.¹⁸ Obtaining funding for mine modernization and for severance payments and social safety net programs to mitigate the affects of workforce reductions presents a major challenge to a financially viable coal sector.

Labor Restructuring

Labor data for Bosnia and Herzegovina are difficult to disaggregate or estimate because the FBiH and the RS maintained different operational structures for data collection post-Dayton.

- In FBiH, available data indicate that at least 11,000 people work in the coal sector and that a net loss of 915 positions has occurred. The timeframe for these reductions was not available. Workforce reductions at FBiH's power plants from 2003-2004 totaled 52.¹⁹
- In RS, one of the power plants included its mining workforce data, but information was not available from the other power plant. Nor were data available for one of the mines, but data for the other mine were gleaned from health and safety reports, which indicated that 802 miners were employed. Workforce reductions were not available for either mine. The two privatized mines employ 460 workers.

Chart 1.2: Coal-fired Power Plant Employment



A 2004 estimate indicates that 3,000 workers are needed for a viable coal industry in Bosnia and Herzegovina.²⁰ In 2004, there were an estimated 16,000 people in the coal mining workforce.²¹

¹⁸ European Bank for Reconstruction and Development, "Investment Profile Bosnia and Herzegovina," Presented at the Business Forum, EBRD Annual Meeting (London: EBRD, April 2001).

¹⁹ Elektroprivreda BiH, Annual Report (2004).

²⁰ Kennedy and Besant-Jones 2004: 22.

Based on these figures, approximately 13,000 jobs will need to be shed. Bosnia and Herzegovina also faces pressures more generally to resolve wage arrears in State-Owned Enterprises. Estimates suggest that of all workers in Bosnia and Herzegovina, around 80,000 in FBiH and 30,000-40,000 in RS are “fictitious” workers whose work books remain on state payrolls awaiting settlement of wage arrears. The number of fictitious workers represented in coal mines and coal-fired power plants was not available.

BULGARIA

Sector Restructuring

Power Plants: The government accessed private sector investments to revitalize its coal-fired power plants. Of its seven primary power plants, two have been privatized and two are scheduled for privatization. Although Bulgaria’s national energy strategy increases dependency on nuclear or gas-fired generation to reduce emissions,

its mid-term strategy focuses on coal-fired power plants as significant suppliers of electricity through 2014. Large environmental improvement investments are planned in several power plants.

Coal Mines: Eleven mines were privatized and eight were liquidated. Two mines remain under public ownership. Development plans through 2020 are underway to improve production efficiency at the largest state-owned mine. Subsidies have ceased for the other state-owned mine and new management is implementing a recovery plan.

Labor Restructuring

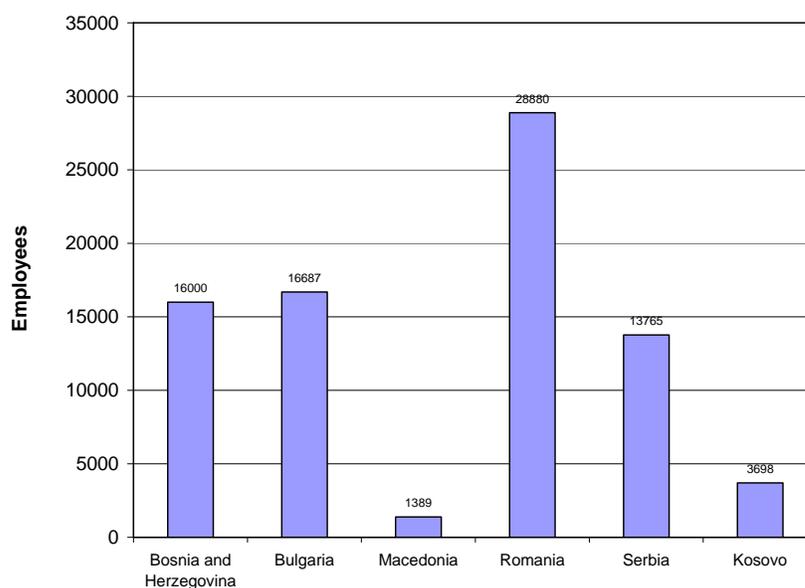
Bulgaria employs the most coal-fired power plant workers in SEE at 7,258. This is due in part to the number of operating power plants. Through restructuring and liquidation of non-viable mines, **Bulgaria reduced coal sector employment between 1993 and 2004 from 37,612 to 16,687 or by 55.6%**. The period between 2000 and 2004 represented a 26.9% reduction. Bulgaria is considering strategies to scale down underground mine operations. **A 2004 report estimated that a workforce of 5000 people will be needed for a viable coal industry,²² indicating that 11,687 jobs remain to be shed.**

KOSOVO

Sector Restructuring

Plans are in place for Kosovo to develop a new lignite field and up to 2100 MW of lignite-fired power generation for an investment of €2-3 billion/\$2.5-3.8 billion.

Chart I.3: Coal Mine Employment



²¹ International Monetary Fund (IMF), *Bosnia and Herzegovina: Poverty Reduction Strategy Paper – Mid-Term Development Strategy*, IMF Country Report No. 04/114. 2352004 (Washington: IMF, 2004): 235.

²² Kennedy and Besant-Jones 2004: 22.

Power Plants: The utility's Energy Production Division controls the two lignite power plants. Efforts are underway to rehabilitate generation facilities to increase useful life spans, to meet environmental standards, and to improve operational performance.

Coal Mines: The utility's Coal Production Division manages the only lignite mining operation in the Kosovo basin. According to estimates, two of the mines will exhaust reserves between 2007 and 2009. Kosovo has the world's fifth largest lignite deposits, an estimated 12 billion metric tons. Significant rehabilitation is required to increase coal production, which is impeding power production capacity.

Labor Restructuring

Kosovo's 2006 data indicate that 1,582 people are employed at its two power plants; however, no data were available about past or planned staffing reductions. In coal mining, *the greatest amount of labor shedding occurred between 1995 and 2005, during which 2,578 jobs were eliminated, a 41% reduction.* Currently, 3,698 workers are employed in the coal mining sector. *Although future reductions of 3,548 workers were projected through 2012, funding for a new power plant and coal mine will offset these planned reductions.*

MACEDONIA

Sector Restructuring

Power Plants: Two publicly owned mining-energy facilities generate 80% of the electric power for Macedonia. Upgrades to the systems have reduced coal consumption. Investment plans include installing another unit to the largest plant. The limited domestic coal supply will require alternative sources either from mine expansion or imported coal.

Coal Mines: The coal industry has not received any state subsidies since 1995. The two largest mines are state-owned and integrated within the two power plants. Mine expansion is underway or being studied to increase production. After 2025, Macedonia intends to be entirely dependent on imported coal.

Labor Restructuring

Macedonia has not commenced workforce restructuring in its power plants. Information provided by its utility indicates that 2,908 people are employed. In terms of the coal mining workforce, conflicting employment data were acquired from a number of sources. The World Energy Council estimated that between 1990 and 1998 the workforce declined by 270 jobs. Local employment agencies estimate the current workforce at 1,389, which indicates a further reduction of 411 jobs between 1999 and 2006, for a total reduction of 681 workers.

ROMANIA

Sector Restructuring

Power Plants: There are four power plant complexes, of which three have been divested from the power utility and bundled with supplier coal mines. These have been designated as viable generation plants and have been targeted for rehabilitation and upgrading to improve efficiency and reduce emissions. Privatization of these complexes is anticipated within the next few years beginning in the fourth quarter of 2006. Ten smaller combined heat and power plants were transferred under the control of municipalities or large industrial centers.

Coal Mines: Three publicly-owned entities and one private company operate Romania's 73 mines and 2 processing plants. Underground mining operations are being phased out.

Labor Restructuring

Romania provides the most dramatic example of mining labor shedding. Romania's coal-fired power plant workforce is currently 5,086, but at the start of the restructuring process, the coal sector employed more than 113,000 people. Through a generous voluntary redundancy program, 67,000 workers left the

sector between 1997 and 2001, two to three times the scale planned by unions and government.²³ As time progressed, the government had to extend these benefits, which ultimately posed an unpredicted fiscal burden to the national budget. **Through additional mine closures and restructuring, 28,880 miners remained in 2004, an overall reduction of 74.4%.** Continued reductions are expected to reduce the workforce to 18,000 by 2010. **That number is still 11,000 higher than the World Bank 2004 estimate for a viable coal industry.**²⁴

SERBIA

Sector Restructuring

Power Plants: There are two coal-fired power complexes supplied with coal from two public entities that are part of the utility company. The utility has not begun to separate energy production from distribution. There are plans to merge one of the power complexes with nearby mines to reduce operating costs. Modernization and rehabilitation efforts are underway to improve productivity and environmental standards.

Coal Mines: Coal mines are integrated within the two power plants, with one coal basin providing the major source of supply. Underground operations have been divested from surface operations. One small mine was separated from the utility in 2005 to prepare for privatization. Eight underground mines were also divested to prepare for consolidation, privatization, or closure. These mines produce coal used to fuel district heating and to supply industrial and household customers.

Labor Restructuring

Serbia's utility indicated that **1,233 jobs were shed between 2001- 2005 and that the utility currently employs 4,148 people.** This number does not include the 6,177 employees at Kosovo power plants. **Serbia's mine labor restructuring has reduced the workforce by 6,474 jobs since 2001.** Its current workforce is 13,765 in seven mines. **There are still 5,765 more workers employed than a 2004 estimate of 8,000²⁵ people needed for a viable coal industry.**

RESTRUCTURING IMPACT ON COAL DEPENDENT COMMUNITIES

Throughout SEE, unemployment has resulted in lower living standards, increased regional poverty, and deteriorating infrastructures in coal-dependent communities as purchasing power among most citizens and municipal revenues decreased.

This assessment includes community profiles in five of the six subject countries that depict the local economic and social situation in the following eight communities:

Bosnia and Herzegovina	Kakanj (FBiH) and Ugljevik (RS)
Bulgaria	Radnevo
Macedonia	Bitola
Serbia	Lazarevac and Pozarevac
Romania	Deva and Rovinari

Detailed community profiles are contained in each country report included in the appendices. Among the eight communities researched:

²³ Haney and Shkaratan 2003: 4.

²⁴ Kennedy and Besant-Jones 2004: 22.

²⁵ Ibid.:22.

- Populations range from 14,000 and 98,000. The size of the community did not affect the impact of restructuring.
- Unemployment rates range from 7.88% (Deva) to 44.35% (Kakanj).
- Lazarevac and Rovinari are mono-industrial communities. The magnitude of the unemployment problem is directly related to the diversity of the economic base. There are more community and human challenges where the coal sector is the primary employer.
- As downsizing occurs, there is a shift to new business activity involving services and trade.
- Youth are migrating to larger urban areas or other countries, leaving behind an aging workforce. All communities have two distinct unemployment characteristics - older workers and youth – and both groups lack marketable skills.
- Every local labor office offers some level of active labor market programs, but these are marginally effective because of staff motivation, large caseloads of unemployed, lack of funding, and insufficient capacity building.
- Coal sector operations have had a detrimental impact on the environment and health of citizens, particularly in Radnevo. All communities have large areas of unusable land and poorly maintained infrastructure.
- A challenge facing all the communities is to provide jobs outside agriculture and to access funds to reclaim mining terrain.
- The development of SMEs is mixed depending on the availability of business support services and the investment climate.
- Where social programs that could mitigate these effects have been introduced, they have suffered from funding shortages.

In mono-industrial communities, there are few entrepreneurs, a lack of willingness to engage in entrepreneurial activities, and few other sources of employment. Education levels are low and a majority of the unemployed are over forty years old with a declining willingness to accept work. Where there are job creation programs, there is a mismatch between supply and demand.

Large-scale unemployment contrasts with chronic labor shortages in certain occupations such as engineers, graphic designers, carpenters, welders, sales workers, and seamstresses. This phenomenon was reported by labor offices in Pozarevac (Serbia), Bitola (Macedonia), and Deva (Romania). Many of these jobs are not suitable for the placement of former miners.

Restructuring experience in Romania demonstrated that the lack of community involvement in planning for restructuring increased the adverse impact. As a result, the Ministry of Labor, Social Solidarity and Family, the National Agency for Labor and mining companies created partnerships to implement social measures that assist in the social protection of workers, families, and communities. Romania later implemented a strategy that incorporated community involvement in economic revitalization, leveraging resources, and capitalizing on a community's natural assets.

SECTION 2

SEE NATIONAL EMPLOYMENT SYSTEMS

This section examines national employment system frameworks and compares these to Central and Eastern Europe (CEE), European Union (EU), and Organization for Economic Cooperation and Development (OECD) countries to assess readiness for further coal sector labor restructuring. Topics covered include current unemployment rates, restrictive labor market regulations, employment policies and labor market programs, common passive and active labor market interventions, a summary of those in place in SEE countries, and program spending levels. This section also includes information regarding the labor taxes and general wage rates that hinder small and medium size business development. Business environment improvements are then reviewed for each country as well as the local business climate in eight communities. The section concludes with information about the opportunity to reform labor laws in conjunction with EU integration efforts.

Based on 2004 estimates, about 100,000 jobs throughout SEE would need to be shed in order for the coal industry SEE to be viable.²⁶ Based on available labor data for coal mining, Table 2.1 illustrates that more than 52,000 mining jobs within four of the countries studied in this report may need to be shed, not including workforces in Macedonia and Kosovo.

With massive layoffs anticipated, current high levels of unemployment in most SEE countries must be considered before further restructuring takes place in the coal sector. As shown in Chart 2.1, national general unemployment rates range from a high of 40% in Kosovo to 5% in Romania. **High unemployment impacts a worker's willingness to accept voluntary redundancy, retraining programs, small business development assistance, or self-employment.**

Table 2.1
Estimated SEE Coal Mine Workforce Reductions

	Employment	Estimated Viable Employment	Potential Reduction
Bosnia and Herzegovina	16,000	3,000	13,000
Bulgaria	16,687	5,000	11,687
Macedonia	1,389	Unavailable	Unavailable
Romania	28,880	7,000	21,880
Serbia	13,765	8,000	5,765
Kosovo	3,698	Unavailable	Unavailable
TOTAL	80,419		52,332

²⁶ Kennedy and Besant-Jones 2004: 6.

HIGH, PERSISTENT, AND STAGNANT UNEMPLOYMENT

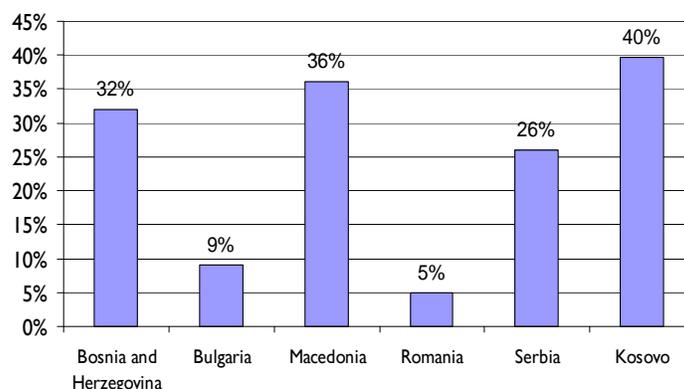
Even more challenging, in all SEE countries, **the majority of the unemployed are categorized as “long-term unemployed.”**²⁸ Rates are: 83% in Macedonia, 82% in Serbia and Montenegro, 76% in Bosnia and Herzegovina,²⁹ 59% in Bulgaria, and 48% in Romania.³⁰

In Macedonia, 66% of the unemployed have been without a job for four years or longer.³¹ In Bosnia and Herzegovina, 75% have been out of work two years or more.³² There is a strong negative correlation between the probability of finding a job and time spent in unemployment, indicating that **the long term unemployed are at a higher risk of permanent labor market exclusion and poverty.**

In addition, the size of the informal economy is a factor in high unemployment rates among all groups (males, female, youth) and particularly the long-term unemployed.³³ The informal sector is an important source of jobs in transition countries, considerably more so than in OECD economies.

Labor force participation rates in the formal economies of SEE are low, ranging from 34%³⁴ in Bosnia and Herzegovina to 58%³⁵ in Romania, figures which many feel are attributable to sizeable informal sector employment and of a high number of discouraged workers.³⁶ **Female employment participation rates are particularly low in Romania (52%)³⁷ and in former Yugoslavian republics, e.g. 35% in Bosnia and Herzegovina.**³⁸ Market reforms triggered a reduction of child care support

Chart 2.1 SEE General Unemployment Rates²⁷



Note: 2006 Statistics except Kosovo data from 2004.

²⁷ Statistical Office of Kosovo (<http://www.ks-gov.net/esk/>); Agency for Statistics Bosnia and Herzegovina (<http://www.bhas.ba>); State Statistical Office of Macedonia (<http://www.stat.gov.mk>); State Statistical Office of the Republic of Serbia (www.webrzs.stateserb.sr.gov.yu); National Statistical Institute of Bulgaria (www.nsi.bg); National Institute for Statistics Romania (http://www.insse.ro/index_eng.htm);

²⁸ Generally defined as unemployed for more than one year.

²⁹ Maya Micevska, *Unemployment and Labor Market Rigidities in Southeast Europe*. *Global Development Network* (Bonn: Center for Development Research, University of Bonn, June 2004): 3.

³⁰ World Bank, *FYR Macedonia, Country Economic Memorandum, Tackling Unemployment*, (Washington, DC: World Bank, September 2003): 32.

³¹ Ibid.

³² Agency for Statistics of Bosnia and Herzegovina, *Labor Force Survey 2006. Preliminary Data: First Release* (Sarajevo: Agency for Statistics of Bosnia and Herzegovina, July 2006), http://www.bhas.ba/Ankete/LFS_2006.pdf.

³³ Micevska 2004.

³⁴ World Bank, *Bosnia and Herzegovina, Labor Market Update* (Washington: World Bank, December 2005).

³⁵ National Institute of Statistics, *Romanian Statistical Yearbook* (Bucharest: National Bureau of Statistics, 2005), <http://www.insse.ro/Anuar%202005/CHAPTERS/cp3.pdf>

³⁶ Discouraged Workers are jobless workers who decide to exit the labor force instead of look for a job.

³⁷ National Institute of Statistics Romania (2005), http://www.insse.ro/index_eng.htm;

³⁸ Agency for Statistics of Bosnia and Herzegovina, *Labor Force Survey* (Sarajevo: Agency for Statistics of Bosnia and Herzegovina, 2006).

provided by government, an increase in child care prices, and a reduction of social assistance to mothers with small children. These changes have led numerous women to exit the labor force.

Another factor in persistent high unemployment may be that no SEE country distinguishes between the needs of a redundant worker³⁹ and the unemployed in program design and delivery. Workers who lose their jobs in large-scale layoffs tend to be concentrated geographically, often in areas where local economies are in decline. These workers generally have a stronger history of employment than a typical pool of unemployed workers, but often their skills and experience are specific to a particular industry or occupation where labor demand is declining. These specific characteristics of redundant workers are seldom considered, resulting in programs designed for the general populations of unemployed rather than tailored to the unique circumstance of affected workers. Consequently, much of the training in transition countries to address large-scale restructuring has been carried out under general programs.⁴⁰

Table 2.2: International Comparison of Employment Protection Legislation⁴¹

	REGULAR EMPLOYMENT		TEMPORARY EMPLOYMENT		COLLECTIVE DISMISSALS		EPL INDEX	
	1990s	2000s	1990s	2000s	1990s	2000s	1990s	2000s
Bosnia & Herzegovina ⁴² (1999 vs. 2003)	2.2	1.8	4.3	3.1	3.0	3.3	3.2	2.6
Bulgaria (1996 vs. 2003)	2.0	2.2	3.9	3.4	2.6	2.6	2.9	2.7
Macedonia ⁴³ (1995 vs. 2003)	2.1	2.0	4.3	3.1	4.8	4.0	3.4	2.8
Romania (2003)	*	1.7	*	3.0	*	4.8	*	2.8
Serbia and Montenegro (2001)	*	2.2	*	3.1	*	3.8	*	2.9
EU Average (Late 1990s)	2.4		2.3		3.2		2.5	
OECD Average ⁴⁴ (Late 1990s)	2.1		2.0		2.9		2.2	

*Late 1990s Data Unavailable

The EPL index is a weighted average of 22 indicators based on available labor codes, e.g. dismissal notice period, severance payment requirements, difficulty of dismissal, etc. Values range from 1 to 6; the higher the index value the stricter the employment protection legislation.

³⁹ Redundant workers are those who have lost their jobs through no fault of their own.

⁴⁰ G. Betcherman, K. Olivas, and A. Dar, *Impacts of Active Labor Market Programs: New Evidence from Evaluations with Particular Attention to Developing and Transition Countries*, Social Protection Discussion Paper Series, Report No. 0402 (Washington: World Bank, January 2004).

⁴¹ Micevska 2004.

⁴² Bosnia and Herzegovina has made progress toward making labor market policies less rigid. Efforts have been made toward reducing the obstacles to hiring and firing and to decentralize employment decision making.

⁴³ In 2005, Macedonia revised its labor law, which relaxed restrictions on the used of fixed-term, temporary, and part time employment. This new law represents a significant liberalization of Macedonia's EPL.

⁴⁴ Data from Australia, Austria, Belgium, Canada, Switzerland, Germany, Denmark, Spain, Finland, France, UK, Greece, Ireland, Italy, Japan, Netherlands, Norway, New Zealand, Portugal, Sweden, and USA.

RESTRICTIVE LABOR MARKET REGULATIONS

Persistently high unemployment rates are often attributed to restrictive labor market regulations, referred to as Employment Protection Legislation (EPL). Because government has limited ability to impact labor demand, the private sector is widely regarded as a long-term solution to boosting overall growth and job creation. **Fostering sustained labor-intensive growth necessary for comprehensive job creation requires flexible labor market institutions and policies and a favorable investment climate.** A methodology developed by the OECD, as shown in Table 2.2, provides a systematic measurement of labor market rigidity that influences high unemployment and private sector growth.

The countries that constituted the former Yugoslavia initially adopted more rigid labor codes following economic restructuring than did Bulgaria and Romania. The need for structural employment policy adjustment during economic reforms in the 1990s was reflected in profound amendments to national labor legislation and substantial decreases in worker protection. **Despite significant efforts to liberalize labor regulations, some SEE countries stand out for still having relatively strict employment protection legislation as compared to EU and OECD countries.⁴⁵ A stricter EPL indicates that those who become unemployed are at a greater risk of remaining unemployed for a year or more.** This cross-regional comparison suggests that in adopting and amending labor legislation during the transition period, SEE countries focused mainly on relaxing regular employment restriction with less attention paid to more flexible legislation on temporary employment. Temporary employment contracts, which are an important source of flexibility for employers in managing staffing levels and fluctuating production requirements, do not score as well. **Stricter legislation on temporary employment contributes to high unemployment rates for female and youth as well as lower employment and labor force participation rates.**

Dismissals in every country can be justified on the basis of economic redundancy. **The disparities in labor legislation among SEE countries are highest with respect to collective dismissal legislation, with Bulgaria being quite flexible and Romania being quite restrictive.** Collective dismissal legislation commonly stipulates notification requirements and benefit payments. Bosnia and Herzegovina has the fewest barriers in collective dismissals compared to the other former republics of Yugoslavia.

Considerable differences also exist in the definitions of collective dismissal. In most countries collective is defined as more than five employees, while Bulgaria offers no definition. There are significant differences regarding the length of the notification period required, which imposes additional costs on an employer and is therefore viewed as a restrictive dismissal requirement. In Bulgaria and Serbia there are no additional notification periods required for collective dismissals; in Macedonia the delay before actual layoff amounts to two months. Employers in Bosnia and Herzegovina, Romania, Bulgaria, and Serbia are also required to look first for retraining or transfers to another position before a collective dismissal.

Labor institutions, employment policies and labor market programs are in need of further reform throughout SEE to prepare for coal sector structuring and to encourage private sector led growth. Following is a description of the critical role that SEE countries' national employment services and their network of local labor offices can play in providing programs that mitigate the effects of labor restructuring. A description of the evolution of employment services in SEE and other transition countries is presented in order to provide a foundation for applying best practices and lessons learned presented later in this report for transitioning or strengthening existing labor market programs.

⁴⁵ Micevska 2004.

EMPLOYMENT POLICIES AND LABOR MARKET PROGRAMS

At the beginning of economic reforms, most transition countries created national employment services, often with a network of local offices that administered a range of passive and active labor market programs. Most used existing pension or severance pay programs to mitigate the costs of layoffs and also developed new programs such as unemployment benefits and means-tested social assistance.⁴⁶ Social assistance programs for the long-term unemployed and for those who had exhausted unemployment benefits were introduced.

Even as most transition economies started to improve in the mid 1990s, employment did not rebound. SEE countries dealt with many unemployment challenges by relying on early and pre-retirement benefits or disability pensions.⁴⁷ Laid-off workers were also eligible for severance payments and, in some cases, early retirement programs.

COMMON LABOR MARKET INTERVENTIONS

Active Labor Market Programs (ALMPs) were initiated in SEE countries to provide services to workers who were laid off during enterprise closures. Most of the transition economies implemented programs based on models launched by donors, notably the World Bank, which rely on Western traditions.

A variety of services were needed to address the three conditions commonly experienced by displaced workers in attempting to re-enter the labor market:⁴⁸

1. Displaced workers have marketable skills for which there is a demand, but they need intensive job placement assistance. These services can have a substantial, positive impact on re-employment.
2. Displaced workers often lack skills or their skills are not in demand, and they need skill upgrades to compete and re-enter the labor market. Different types of retraining, including on-the-job and/or institutional training, are needed.
3. Lack of demand for labor is a particular problem in areas of high unemployment and in mono-enterprise communities where many workers are laid off. Programs include small business consulting assistance, business incubators, and micro-loans. These programs tend to attract a limited number of participants, but can be quite effective.

The public employment services in transition countries, through local labor centers, provided reemployment assistance which included a range of active and passive labor market programs. Table 2.3 describes the more common labor market interventions.⁴⁹

⁴⁶ Rashid, Rutkowski, and Fretwell 2005.

⁴⁷ Alena Nesporova, *Why Unemployment Remains too High in Central and Eastern Europe*, Employment Paper 2002/43, (Geneva: International Labor Organization (ILO), 2002).

⁴⁸ World Bank, Serbia Employment Promotion Project, Project Appraisal Document, Report No. 25657-YU, (Washington: World Bank, 30 April 2003): 2.

⁴⁹ Christopher O'Leary, Alena Nesporova and Alexander Samorodov, *Manual on Evaluation of Labor Market Policies in Transition Economies* (Geneva: ILO, 2001).

Table 2.3: Common Labor Market Interventions

Passive Labor Market Programs provide social assistance to unemployed persons without further intervention.

- **Unemployment benefits:** temporary income support provided to eligible registered unemployed individuals.
- **Early retirement:** income support provided to individuals who have worked long enough to qualify for old-age pensions but who are less than one and a half to three years away from retirement age.

Active Labor Market Programs provide skill-based, ongoing interventions that aim to provide sustainable employment.

- **Employment services:** job counseling, referrals, interview and résumé assistance, skills assessment, job search training, job fairs, job clubs, and targeted services for marginalized populations.
 - **Labor market training:** training or retraining is usually free of charge to registered jobless and covered by the public employment service.
 - **Direct job creation:** grants or preferential loans made to employers to cover costs associated with job creation provided that the new jobs will be offered to registered unemployed people and maintained for a certain period of time.
 - **Subsidized employment:** wage subsidies, often supplemented by social insurance, paid to employers as incentives to hire registered job seekers for a certain period. Subsidized employment may also be combined with training.
 - **Public works:** temporary jobs created by municipal authorities or private firms usually directed at maintaining infrastructure, cleaning public areas, and other activities that benefit the community. Funding may cover wages, social insurance, and operational costs.
 - **Self-employment support:** programs may include grants equal to the total unemployment benefit because of the job seeker, preferential loans, payment of interest on commercial loans, business training, and assistance developing business plans.
 - **Relocation promotion:** promotes geographic mobility of the labor force by covering costs associated with relocation. In some cases, it may provide a transport subsidy.
-

As noted earlier, national unemployment rates and structure, restrictive labor legislation, and the availability of active labor market programs will affect government's ability to address coal sector restructuring. Table 2.4 shows the status of ALMPs currently available in SEE studied countries.

Other factors that influence employment program utilization and effectiveness of labor market programs in SEE include the reputation of the employment service among workers and the employer community and staff capacity to shift from passive to active services.

Public employment service staff in SEE lack expertise in developing and targeting ALMPs, which contributes to low re-employment rates. In general, placement results improve if the employment service screens job seekers before sending them to employers.⁵¹

More importantly, funding for available ALMPs has traditionally been low compared to passive programs.⁵²

Table 2.4: Labor Market Programs in SEE

	Bosnia and Herzegovina	Bulgaria	Kosovo	Macedonia ⁵⁰	Romania	Serbia
ACTIVE PROGRAMS						
Employment Services	●	●	●	●	●	●
Direct Job Creation		●		◐	●	◐
Subsidized Employment		●		◐	●	◐
Public Works		●		●	●	●
Self-Employment Support		●		◐	●	◐
Training - Retraining	◐ (FBiH only)	●		◐	●	◐
Relocation Promotion		●		◐	●	◐
PASSIVE PROGRAMS						
Unemployment Benefits	●	●	●	●	●	●
Early Retirement	●	●	●	●	●	●
Implementation Status: ● Available ◐ Emerging						

⁵⁰ One of the components of Macedonia's 2005 Employment Policy Reform Project is to provide training and capacity building activities to employees of the local employment offices to improve active labor market services.

⁵¹ O'Leary, Nesporova and Samorodov 2001.

⁵² Nesporova 2002.

PASSIVE LABOR MARKET PROGRAMS

Unemployment Insurance Systems

The cost of an unemployment insurance system depends on the quantity and duration of the benefits and eligibility rules. **These vary substantially across the SEE countries.** All SEE countries in this assessment have strict, time-limited unemployment insurance systems.

Comparing the factors in Table 2.5, FBiH **provides the lowest benefit level.**

Duration of benefits differs significantly among all countries, ranging from a duration of six to twelve months to one of three to twenty-four months. **Benefit levels in most SEE countries are fairly equivalent to but of shorter duration than CEE, EU, and OECD countries.**

Percent of unemployed receiving unemployment benefit payments varies widely because of the number of long term unemployed who have exhausted benefit eligibility. However, **in Serbia,**

93% of the unemployed do not receive benefit payments because of financial constraints; payments remain in arrears for six months on average.

Table 2.5: Unemployment Insurance Systems (Late 1990s – Early 2000s)⁵³

	Initial Benefit Level/ Previous Income (%)	Maximum Months Duration (Average in Years)	% Unemployed Receiving Benefit Payments
FBiH ⁵⁴	30-40%	6-12 (.75)	10%
Bulgaria	60%	6-12 (.7)	13%
Macedonia ⁵⁵	50%	3-18 (.9)	10%
Romania	50-60%	6-12 (.75)	69%
Serbia ⁵⁶	60%	3-24 (1.1)	7%
CEE Average	48%	10 (.9)	44%
EU Average	60%	23 (1.9)	Not Available
OECD	58%	24 (2.0)	Not Available

ACTIVE LABOR MARKET PROGRAMS

ALMP Spending

Although successful ALMPs are viewed as costly to implement administratively and financially,⁵⁷ studies have demonstrated that the expense is recovered by savings in passive program spending when an unemployed person returns to work. **All SEE countries have low levels of expenditures in ALMPs.** Table 2.6 shows the active labor market spending per unemployed person as a percentage of gross domestic product (GDP) per member of the labor force. The table also indicates that ALMP spending increases as a country's economy stabilizes.

⁵³ Micevska 2004: 9.

⁵⁴ Data unavailable for Republika Srpska

⁵⁵ In Macedonia, unemployed workers must register with the Agency for Employment to obtain health "blue coupons," which provide health insurance during unemployment.

⁵⁶ World Bank, Social Sector Adjustment Credit, ICR Report No. 32320; Employment Promotion Project, PAD Report No. 25657-YU (Washington, DC: The World Bank, June 16, 2005).

⁵⁷ Rashid, Rutkowski, and Fretwell 2005.

Table 2.6: Active Labor Market Program Spending (Late 1990s – Early 2000s)⁵⁸

	ACTIVE POLICIES	
	% GDP	Per Unemployed*
FBiH	.08%	.005
Bulgaria	.12%	.008
Macedonia	.05%	.001
Romania	.10%	.013
Serbia	-	-
CEE Average	.42%	.04
EU Average	1.16%	.16
OECD	.92%	.14

- Data not available

*Active policies spending per unemployed – ratio of active labor market spending (% of GDP) to unemployment rate.

Small and Medium Enterprise (SME) Development Programs (Self-Employment and Entrepreneurship Programs)

The creation of a favorable environment for SMEs is one of the most important aspects of an employment growth strategy. High payroll taxes and social security contributions, which increase the cost of labor, are a particularly acute problem for SMEs, which may choose to remain informal instead.

A high tax burden on labor in SEE countries can hinder small business development. Table 2.7 shows that SEE payroll tax rates are comparable to the CEE average and about twice as high as the EU and OECD averages. **Macedonia has the lowest tax rate at 31.5%, and Romania has the highest at 60.5%.** These rates can be explained by the continuous fiscal pressures on governments to increase their spending on unemployment insurance systems in the presence of rising unemployment. Aging workforces, declining employment rates, and elevated poverty put additional strain on the public pension systems. In addition, economic contraction has decreased tax proceeds and forced governments in the region to look for alternative sources of revenue.

Table 2.7: Taxes on Labor (Late 1990s – Early 2000s)⁵⁹

Country	Payroll Tax Rate
FBiH	46.9%
Bulgaria	45.0%
Kosovo	Unavailable
Macedonia	31.5%
Romania	60.5%
Serbia	53.2%
CEE Average	43.4%
EU Average	23.5%
OECD	20.6%

⁵⁸ Micevska. 2004:10

⁵⁹ Ibid.: 10. The World Bank 2005 *Labor Market Update Report for Bosnia and Herzegovina* cited a payroll tax rate at around 34%.

The role of trade unions in collective bargaining and the tax burden on labor are the main factors that influence wages and determine labor costs. The bargaining power of trade unions in SEE has declined during the past decade, both at the national and company level, especially in the private sector. This has been followed by a sharp decline in union membership rates, which are now mostly at levels comparable to the EU average. Table 2.8 shows the percentage of union membership for workers in all sectors. According to available data, **Bulgaria has the highest union density, and Macedonia has the lowest unionization of SEE studied countries.**

Table 2.9 indicates that gross annual wages within SEE studied countries are lower than countries that have already gone through the restructuring process such as Hungary, Poland and Russia. **Bulgaria and Kosovo have the lowest gross wage in the region.** In 2005, the World Bank reported that the minimum wage in **FBiH is one of the highest** among transition countries in Europe and Central Asia **while RS's minimum wage is among the lowest.**⁶²

There have been a variety of donor-supported projects to improve the business environment, promote private sector growth, and facilitate access to working capital. These projects have led to the establishment of SME development programs in each country. In addition, community profiles included in this research provide specific information about the business environment in eight communities.

Table 2.8: Unionization of Labor for All Sectors (Late 1990s – Early 2000s)⁶⁰

Country	Percentage of Salaried Workers Belonging to a Union
Bosnia and Herzegovina	Unavailable
Bulgaria	58.2
Kosovo	Unavailable
Macedonia	45.0
Romania	50.0
Serbia	51.0
CEE Average	49.1
EU Average	41.9
OECD	36.9

Table 2.9: Average Gross Annual Wage in 2005⁶¹

	EUR €	USD \$ equivalent
Bosnia and Herzegovina	4,882	6,156
Bulgaria	1,970	2,484
Macedonia	3,999	5,042
Romania	3,316	4,182
Serbia	3,214	4,053
Kosovo	2,032	2,560
Poland	6,230	7,850
Hungary	7,100	8,945
Russia	2,895	3,648

⁶⁰ Ibid.: 10.

⁶¹ Statistical Office of Kosovo (<http://www.ks-gov.net/esk/>); Agency for Statistics Bosnia and Herzegovina (<http://www.bhas.ba>); State statistical office of Macedonia (<http://www.stat.gov.mk>); State Statistical Office of the Republic of Serbia (www.webrzs.stateserb.sr.gov.yu); National Statistical Institute of Bulgaria (www.nsi.bg); National Institute for Statistics Romania (http://www.insse.ro/index_eng.htm); Eurostat (<http://epp.eurostat.ec.europa.eu>); US Department of State. *Country Report on Human Rights Practices*. (Russia) : <http://www.state.gov/g/drl/rls/hrrpt/2005/61671.htm>

⁶² World Bank, *Bosnia and Herzegovina, Labor Market Update* (Washington: World Bank, December 2005).

BOSNIA AND HERZEGOVINA

SME Development

FBiH has an active self-employment program for people registered with the Employment Bureau.

- Kakanj adopted an SME development strategy, but there are not yet business support services to implement the strategy and access to capital is limited. Since 2000, comprehensive reform efforts have improved the business and investment environment in the Kakanj area, including more efficient licensing and permitting procedures for business start-up.

In 2006, RS adopted a Strategy for the Development of SMEs between 2006 and 2010 to coordinate development at the entity, regional, and local levels. RS also established municipal credit programs, grant-based municipal funding sources, and a revolving loan fund managed by the RS Development and Employment Fund, which was not successful.

- In Ugljevik, the general level of economic activity is low with companies operating at 30% of pre-war capacity. High tax rates limit employment opportunities. While the banking sector is well developed, SME access to credit is unfavorable because of high interest rates and security requirements. A Crafts and Entrepreneurship group formed an SME in late 2004.

BULGARIA

SME Development

Bulgaria has a fully functioning National SME Agency that implements and coordinates projects and policies for SME development across the country. Regional SME and entrepreneurship development assistance centers were created in 2002 with Poland and Hungary Assistance for Reconstruction of their Economies (PHARE) funds. The 2005 Act for Employment Stimulation provides funds for business start-up consultancy and other services. The National Employment Plan for 2006 targets youth, the long-term unemployed, persons nearing retirement, and the disabled with the goal to create 240,000 new jobs.

- In Radnevo, the secondary school offers small business start-up courses, and the municipal government has been recognized for its openness to business development and a one-stop system that provides more than forty business support services. Salary and social insurance incentives are also available. The municipality posts unused land and facilities on its Web site; 100% of offered assets have been used by SMEs.

KOSOVO

SME Development

Kosovo's strategy for development of the energy sector includes SME development within the mining sector. In addition, the European Agency for Reconstruction (EAR) is providing support for employment generation in disadvantaged minority communities, for developing the Investment Promotion Agency, for the Ministry of Trade and Industry to create jobs and increase incomes in high unemployment areas, and for development of the rural economy, with particular attention to women and minorities.

MACEDONIA

SME Development

In 2003, Macedonia developed a one-stop registration system to reduce barriers for entrepreneurs to start businesses and established an agency to promote entrepreneurship. The government intends to stimulate SME development by supporting the Bank for Support of SMEs to provide more accessible loans through simplified procedures. Although there have been a variety of donor funded programs to improve the business environment, these have not yet fulfilled their potential.

- Bitola ranks second to Skopje in registered SMEs because of its proximity to Greece. Local small businesses lack start-up support, and market research for business planning is unavailable. The majority of businesses that fail lack a market orientation, business plan, business management skills, and working capital. The municipality established an office of local economic development

to improve the business climate and attract investors. A municipal profile to develop a strategy for economic development is underway.

ROMANIA

SME Development

In Romania, SME support programs have been integral to its labor redeployment and employment generation strategy. Small business programs target displaced workers by supplying short-term working capital loans and offering technical assistance with legal, marketing, sales, and financial services. Romania revised its legal framework in 1999 to allow the establishment of small business incubators. Romania also established a Disadvantaged Region Status program based on unemployment rates in mining regions, which was designed to increase private investments over a ten year period through 2009. Of the twenty-seven disadvantaged regions in Romania, twenty-three are mining regions.

- In Deva, surveys indicate a positive business environment and desire to expand existing businesses. A number of programs are supported by the public employment service, mostly as subsidies for incentives for hiring of hard-to-place unemployed workers. There are also a variety of consulting services, training, and funding programs.
- In Rovinari, businesses are failing because of a lack of experience, sales, and capital. The Disadvantaged Region Status has not drawn much interest from private investors because of concerns about fraud and corruption. While SME development services are available, few are utilized because of the business environment.

SERBIA

SME Development

Serbia established the Agency for SME and Entrepreneurship Development in 2001 and created a network of regional centers. The government adopted a Strategy for SME and Entrepreneurship Development for 2003 to 2008 with the overall goal to increase the number of SMEs from approximately 270,000 in 2002 to 400,000 by 2008, and thereby create more than a million new jobs. Credits have become available from the national Development Fund.

- In Lazarevac, a preliminary short-term strategy has been developed that envisions a regional SME and entrepreneurship development center, a techno-park, a business incubator, and virtual enterprises. The World Bank recently awarded funds for an agro-business incubator to help entrepreneurs start-up fruit production businesses. The public employment service subsidizes business start-up for registered long-term unemployed. A new Law on Natural Rent valued natural resources that have a negative environmental impact. A Rent Fund has been established from fees paid by Kolubara for coal exploitation to finance viable business plans in the SME sector.
- Pozarevac's agriculture sector provides 28% of the income in the municipality. Four farmer associations are active. An agricultural fund has granted more than \$90,000 to twenty-seven of twenty-nine new business proposals received. In 2004, the employment service established a business center, one of the first of its kind in Serbia. The center fills a vacuum until a local SME development agency is established, but it is not sufficiently equipped. An association of small and medium private enterprises and entrepreneurs began in 2001. Two entrepreneurship fairs were organized by the employment council in 2006.

LABOR LAW REFORM OPPORTUNITIES FROM EUROPEAN UNION INTEGRATION

The process of integrating labor laws is occurring throughout SEE to prepare for EU accession. During the South East European Ministerial Conference on Employment conducted in Bucharest in October 2003, members acknowledged "the serious employment challenges faced by the Stability Pact

countries.”⁶³ A Final Declaration of the conference acknowledged the substantial reduction in employment, consistently high unemployment and the adverse consequences for poverty and social cohesion. **The declaration addressed the need to improve employment policies and employment and training services and established labor-related objectives.** Bulgaria and Romania have already taken steps to integrate their labor laws with EU mandates.

In addition, in 2004 the Initiative for Social Cohesion (ISC) of the Stability Pact for South East Europe reviewed the process of regional integration and revised its mission statement to include employment as one of five areas of activities.⁶⁴ **Its approach is based on regional networking, prioritizing capacity building, and strengthening institutions.** A significant activity under the Bucharest Declaration and the ISC is the generation of a series of Country Reviews of Employment Policy (CREP) that include in-depth analyses and assessments of each country’s employment policies. Bulgaria and Romania agreed to become lead peer reviewing countries. Serbia was among the first countries to commit to an employment policy review. Bosnia and Herzegovina’s policies were to be assessed by Romania. **CREPs could provide invaluable information to target and coordinate employment reforms to mitigate the effects of coal sector restructuring.**⁶⁵

Each country report included in this report’s appendices sums up the labor opportunities and challenges facing each of the studied countries.

⁶³ Cooperation on Employment in South East Europe, *Review of Employment Policies and of the Performance of Employment Services in the Stability Pact’s Beneficiary Countries.*, Terms of Reference, Prepared at the first meeting of the Permanent High-Level Committee, Brussels, 9-10 December 2003. Fabrizio Saccomanni (Chairman) (Posted June 2004): 4.

⁶⁴ Other activity areas include health, social dialogue, social protection and housing. Its mission is to address social issues that affect the daily lives of citizens, particularly the most vulnerable populations.

⁶⁵ The project began with training in October 2004, under the leadership of the International Labor Organization, with reviews of Bosnia and Herzegovina and Serbia anticipated to be completed in mid-2005.

KEY LABOR PROVISIONS

This section examines key labor provisions specifically related to the coal sector. Topics include collective agreements, union representation, early layoff warning mechanisms, company planning committees, and programs for pensions, severance payments, training and retraining, social support, and health and safety.

COMPARISON OF LABOR PROVISIONS RELATED TO WORKER REDUNDANCY

Table 3.1 summarizes the available data for key labor provisions connected to worker redundancy. Although inconsistencies in these provisions preclude definitive comparisons the data indicate that *Bulgaria and Romania have the most developed labor provisions specifically for the coal sector, with Kosovo having the least.*

Collective Agreements/ Employment Contracts

Most miners and energy workers are protected by collective agreements. *Agreements are in place in Bosnia and Herzegovina, Bulgaria, Macedonia, Romania, and Serbia.* Collective agreements traditionally have regulated wages, medical examinations, and meals and transportation allowances. *Overall coal sector wages in SEE have tended to increase rather than plateau.*

- In Bosnia and Herzegovina, wages in the overall mining sector in both

Table 3.1: Key Coal Sector Labor Provisions

	Bosnia and Herzegovina ⁶⁶	Bulgaria	Kosovo	Macedonia	Romania	Serbia
Collective Agreements	●	●		●	●	●
Union Representation	●	●	●	●	●	●
Early Layoff Warning		●			●	
Planning Committees (Company)	●	●			●	●
Community Planning		●			●	●
Social Insurance	●	●			●	
Pensions	●	●	●	●	●	
Health Insurance	●	●	●		●	
Severances	●	●			●	●
Wait Listing						
Early Retirement		●	●		●	●
Forced Retirement			●			
Voluntary Retirement			●		●	●
Hiring Freeze			●			●
One Time Financial Compensation		●			●	●
Alternative Employment	● (FBiH only)	●			●	●
Social Programs	● (RS only)	●	●	●	●	●
Health and Safety		●			●	●
Medical Care	●	●		●	●	
Inspections		●			●	
Safety Gear		●			●	
Hazardous Work Compensation		●		●	●	
Meals	●	●		●	●	●
Environmental Protection	●	●	●	●	●	●

⁶⁶ Each entity in Bosnia and Herzegovina has its own labor laws which are supplemented by general collective agreements. The laws are becoming increasingly harmonized, but more work must be done to unify labor codes within the Federal system and to prepare for EU accession.

Republika Srpska (RS) and Federation of Bosnia and Herzegovina (FBiH) rank among those in the six lowest paid industries, while the electricity industry is one of the four highest paid industries.

- In FBiH, around 6% of miners and electricity sector workers are covered by collective agreements. Wage data for coal mining were not available. Between 2001 and 2003, mining workers received a 30% increase and energy sector worker salaries decreased by 4%.
 - In RS, 21% of miners are under a collective agreement; there is no agreement for electricity workers. Mine workers received a 58% wage increase between 2002 and 2004, while energy workers received 12%.
- Bulgarian mining unions are covered by a Sector Collective Labor Contract. Wages in Bulgaria's mining sector are 74% higher than the minimum wage; electricity workers are 85% higher.
 - In Kosovo, the average monthly salary for coal production is the equivalent of \$340 USD. No salary increases were anticipated through 2012 based on projected reductions of 3,548 employees for the same period. Wage and staffing level projections are expected to change following the World Bank's October 2006 decision to provide funding to support expansion of mining and power plant production in Kosovo.
 - In Macedonia, mining work is regulated by the Collective Agreement for Workers in the Energy Sector. Power plant employees work under a collective agreement of their industry branch union. The collective agreement guarantees a day of leave for shift work, another leave day for "heavy work" plus ten days for "preventive health holiday leave" and a 30% increase in base salary.
 - In Romania, employment policies and terms such as base salaries and additional compensation are governed by the mining and geology sector's collective agreements. The agreement establishes the base salary at one and a half times the country minimum wage. Additional compensation is provided for length of service, dangerous work, underground mining, and shift work. Miners also receive free transportation, meals, and eight tons of coal per year.
 - In Serbia, employers are obliged to negotiate a collective agreement with representative unions, but not to conclude one. The utility workers union has concluded a collective agreement that outlines the terms for employment under the restructuring of the entities within the utility. The agreement stipulates that an employee either agree to the terms of restructuring or be terminated from employment. Coal mining wages have increased nearly 15% over 2005 and almost 18% for electricity workers. Coal miners are paid 29.4% more than the average wage while electricity workers earn nearly 45% more.

Union Representation

Within the coal sector, union membership is dwindling throughout SEE. Many unions have struggled with low dues collection, in part because of the lack of expendable income and a declining workforce.

- In Bosnia and Herzegovina, separate trade confederations within RS and FBiH represent miners.
 - In RS, there was no reported trade union devoted to electricity or utility workers. The RS Trade Union of Metal Workers and Miners, with 17,000 members, withdrew from the confederation structure.
 - In FBiH, the Trade Union of Electricity Workers represents 7,500 members while the Trade Union of Miners represents 16,000. There is also a trade union of utility workers that represents 7,400 members.

- In Bulgaria, union membership in the coal sector is decreasing, with around 18% of the workforce unionized through the Federation of Independent Trade Unions of Miners and the Syndicate Miners' Federation. These are affiliated with the two largest trade unions: the Confederation of Independent Trade Unions in Bulgaria (CITUB) and Podkrepa Labor Confederation respectively. Social dialogue is institutionalized through the National Council for Employment. In 2005, CITUB and Podkrepa withdrew from the National Council for Tripartite Cooperation to draw attention to the need to improve the dialogue structure.
- In Kosovo, the labor union is part of a tripartite system including the Ministry of Labor and Social Welfare and the Chamber of Commerce, which jointly develops regulations for social protection.
- In Macedonia, the Confederation of Trade Unions encompasses seventeen separate unions, including the Independent Union of Workers in ELEM (Macedonia's utility), which represents workers in energy and mining. The Confederation serves as the main negotiating partner with the Government of Macedonia and participates in restructuring decisions.
- There are more than twenty union confederations in Romania. While union membership is voluntary, most miners are members of one of three unions: The Federation of Mining Unions of Valea Jiului, the Mining Union of Oltenia, or the Sindicatul Energia Turceni.
- In Serbia, there are three unions that cover the energy sector: The Trade Union of EPS (Serbian Utilities) Workers representing 50,000 coal and power workers, the local Mining and Energy Workers' Branch Trade Union affiliated with the Association of Free and Independent Trade Unions, and the Trade Union Confederation "Nezavisnost," which includes the Union of Workers Employed in the Public Utilities and Union of Workers Employed in the Chemical, Non-Ferrous, Power and Mining Industries. Union activity has been severely restricted through legislation. The Minister of Interior is empowered to dissolve trade unions, and participation in a strike can lead to loss of wages and social security rights.

Early Layoff Warning (Early Intervention)

Romania, Bulgaria, and Macedonia experimented with Early Intervention methods through donor-assisted programs in the late 1990s through early 2000. Presently, availability appears to be limited in Romania and Bulgaria and was not sustained in Macedonia. Early intervention programs were suspended in Macedonia because of political changes that caused turnover among program champions within the central government. This led to reassignment of local employment office staff to other priority activities.

Early Intervention involves enterprise and worker adjustment strategies based on two approaches:

1. Advance Notice of layoff to ensure that affected employees, companies, communities, and local authorities have information in sufficient time to allow for early intervention. Such interventions may be provided by an employer-employee committee or an in-plant employment service office linked to the local public employment office.
2. Rapid Response relies on a joint consultative approach to facilitate agreements between the workers, the enterprise, the employment service and the local community. Group registration of workers for unemployment benefits, information about available services, and crisis counseling may be arranged as needed. An assessment of each worker's skills, qualifications, experience and interest in retraining or relocation is conducted. Job development activities through formal and informal channels are pursued, and linkages are made to local economic development activities.

Early Intervention methods may include:

- Company-specific labor-management adjustment committees.
- Community-wide committees.
- Existing or newly established public or private agencies dedicated to providing dislocated worker services.
- A combination of the above.

The following main types of labor redeployment support are provided, typically as temporary, intensive on-site services tailored to worker needs:

- Pre-layoff advice and counseling (legal and financial rights and benefits, available employment and social services, and peer support).
- Job search assistance (placement, intermediation to match workers to jobs, job clubs, and interview and resume writing skills).
- Training (including retraining, skill upgrading, and self-employment training).
- Employment development (job search, creation of potential spin-off activities from restructured companies, and support for entrepreneurship and self-employment). Stakeholders may also organize job fairs, advertise worker skills, contact area employers, or use word-of-mouth to enhance job search.
- In addition, programs such as peer counseling⁶⁷ can help address psychological impacts of transition as they influence workers and their families.

Workers who access support services while still employed have better reemployment success rates than those who access services after being unemployed for a considerable length of time. Early Intervention can also help workers avoid long-term unemployment.

Company Planning Committees

Most of the SEE countries studied have experience with planning committees that could be reconfigured or revived to provide labor redeployment support services:

- In Bosnia and Herzegovina, FBiH and RS removed the requirement for workers' council or trade union consent in collective dismissals involving more than 10% of the workforce. While FBiH's law allows a single layoff with the consent of a worker's council, the council is not functional.
- Employers in Bulgaria are required to negotiate redundancies with the local trade union through a Social Cooperation Committee. These tripartite committees are comprised of unions, employers, and government and are established through the sector collective agreement.
- There was no evidence of company planning committees in Kosovo.
- In Macedonia, the union and utility management consult when modifications in mining practices will require worker training or retraining or when worker benefits are changed.

⁶⁷ Peer counseling is provided through a Peer Support Program to establish a supportive structure for workers who are being laid-off. Peer counselors help labor-management committees plan service delivery systems through their intimate knowledge of the workplace environment and community challenges. They also provide a link to the unemployed and their families with local assistance institutions. They are a source of information to workers about possible support and act as non-judgmental listeners, affirming feelings, helping overcome social isolation, assisting workers in planning, and lessening resistance to labor support programs.

- In Romania, social dialogue and support groups, including relevant stakeholders in mining zones, are formed when a mine is scheduled for closure.
- In Serbia, territorial and local government units may form Centers for Support of Business Change/Transition comprised of key actors within the community to provide worker transition assistance. These centers are still in the demonstration phase and are not widely available.

Early Retirement/Pensions

The existence of early retirement schemes makes it more attractive for older workers to exit the labor force.

- In Bosnia and Herzegovina, the coal and energy sector has been unable to meet pension liabilities because of wage and social contribution arrears.
- In Bulgaria, companies and employees are required to contribute to pension insurance. All pension contributions must be paid in full prior to employee severance from the employer.
- Kosovo's utility provides early retirement, voluntary retirement and forced retirement. Since 2002, State Owned Enterprises with more than 500 employers are required to make pension contributions to the Kosovo Pension Savings Trust.
- In Macedonia, miners earn one and a half year credit toward retirement for each year worked.
- The Pension Law in Serbia increased retirement age to 63 for men and 58 for women to reduce government pension arrears. Employees working under hazardous conditions earn one and a third years credit toward retirement. In 2005, Serbia introduced a private pension fund to which workers can contribute voluntarily. The minimum pension is equal to no more than 20% of the average gross wage.
- In Romania, the collective agreement for the mining sector stipulates that employees may retire at 45 after twenty years of cumulative service. Those who retire early receive an indemnification equal to six month's base pay and the cash equivalent of two tons of coal.

Severance Payments

In Romania, severance payments were expected to spur economic growth through entrepreneurship development. The research showed that ***lump sum payments were quickly spent on personal debt, and very few workers attempted to start their own businesses.*** In addition, those that did struggled from lack of business assistance and support programs. Business failures were attributed to a lack of business management experience. Table 3.2 compares the severance packages across the countries represented in this research. ***Romania's severance program is by far the most generous, followed by RS. Bulgaria provides the lowest severance of all countries.***

Table 3.2: Severance Packages in SEE

Minimum Legislated Severance	
Bosnia and Herzegovina	
FBiH	≥1/3 average monthly preceding three month salary for each year of employment
RS	40% average monthly salary up to 10 years employment; increasing to 70% up to 30 years of service
Bulgaria	3 gross monthly salaries ⁶⁸
Macedonia	≥1/3 average monthly preceding three month salary for each year of employment
Serbia	≥1/3 average monthly preceding three month salary for each year of employment ⁶⁹
Romania	22 - 24 months of monthly salary ⁷⁰
Kosovo	None

Wait Listing and Wage Arrears

Because “wait listing” is not authorized by any labor provision and there is no clear definition of *fictitious* worker, reliable information is unavailable as to the exact number of workers whose workbooks are held by an employer pending settlement of outstanding liabilities. In Bosnia and Herzegovina, it is estimated that 80,000 workers in FBiH and 30,000 to 40,000 in RS have workbooks that remain on state-owned enterprise payrolls awaiting settlement of wage arrears. In Macedonia, a World Bank study cited state-owned enterprise reports that showed that more than 25% of employees did not get paid in March 2002, a proportion that has risen steadily over the last few years. Specific to the coal sector, some mines in Bulgaria are in pension contribution payment arrears.

Settlement of these outstanding liabilities does not appear to be solvable through traditional severance awards.

Companies cannot afford to finance mandated severance payments or settle wage and social insurance contribution arrears. Non-payment prevents termination, which means that workers cannot move on to new employment. The requirement that an employer must hold a worker’s workbook until financial settlement and termination was designed for full-time, life-time employment. This practice has fuelled the informal sector and has proven to be a major barrier to alternative forms of formal employment including part-time, temporary, and secondary jobs. **Such outmoded employment regulations have created a no-win situation not only for inactive workers, but also for employers and government.**

Training and Retraining for Alternative Employment

The high number of unskilled and semi-skilled workers within the mining industry indicates that the majority of the workforce possesses basic and secondary education with specialized skills that will not transfer easily to other sectors. Rehabilitation and installation of new technologies in mining and power facilities has driven the need for worker training. Through retraining programs and additional

⁶⁸ This severance package is limited to the coal sector and is outlined in the Bulgarian Energy Strategy.

⁶⁹ This equates to \$126 USD per year. Employees with more than ten years of service receive nearly \$4,890 equivalent.

⁷⁰ Severance package prescribed by the current Mine Closure, Environmental and Socio-Economic Regeneration Project funded by the World Bank.

vocational training, workers have prepared for new jobs and acquired more marketable skills, with training participation rates higher among younger workers.

- In FBiH, incentives are offered for employers to retrain employees for two years; however, there are no special programs to address workers who are unemployed because of privatization, bankruptcy, or liquidation.
- In Bulgaria, programs are in place to encourage workers to participate in retraining activities to prevent layoffs and support alternative employment. However, training programs generally are not available until requested by government authorities or by the workers themselves.
- In Kosovo, the European Agency for Reconstruction's 2006 program strategy included funds to further develop the utility's training center to improve technical and managerial skills, to develop a demand-driven vocational education and training system for youth and adults, and to assist the Ministry of Labor and Social Welfare to provide training for the unemployed.
- In Macedonia, the trade union and utility management consult when changes are anticipated in mine training or retraining. In addition, vocational training programs have received extensive donor attention, but these have not reached their full potential.
- In Serbia, training programs have been under developed and are not targeted to high-risk unemployed.
- In Romania, financial incentives were provided to potential employers to hire and retrain unskilled workers. The scope of eligibility was expanded from redundant miners to include all unemployed job seekers from a mining community. In Romania, training is available for up to nine months following lay-off.

SOCIAL SUPPORT PROGRAMS

Social support programs offer entitlements for workers to leave overstuffed enterprises. They include temporary income support, settling wage arrears, regular or special severance packages, and early retirement programs. Other social protection schemes include social insurance programs such as pensions and unemployment benefits. **All countries have established social support programs, but funding is a major constraint for long-term implementation.** Labor redeployment and active labor market programs that assist dislocated workers in rejoining the labor market can occur only if the necessary social infrastructure is in place.

- In Bosnia and Herzegovina, a Medium-Term Development Strategy – Labor Market Reforms Action Plan recommended that FBiH and RS adopt laws or ordinances to strengthen existing unemployment protection systems for workers who lose their jobs through privatization, bankruptcy, or liquidation.
 - In FBiH, the Employment through Education program provided incentives to employers who retain trainees for two years, but this assistance was not targeted to labor restructuring and the draft legislation was unavailable in the Official Gazette. The FBiH employment bureau developed a social support program for redundant workers, but there has been no legal framework to support its implementation.
 - In RS, the Parliament passed in July 2003 a social program that enabled contribution payments from January 1998 to the day of privatization or bankruptcy filing if new owners did not assume these obligations.

- In Bulgaria, the 2002 Energy Strategy provided plans to assist redundant workers through one-time financial compensation, retraining, and alternative employment. Financial support to subsidize employment is available for workers and employers affected by restructuring.
- In Kosovo, social protection formerly was subsidized from the government budget and from a Yugoslavia-wide Fund for Undeveloped Regions. The last payment was made in 1999 and contributions ceased around the same time. Currently, the fund is not paying benefits and only maintains data on previous beneficiaries. Since 1999, social protection has been provided by either extended family networks, remittances from Albanians outside Kosovo, or from various humanitarian organizations.
- Macedonia received donor support to improve the provision of social benefits. The 1999-2003 Social Support Project funded severance payments to workers displaced by bankruptcy and labor restructuring of Majority State Owned Enterprises and financed monitoring to determine the social impact on displaced workers.
- In Romania, the Ministry of Labor, Social Solidarity and Family, the National Agency for Employment and the mining companies are responsible for social measures including social protection for families to prevent social exclusion (specifically children from education), viable alternatives for youth employment, temporary works programs for redundant workers, employer incentives to hire laid-off workers through retraining, social protection for workers with minimum re-employment prospects, and professional training to increase employability.
- In Serbia, an ambitious social reform program was launched in 2001 to increase living standards and reduce poverty but some groups still suffered losses, and pockets of deep poverty remain. International observers noted a lack of counseling for workers and families who lose jobs. The Ministry of Labor and Social Policy adopted a program in July 2005 to assist redundant workers, which includes worker surveys to assess their employment readiness and needs. Worker assistance programs include public works, employer incentives to hire unemployed workers, and self-employment support.

HEALTH AND SAFETY

The research produced very little information regarding worker health and safety practices. ***Although worker health and safety is generally guaranteed under labor laws, working conditions within mines and power plants have resulted in injuries and disabilities.*** For example, during 2005 in Bosnia and Herzegovina, unsanitary working conditions led to an outbreak of Leptospirosis which had never before been known or diagnosed in the area.⁷¹ In Bulgaria, a 2005 safety study resulted in criminal indictments and the closure of some mining operations at the Bobov Dol power plant. The Bulgarian Mining Chamber, which represents employers, is cooperating with various government ministries to resolve company and branch labor issues concerning diseases, updating safety and work statutes, and establishing ordinances on mine rescue services.

⁷¹ Safet Durmo, Interview with the Director of Brown Coal Mine “Zenica” Available online <http://www.irib.ir/worldservice/bosnianRADIO/interviu/SafetDurm.html>.

Note: Leptospirosis is spread mainly by contact with water, soil, or plants contaminated by the urine of infected animals.

SECTION 4

COAL SECTOR RESTRUCTURING

This section summarizes the coal sector restructuring framework in the SEE countries and the current status of sector reforms. Chart 4.1 compares the restructuring timeline and progression for each country. Table 4.1 summarizes the status of various reform activities and Table 4.2 identifies the energy strategies that are in place. Table 4.3 describes the impact on labor and communities from a range of reform activities to increase understanding between labor and energy experts. Information is also provided regarding the different restructuring approaches used in each country and donor financing of regional, labor, and social sector reforms. This section ends with a description of private sector involvement and potential economic opportunities arising from new environmental standards.

While labor restructuring in most SEE countries is in the beginning stages, ***the momentum of energy reforms and sector restructuring is increasing as European Union (EU) accession or candidacy draws near.***

Energy infrastructure was subject to significant damages during the conflicts of the 1980s and 1990s throughout SEE. In addition, the sector suffered from a number of inefficiencies at all levels of operation – coal extraction, transportation and cleaning as well as power generation, transmission, and distribution. This condition was created under the centrally planned economic systems that resulted in a lack of market-based investment, maintenance, and in some cases, repair.

To this has to be added the low-level of energy efficiency of the countries' economies, estimated at two - four times less efficient per unit of GDP produced. This situation is both cause and effect of delayed reforms of the energy sector. This general picture hides a number of differences between the situations in the different countries. ***Severe supply deficits suffered in Serbia and Kosovo reflect years of neglect. Bosnia and Herzegovina faces challenges caused by the division of a former unified power network into three sub-networks that trace the lines of the division of the country. In Macedonia limited reforms have begun to take effect, whereas in Bulgaria and Romania reforms in line with EU directives are underway.***⁷²

⁷² European Commission, *Transport and Energy Infrastructure in South Eastern Europe*, Developed by the Working Group of the Commission Services Directorate General for Energy and Transport, Directorate General for External Relations, EuropeAid Co-operation Office (Brussels: European Commission, May 2001).

Chart 4.1: SEE Coal Sector Restructuring Timeline

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
Romania	Round One Coal Mine Closures/Restructuring							Round Two Coal Mine Closures/ Restructuring			
	Mine Sector Voluntary Redundancy			Power Sector Restructuring							
	Coal sector restructuring began	1998 RENEL unbundled creating CONEL and National Electricity Regulatory Agency	Closed 20 non-viable mines	CONEL unbundled into 4 companies					2004-2010 Mine Sector Restructuring Strategy Adopted Turceni, Craiova, and Rovinari power complexes created CLNO reorganized		
Bulgaria	Coal Sector Restructuring										
	Coal sector reform launched		National Strategy for Energy Sector and Energy Efficiency to 2010 (Established)	NEK Power Utility Restructured	Coal mines unbundling began	Electricity sector unbundling began; Deep lignite mining in liquidation	2003 Energy Act TPP Marita East 3 joint venture		TPP Varna privatized		
Bosnia and Herzegovina			Joint Coordination Center for Electric Power (ZEKC) established				Power utilities established as joint stock companies	FBiH Coal Sector Modernization/ Restructuring			
								FBiH adopted Action Plan for Coal Sector	Stanari Mine privatized		
Macedonia				EPCM converted to joint stock company				Energy Sector Restructuring			
							Restructuring plan adopted	EPCM restructuring launched	June 2005, AD ELEM; AD ESM-EVN; AD MEPSO; AD TEC Negotino established as independent entities	Energy Law adopted	
Serbia							Underground coal mines divested from EPS	Energy Sector Restructuring			
								Energy Law			
Kosovo								Energy Law	Energy Strategy 2005-2015		
								Electricity Law			

The world energy industry is being restructured along the lines of the separation of electric power generation from transmission and distribution functions (referred to as “unbundling”) in the belief that competition will introduce additional efficiency in electric generation and supply. Electric power generation becomes competitive, while electric transmission is opened to third party access so that the competitive power supply can reach either wholesale markets (electric distribution systems buying for their customers) or retail customers (who take service from the local distribution grids).

Unbundling is a major factor of competition, as historically, national companies controlled production, transmission, and distribution. Restructuring of the highly integrated electric power utilities across SEE has typically begun with an unbundling of services, beginning with transmission. Table 4.2 indicates the status of energy restructuring based on the latest publicly available data.

Table 4.1: Status of Energy Sector Restructuring

	Bosnia and Herzegovina		Bulgaria		Kosovo		Macedonia		Romania		Serbia	
	CM	CPP	CM	CPP	CM	CPP	CM	CPP	CM	CPP	CM	CPP
Unbundling	◐	◐	●	●	◐	◐	◐	◐	●	●	◐	◐
Producer Subsidization	◐	◐	◐	◐	◐	◐	○	○	◐	◐	◐	◐
Corporatization												
Separation of Transmission Network	-	●	-	●	-	◐	-	●	-	●	-	●
Separation of Distribution Network	-	◐	-	●	-	●	-	●	-	●	-	○
Independent Regulator	-	●	-	●	-	●	-	●	-	●	-	◐
Liquidation of Non-Viable Entities	◐	○	◐	◐	◐	◐	○	○	◐	◐	◐	○
Refurbishment	◐	◐	◐	◐	◐	◐	◐	◐	◐	◐	◐	◐
Customerization												
Liberalization/ Deregulation	○	○	◐	◐	○	○	○	◐	◐	◐	○	○
Price Stabilization	○	○	◐	◐	○	○	○	◐	◐	◐	○	◐
Consumer Subsidies	○	○	◐	◐	○	○	○	◐	◐	◐	◐	◐
Privatization												
Private Investors	◐	◐	◐	◐	○	○	◐	◐	◐	◐	◐	○

CM – Coal Mines; CPP- Coal-fired Power Plants

Completion Status:

● Full ◐ Partial ○ None – Not applicable

All have an energy strategy or action program in place or under development to guide their restructuring processes, which are summarized in Table 4.2. In addition, each country report included in this report’s appendices sums up the sector’s restructuring opportunities and challenges.

Table 4.2: Energy Strategies

	Strategy in Place	Dates Covered
Bosnia and Herzegovina	Medium-term Development Strategy	2004-2007
Bulgaria	National Strategy for Energy Sector and Energy Efficiency Development to 2010	2002-2010
Macedonia	Energy Strategy and Energy Program	2006 (under development)
Romania	Road Map for Energy Sector of Romania	2003-2005 (short term); 2006-2010 (mid-term) 2011-2015 (long term)
Serbia	Energy Sector Development Strategy	2005-2015
Kosovo	Energy Strategy and Policy of Kosovo	2003-2008; long-term projections through 2020

As competition is introduced and production becomes more efficient, one of the impacts on the workforce is the need for specialized skills and for labor restructuring. ***This report addresses the common interests of employment labor force mobility and the development and facilitation of the national and regional electricity market reforms that are underway.*** Table 4.3 was created to provide a bridge between labor and energy experts to increase understanding of associated labor and community impacts of restructuring activities.

APPROACHES TO RESTRUCTURING

Romania and Bulgaria followed two different approaches to restructuring. ***Romania used unbundling and voluntary downsizing while Bulgaria focused on private sector investment before implementing regulatory reforms.*** The different approaches emphasize the varying priorities within the governments and economies of SEE countries.

ROMANIA

Romania has the longest history in SEE coal and energy sector restructuring with reforms launched in the early 1990s. In 1997, the government began workforce restructuring in the coal sector under the auspices of a mine closure program funded by the World Bank. As part of its centralized economy legacy, the Romanian coal mining sector was overstaffed, overdeveloped and technologically neglected for more than twenty years.

Social and employment generation programs followed to address the critical needs of redundant workers. ***The Romanian experience showed that social interventions require a great deal of time and funding, that they need to be integrated with community planning, and that they must target all members of society rather than simply mine workers.*** New strategies for active labor measures such as employment support, small and medium sized enterprise (SME) development, business incubators, and vocational training were integrated into the next round of mine closures beginning in 2004. In addition, the Mine Closure, Environmental, and Socio-Economic Regeneration project funded by the World Bank provides support and capacity building for the Ministry of Economy and Commerce, and the National Agency for Development and Implementation Reconstruction Programs to provide economic regeneration and environmental sustainability in mining communities.

Table 4.3: Impact on Labor and Communities from Coal Sector Reform Activities

Coal Sector Reforms	Labor/Community Impacts
Significant overhaul and reorganization of conventional management, operational, and production practices.	<ul style="list-style-type: none"> • Workforce reductions. • New worker skill requirements. • Education and training programs require improvement. • New skills transferable in the market. • Older workers (40+ years) typically decline reemployment support services. • Community experiences increased unemployment, deteriorating social services and local infrastructure.
Equipment modernization changes work methods and increases production and competitiveness.	<ul style="list-style-type: none"> • Health issues and workplace injuries decrease. • Shift from manual labor to skilled labor. • Obsolete skills require retraining.
Delayed reforms create uncertainty.	<ul style="list-style-type: none"> • High expectations for reform benefits do not materialize. • Workers undergo psychological distress. • Younger and higher skilled workers leave.
New market requirements and international standards emphasize environmental improvements.	<ul style="list-style-type: none"> • Potential for increased employment in reclamation and salvage activities. • Enhanced worker health and safety. • Positive effect on community quality of life and environment.
Transmission and distribution networks are separated. Distribution may be fully privatized.	<ul style="list-style-type: none"> • Increased job opportunities. • Local business start-ups provide local employment.
Ministries involved in restructuring plans may not be fully apprised of labor and community impacts.	<ul style="list-style-type: none"> • Labor restructuring programs focus on cash payment or training. • Community job market and business environment lack due consideration. • Broader stakeholder consultation results in integrated strategies that can inspire innovation.

BULGARIA

Bulgaria began structural coal sector reform in 1998 by adopting an action plan through 2001. Restructuring began in 2000 with the unbundling of auxiliary services, liquidation of non-viable units, and preparation for financial recovery of separated coal mining companies. However, Bulgaria's transition did not follow traditional coal sector restructuring patterns. **Rapid privatization occurred prior to the establishment of a clear legal framework to regulate relations between energy companies or to comply with EU directives.** This led to delays in order to review the restructuring process and caused missteps that contributed to the financial collapse of several coal mine companies. Many mines were liquidated following privatization. Bulgaria focused on attracting private investments to rehabilitate mines and power generation facilities. This strategy enabled the privatization of two power plants in 2003, one in 2006, and another expected by the end of 2006.

BOSNIA AND HERZEGOVINA

In Bosnia and Herzegovina, Republika Srpska (RS) and Federation of Bosnia and Herzegovina (FBiH) entities operate two separate coal-fired power utilities. **Efforts are underway to integrate the two systems.** A joint regulator has been established to ensure a reliable supply of energy. Both have established joint stock companies for electricity with sale to the private sector of 10% in FBiH and 20% in RS. The coal sector in FBiH has been unbundled into independent companies. Non-core activities have also been separated.

KOSOVO

The Kosovo Trust Agency (KTA) is responsible for privatization in Kosovo. The KTA and the Ministry of Energy and Mining are guided by the Mining Law and the Energy Strategy for 2005 to 2015, which defines the steps toward an independent energy regulator, public producer, suppliers, and a transmission operator. **The utility is in the process of unbundling the Coal Production Division and will establish separate accounting systems.** Environmental impacts and worker safety is a priority for Kosovo.

MACEDONIA

Macedonia's restructuring process began with the unbundling of non-core assets in 2003, followed by the separation of the transmission system operator in 2004. **In September 2005, the power sector was further unbundled into three independent entities: distribution, electricity generation, and independent power producers.** Distribution was privatized in March 2006, and an oil-powered generation facility has been announced for tender. The generation entity maintains two vertically integrated lignite-fired power plants with associated mines.

SERBIA

Restructuring in Serbia began in 2005 with the separation of power generation and distribution systems from the transmission system. Non-core operations were divested. In January 2006, Serbia's utility unbundled lignite mining activities, power generation, and distribution into eleven economic associations. **One of the objectives of the Energy Development Strategy is technological development and specialized education and training for workers.**

FINANCING RESTRUCTURING

Coal and power sector restructuring throughout SEE has been financed primarily via international assistance provided by the EU, USAID, Canadian International Development Agency (CIDA), other lending organizations such as the World Bank, and European Bank for Reconstruction and Development (EBRD), and other bilateral lending. **Support for labor reforms have been less targeted to the coal sector and more to national economic reforms,** occurring through regional EU programs such as the Community Assistance for Development and Stability (CARDS) program and the Poland and Hungary Assistance for Reconstruction of their Economies (PHARE) program, as well as USAID and World Bank funding. Annex A includes a table summarizing donor funded regional activities.

The European Union supports power sector reform and restructuring under its technical assistance operations in the region. **Priority has been given to rehabilitation, reinforcement, and upgrade of existing lignite mines and power production and transmission capacities.**⁷³ EBRD, European Investment Bank, and Kreditanstalt für Wiederaufbau (KfW) banking group have ongoing power projects in several SEE countries that are directly supporting Energy Community of South East Europe development through interconnections to integrate into the internal market of the European Union. Interconnection is a major theme in building an effective regional market.

⁷³ European Commission 2001.

World Bank Adaptable Program Loan (APL) funds have financed various projects to restructure the coal and electricity sector and support various aspects of power sector reform. Table 4.4 recaps the five APLs from fiscal years 2005 to 2008, which total \$1 billion. **APL3 provides \$206 million in fiscal year 2006** for programs that meet the World Bank criteria.⁷⁴ These projects also support the goals of the Stability Pact for South East Europe which aims to improve relations among SEE countries within the region.

Table 4.4: World Bank Financing under the APL Program (USD \$ Million)⁷⁵

	APL 1 FY05	APL2 FY05	APL3 FY06	APL4 FY07	APL5 FY08	Total
Albania		24		30		54
Bosnia and Herzegovina			36		30	66
Bulgaria						
Croatia						
Kosovo			5			5
Macedonia			25			25
Romania	84			126	125	335
Serbia and Montenegro		20		50		70
Turkey		80	100		165	345
Unallocated			40	40	20	100
Total	84	124	206	246	340	1,000

EU PHARE and CARDS programs have funded components for social sector development and labor restructuring, if country program plans include these measures. **Frequently, labor programs have been a lower priority and are not utilized to their maximum extent.**

World Bank has also funded social programs to support projects in labor restructuring, to provide assistance in separating non-viable mines, and to commercialize viable mines, particularly in Bosnia, Romania, and Serbia.⁷⁶ USAID has provided bilateral support within the region to assist with active labor market programs. **Despite international donor activity for measures to mitigate the impact of unemployment and reduce poverty, labor market programs remain under-funded and understaffed across the region.**

SME development has been a priority across the region. Annex A outlines donor funding within the region and lending mechanisms available to SMEs.

⁷⁴ World Bank, *PAD No: 34613-MK for AD PRENOS and AD MEPSO supporting the third phase of ECSEE* (Washington: World Bank, 2005): 4.

⁷⁵ Ibid: 23.

⁷⁶ Kennedy and Besant-Jones 2004: 22.

Private Sector Involvement

The need for SEE countries to reduce their budget subsidies to the coal sector and to address aging infrastructure has been a driving force behind liberalization, which is often linked to privatization, to bring in needed investment. **National energy goals for sustainable energy development can best be met by enabling the development of competitive markets where possible and engaging private capital,** all under a reasonable scheme of regulation by the government.⁷⁷

Support from the private sector has been limited across the region in the past ten to fifteen years.

Distribution assets remain state-owned across the region. Efforts are being made in Bulgaria and Romania to release tenders for many of these companies prior to EU accession in January 2007. Hydro generation assets are privately operated in some cases and assessments for privatizing transmission and more generation are underway. Bulgaria and Romania have increased competitiveness among international investors and have received greater interest in private investment projects, due in part to perceived country stability and the potential for greater EU economic association.⁷⁸ Reforms are being implemented to support liberalization of non-household markets and competition for large customers.

OPPORTUNITIES FROM NEW ENVIRONMENTAL STANDARDS

Some international meetings on mining policy have indicated interest in creating economic and social outcomes beyond high-cost rehabilitation programs from new environmental requirements. **There has been a call for further action by the United Nations to help address this issue.**⁷⁹ Potential opportunities include:

- The use of operational wastes as resource for re-mining or alternative product manufacture (bricks from tailings),
- The conversion of mining related infrastructure for other uses (redundant hostel converted to boarding school), and
- The use of land for grazing and local agro-forestry or non-food crops, tunnels for mushroom farming, ponds for fish farming or aquaculture (shellfish and seaweed).

Not all former mining sites would be amendable to creating economic activity; options would be country and location specific. **Community involvement would be critical to identify expected and realistic benefits, particularly impoverished regions with a large pool of unemployed and untrained people.** Legislative barriers to collaboration add to the range of challenges. In addition, new mining projects offer a much greater possibility to capitalize on opportunities for social and economic improvement. Community involvement would be essential in formulating successful and equitable mining projects.

⁷⁷ Serbian Power Sector Restructuring Action Program, funded by the US Energy Association under Cooperative Agreement No. CCS-A-00-92-00080-00 with USAID, April 15, 2002.

⁷⁸ Stability Pact for South East Europe, *Progress Report on the Investment Compact*, Regional Table and Working Table Meetings (Portoroz, Slovenia: Stability Pact for South East Europe. 7-8 June 2004): 8.

⁷⁹ Philip Peck et al., *Mining for Closure: Policies and Guidelines for Sustainable Mining Practice and Closure of Mines*. Environment Security (ENVSEC) (UNEP, UNDP, OSCE, NATO 2005): 86.

SECTION 5

LESSONS LEARNED

HUNGARY, POLAND, AND RUSSIA

The section presents best practices and lessons learned emerging from restructuring experience in Poland, Hungary, and Russia. It also summarizes experience in implementing or pilot testing Active Labor Market Programs (ALMPs) in Romania, Bulgaria, and Macedonia. The information in this section will help design future labor restructuring programs or improve existing labor redeployment approaches. This section includes:

- A summary of the typical ALMPs in use across the Central and Eastern Europe/Former Soviet Union (CEE/FSU) region.
- Highlights of major programs and models used to mitigate the labor and community impacts.

Appendix G provides a detailed report of the history of coal sector restructuring in these three countries.

BACKGROUND

The coal sectors of Hungary, Poland, and Russia shared a strong legacy as the drivers for industrial growth, heating, and power security throughout the Soviet era was based on a centrally planned economic system. When market reforms commenced, restructuring of the coal industries in these countries was a crucial part of the reform agenda.

The restructuring of the coal sector lagged behind other industries, in part because of the complexity of conflicting goals but primarily because of the poor market condition in this sector.

Most of the CEE/FSU countries had mandated coal production quotas that held no relationship to production costs or market standards.

There was a desire to integrate national energy economies into the European and world mainstream but there also was the necessity for protecting workers and communities from restructuring's aftermath. As a result, ***coal reforms in general lacked focus and had to pass through several stages of reformulation, which prolonged transition.*** The approaches for reform were gradual in these three countries rather than following the shock therapy model used in other sectors.⁸¹

The coal restructuring processes in all three countries, notably Poland and Russia, were driven by donors, specifically the World Bank. While other donors assisted, the World Bank and Governments created templates for strategic reform. Program support from the European Union-PHARE,⁸² EU-TACIS,⁸³ and the United Kingdom Know How Fund facilitated certain aspects of the restructuring efforts. Support of labor and community impacts were primarily developed and implemented in collaboration with international donors. Dedicated resources set aside for miners (including mine communities and

Reforming the coal industries in the economies in transition in Europe proved the most difficult task of the entire economic reforms, not least because of the heavy legacy of the past and the social and regional implications of market-oriented reforms. Yet, it had to be done to secure a balanced, environmentally sound and economically viable energy future for the region.⁸⁰

⁸⁰ World Energy Council 2000.

⁸¹ Ibid.

⁸² Begun in 1999 as the Poland and Hungary Assistance for Restructuring Economies (PHARE), PHARE is now the funding mechanism for pre-accession. In 2001 the Community Assistance for Reconstruction, Development and Stability in the Balkans (CARDS) became the funding mechanism for financial assistance to the Western Balkans.

⁸³ Technical Aid to the Commonwealth of Independent States

non-core mine workers) were supported primarily by the World Bank, USAID, PHARE, the EU, UK Know How Fund, and TACIS, and others.

In the early 1990s, governments facilitated actions that led to the reduction of coal production by one-third. By the mid-1990s, as the ramifications to national budgets, economic impacts, and social and regional stability became apparent, government commitment to restructuring diminished. In some cases, governments resisted turning the reins over to free markets in order to soften the conversion and stabilize regional labor markets. By the mid-1990s, it was clear that **to be economically feasible and politically and socially acceptable, the reform process had to occur over a long period of time and include social concessions.**⁸⁴

SECTOR RESTRUCTURING

Social unrest in some of the mining regions made continued progress problematic. Strong allegiance to the coal mining sector as part of the traditional political fabric of the Soviet era economies led to a united worker and community resistance to market reform of this sector. As early as 1987, the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) Solidarity Center provided independent mine unions with infrastructure support, public information, and reform frameworks to secure a place for workers. The overall labor reform process was union-driven.

Table 5.1: Major Indicators of Coal Sector Restructuring for Hungary, Poland, and Russia

	1990	1993	1995	1997	1998	1999	2000
Hungary							
Coal Production, megatons (Mt)	17.6	14.6	14.6	15.6	15	14.5	13.8
Number of Mines – 30 Closed in 10 Years	41	26	23	19	18	17	11
Employees (in 1000's)	49	26.2	20.4	16.5	16	12.4	11.3
State Subsidies (1990 = 100)	100	28	30	28	61	23	9
Productivity Growth (1990=100)	100	152	191	214	236	273	284
Poland							
Coal Production, Mt	147	130	135	137	121	109.1	102.2
Number of Mines - 29 Closed in 10 Years	70	68	65	56	53	53	41
Employees (in 1000's)	388	319.6	274.5	243.3	207.9	173.6	155
State Subsidies (1990 = 100)	100	none	none	none	none	none	none
Productivity Growth (1990=100)	100	109	133	153	160	174.5	198.3
Russia							
Coal Production, Mt	395.4	309.5	262.8	244.4	232.3	249.1	257.9
Number of Mines – 76 Closed in 10 Years	238/63	232/65	214/67	174/67	124/105	119/112	106/119
Employees (in 1000's)	559.1	431.2	360.5	315.7	278.8	252.4	242.2
State Subsidies (in %)	n.a.	6.33	5.54	4.48	4.19	1.67	1.12
Productivity Growth (1990=100)	100	70.9	73.7	86.8	94.1	110.2	118.1

Source: United Nations Economic and Social Council, Committee on Sustainable Energy, ENERGY/GE.1/2001/4

In spite of the obstacles, 119 mines within the three countries were closed by 1995 with another 16 closed by 2000. **The closure of these 135 mines reduced employment by 76.9% (37,700) in Hungary, 60% (233,000) in Poland, and 56.7% (316,900) in Russia.** Table 5.1 provides comparative data of the major indicators of coal sector restructuring.

⁸⁴ World Energy Council 2000.

GENERAL OBSERVATIONS

While it is not in the scope of this report to compare each country's coal sector restructuring in depth, general observations include:

- Although each government facilitated a dedicated sector reform program, **a variety of mechanisms were tested over time**, employed, and in some cases sustained during the course of sector restructuring. Some programs directly coordinated with government restructuring programs and some did not.
- **Most of the countries took the route of restructuring their coal sectors before directly seeking to privatize them.** One reason was a fear that restructuring undertaken by private investors would not be socially acceptable. Only Poland briefly tried to establish private coal enterprises in 1990, but the experiment failed because of overstaffing, and declining prices that could not support sector operations and overcome industry and union resistance. **One problem with the “restructure first, privatize later” approach was the tremendous burden placed on state budgets.**
- In some cases, as part of restructuring, non-core activities such as housing, recreation, and community services were split off as private companies or turned over to municipalities. Divestiture of assets led to a shedding of labor, particularly in Russia. However, **restructuring of state owned enterprises to private entities resulted in little labor restructuring.** The change in ownership structure did not always result in profitability, most likely because new owners were discouraged from investing in acquisition because of uncertainty about property rights.
- **The sale of coal enterprises to private investors has been undertaken in Hungary and Russia but little progress has been made in Poland.**

EMPLOYMENT POLICIES

Each country implemented labor market programs based on models borrowed from Western countries. **Unemployment benefits were set rather generously at first, both in terms of eligibility and benefit levels.**

These supports facilitated the early transition efforts and were to protect people from poverty.⁸⁶

The programs proved to be too costly over time, and both the

level of benefits and their duration were eventually reduced in many countries. Eligibility requirements also changed in many cases, from being open to all unemployed workers to being open to those with contribution records.⁸⁷ Table 5.2 shows that **all the countries funded passive measures to a greater extent than active measures**, with Hungary designating the most funds to passive spending. Russia provided the least funds relative to GDP for passive measures and even less for active measures.

Table 5.2
Expenditures on Active and Passive Labor Market Programs in Hungary, Poland, and Russia, 1998⁸⁵

	Total Spending (% of Total GDP)	Spending by Program Type (% of Total GDP)		
		Active Measures	Passive Measures	NES
Hungary	1.3	.28	.91	.11
Poland	1.0	.30	.59	.11
Russia	0.2	.02	.13	.05

Note: NES – National Employment Service Spending

⁸⁵ Based on table 2.4 from O’Leary, Nesporova and Samorodov 2001.

⁸⁶ Rashid, Rutkowski, and Fretwell 2005.

⁸⁷ Ibid.

In all three countries, **there was rapid growth of the informal sector**, in some cases resulting from a desire to avoid high taxation and in others from a lack of alternative job opportunities. More than 20% of employment in Poland and Hungary and 40% in Russia is in the informal sector.

POLAND

In 1990, the Polish government enacted an employment law that established policies for unemployment benefits, employment services, and some degree of ALMPs. A National Labor Office with a tripartite governing structure was set up to implement labor programs arising from employment policies set by the Ministry of Labor and Social Policy. At that time, Poland was divided into forty-nine regions, each of which had a regional labor office with more than **500 local labor offices that delivered services**.

Of the total program expenditures, 64% went to unemployment benefits. Active measures constituted a small percentage of total spending. These included retraining for up to one year, public works programs that paid salaries of up to 75% of average income, “Intervention Works” which paid six months of wages and social costs for workers hired by firms, micro-loans for small business start-ups, and general employment services. **By 2003, unemployment reached 17%. ALMPs continued but were reduced in scope.**⁸⁸

As part of its strategy to mitigate the labor impacts of coal sector restructuring, Poland created the Mining Labor Agency (GAP), which consisted of a network of vocational aid offices located on-site at coal mines. Delivering services on-site has long been considered a key aspect of successful dislocated worker programs. The government’s current coal restructuring program includes a companion piece for the redevelopment of the Silesia region.

HUNGARY

The total number of unemployed rose from 23,000 in 1990 to 705,000 by 1993, a national unemployment rate of 12.4%. The Hungarian Parliament passed legislation in March 1991 to provide a legal framework for the formulation of employment policies, including a mix of passive and active measures. This included the establishment of **a network of 20 County Labor Centers (CLC)**. In the first few years, the CLC were primarily registering massive numbers of unemployment benefit recipients. In spite of the difficulties, Hungary opted to resolutely decrease labor overstaffing.⁸⁹ By 1993 there was growing unemployment. Widening regional differences prompted the social partners to consider the need for new employment policy strategies.

Part of Hungary’s strategy for restructuring employment in the coal sector included the creation of a miners’ retirement program in addition to existing early retirement and disability programs. The government strategy also included integrating the least inefficient mines with power stations that could use their coal production. (As of October 2006, these power stations had all been privatized; most of the coal mines were closed.)

To assist with the closure of the remaining non-integrated coal mines after 1999, Hungary’s CLCs used rapid response and reemployment assistance committee models, emphasizing pre-layoff assistance and early intervention. They also initiated local economic development efforts.

⁸⁸ David Fretwell, “Active Labor Market Programs,” chapter in *Labor Markets and Social Policy in Central and Eastern Europe: The Accession and Beyond*, ed. Nicholas Barr (Washington: World Bank, 2005).

⁸⁹ ILO CEET, *Hungary: Employment and Sustainable Livelihoods*, (Budapest: ILO, January 1997): 10.

RUSSIA

The Public Employment Office (PEO) was established in 1991. The system supported a decentralized structure with more than **100 labor offices operating in the country's eighty-nine regions**. Significant World Bank and other donor funding allowed the regional PEOs to exercise a large degree of autonomy from the onset, and they were responsible for maintaining policies that reflected regional variations.

Russia adopted virtually the same types of ALMPs that can be found in OECD countries, including job search assistance, training and retraining, public works, wage subsidies, job creation and self-employment supports. **Russia spent less on labor market programs than any other country in CEE/FSU.**⁹⁰

A significant portion of the initial employment reductions was attributable to the transfer of the social assets to the municipalities. Almost a quarter of coal miners had reached retirement age by the time of restructuring, and **voluntary retirement became one of the main instruments used for employment downsizing**. A separate program provided insurance payments to disabled miners.

The initial phase of coal sector restructuring was colored by confusion and substantial wage arrears of 18-24 months. Russia ultimately made significant use of social impact assessments and stakeholder analysis techniques, which helped shape the programs assisting communities and workers affected by coal sector restructuring. A World Bank technical assistance loan supported capacity building at the local level, including for trade unions, which were instrumental in providing pre-layoff assistance for the Association of Mining Cities and for the Local Oversight Committees. The Local Oversight Committees had responsibility for a local development program that included pre-layoff support, retraining, public works, relocation, job creation, and small business support.

⁹⁰ Anton Nivorozhkin, *Evaluation of Active Labor Market Policies in Russia* (Gothenburg: Department of Economics, Gothenburg University, 2003).

LESSONS LEARNED

Table 5.3 identifies selected findings from Hungary, Poland, and Russia's experiences with coal sector restructuring. More detailed information is provided in the full report, Appendix G.

Table 5.3: Selected Best Practice and Lessons Learned from Coal Sector Restructuring in Hungary, Poland, and Russia

- **Before mass layoffs begin, resources must be available to cover social costs** (such as wage arrears, severance compensation, income support, relocation assistance, retraining, job creation, and economic development initiatives) and public services previously provided by the restructured entity. **Social protection measures were ultimately offered to a wider group beyond miners.**
 - **A lack of adequate information** about the restructuring strategy to those most affected **was detrimental and created preventable obstacles.**
 - **Early Intervention was one of the keys to success**, particularly in Hungary. Offering employment and retraining services before workers were laid off facilitated a more rapid transition and minimized the adverse impacts on workers and communities. **Offering these services on-site increased participation rates.**
 - **Community consultation early in the restructuring process increased the effectiveness of mitigation strategies.** Programs required local input and significant flexibility to address local variations and economic diversity.
 - **Government commitment and political will were critical.** Restructuring programs relied on the government's determination to persevere.
 - **Policies that eliminated obstacles to private sector job creation** and supported sustainable economic growth **were vital.**
 - **Younger workers with basic educational levels and skills were the most likely to benefit from retraining.** A first step to effective targeting was an assessment survey of worker skills and needs.
 - While **local economic development initiatives** created few jobs in the short term, they were **important for long-term revitalization** of an area.
 - **Timing and sequencing were important factors in designing and implementing restructuring action plans**, particularly at the level of individual mines. Social safety nets should be in place prior to labor restructuring because it takes time for local service providers to build capacity to respond. **Moving in the right direction mattered more than speed** of adaptation.
 - Some governments chose to **use privatization or other designated agencies to run labor redeployment programs** because standard employment programs were not responsive to the needs of displaced workers.
-

Table 5.4 highlights the experience and lessons learned implementing various support programs that were utilized in Hungary, Poland, and Russia to mitigate the impacts of restructuring on labor.

Table 5.4: Labor Support Program Experience in Hungary, Poland and Russia

- **Severance Payments:** Very few recipients used severance pay to start new businesses. Grants to encourage business start-up must be targeted to participants with basic business instincts and acumen. Support systems to offer assistance with fundamental business tasks must be in place.
- **Relocation Programs:** Were not heavily used due to lack of housing and job opportunities elsewhere. Some workers were reluctant to relocate even when jobs were available elsewhere.
- **Employment Services:** Were typically used by about one-third of workers and were fairly low-cost compared to income support payments.
- **Spin-off/Contracting Opportunities:** Non-core activities presented some opportunities to spin-off or contract out services.
- **Retraining Programs:** May be two to four times more expensive than employment services; have low participation rates by older workers; and will not contribute to finding a new job if the training is not market-driven, well-targeted, and well-administered. Linkages to employers must be developed in the absence of labor market information systems to ensure training curricula meets market demand.
- **Public Works:** Had positive social and infrastructure benefits but were expensive and had no impact (and often negative impact) on post-program employment and wages.
- **Business Development:** Business incubators, business support services, micro-loans, and special enterprise zones have shown promise in all three countries but were more expensive than other services and used by 5-6% of participants. Self-employment is estimated to account for fewer than 10% of total employment in Russia, between 10-20% in Hungary, and 30-40% in Poland.

Although some impacts of coal sector restructuring are exacerbated by the nature of a transition economy, it is a relatively slow process of decline and recovery. Coal sector downsizing in the strong economies of the United Kingdom and the United States faced similar challenges. ***The single element that made the difference in programs to mitigate the labor impacts of coal sector restructuring was the determination to persevere.***

ALMP EXPERIENCE IN ROMANIA, BULGARIA, AND MACEDONIA

Experience in implementing or demonstrating Active Labor Market Programs (ALMPs) was compiled from Romania, Bulgaria, and Macedonia. Table 5.5 summarizes this experience and can be useful in shaping the design of restructuring programs and to refine and improve labor redeployment approaches.

Table 5.5: Active Labor Market Program Experience in Romania, Bulgaria, and Macedonia

Community Involvement: Restructuring an industry in a mono-industrial area impacted all community members through loss in purchasing power, tax arrears, change in social and economic status, and increased demands on social services. **Community capacity building should be among the first steps to prepare for closure or downsizing.** Local conditions must be considered in designing a restructuring plan.

Retraining: In Romania, retraining programs were the most successful ALMPs. **Programs targeting miners alone have been less effective than programs targeting all job-seekers within the community.** On average only 10-20% of displaced workers choose to participate in training programs, compared with 50% for counseling services. In addition, miners above the age of 40 were not inclined to pursue retraining. **Linking job placement with employer training incentives generated better long-term employment opportunities for unemployed workers.** Assessment of local labor market demand was a key consideration in determining the types of training provided.

Public Works: While important in relieving social tension and improving community infrastructure, **public works were the least efficient ALMP in terms of high unit cost and low rate of long-term employment probability.** Public works should be established early, before initiating downsizing. Programs can also be targeted to specific disadvantaged groups such as older workers or women.

Severance Payments: The majority of severance packages were used for personal debts and living expenses and were exhausted within two years. **Severance payments failed to result in an appreciable level of entrepreneurship or SME development.** This was because of a lack of interest, personal business attributes, steep learning curves, and insufficient business support mechanisms.

Migration: Anticipated migration of miners to native regions did not occur to the extent expected. **Miners and family members who did return to native regions could not find jobs or housing and frequently returned to the mining community.** Those who had access to small plots of farm land did not migrate. Migrating workers tended to be young men and women willing to change career paths, which left behind an aging workforce and division among families.

SME Development: High taxes on small businesses inhibited formal sector growth. **Business assistance mechanisms were not available, staffs were not professionally trained, nor was assistance offered on a timely basis.** Access to capital was unavailable or too costly. Small business owners were disinclined to hire former miners, resulting in less impact on unemployment than anticipated.

Public Information Campaigns: Accurate, early, and timely information for workers was critical to **dispel rumors and provide a factual basis upon which workers made decisions.**

Table 5.5 (continued): Active Labor Market Program Experience in Romania, Bulgaria, and Macedonia

Political and Institutional Support: Sustainable, positive changes within mining communities require **consistent and broad-based political and institutional support** for implementing restructuring programs.

Economic and Social Support Linkages: Support to individual job seekers needs to be complemented by community mobilization, social services, and economic infrastructure.

Restructuring plans must consider broader worker and social impacts including psychological and family counseling and the strain on local social services. Job creation cannot be achieved through active labor market measures alone.

Long-term Socio-Economic Regeneration: Facility closures require a long term commitment. **Mine closure activities tend to support local economies for the short term. Socio-economic regeneration takes ten to fifteen years.**

Social Impact Monitoring: Social mitigation projects require flexibility in design to adapt to local conditions. **Regular social impact monitoring and intensive program supervision is essential.**

SECTION 6

NEXT STEPS

AREAS FOR CONTINUED REVIEW

This last section sums up final themes for consideration. A table is provided to assist in tailoring Active Labor Market Programs (ALMPs) to specific country objectives. Areas are then identified that should receive additional emphasis, concluding with key next steps for policymakers.

How much reliance should SEE countries place on ALMPs? Proponents argue that ALMPs are the most direct instrument for dealing with unemployment and poverty among workers. Opponents counter that ALMPs are largely a waste of public funds and that any observed benefits for participants are usually at the expense of other workers. Impact evaluations by the World Bank, OECD, and others have concluded that policy makers must be cautious regarding what ALMPs can realistically achieve. ***The evidence suggests that ALMPs were not a panacea for unemployment but some types of interventions could be effective for some workers.***

The much larger informal labor markets and weaker capacity to implement programs in SEE also limit what ALMPs can achieve in terms of creating formal employment and increasing wages. In addition, evaluations underline the fact that program impacts are usually more positive when the economy is growing. ***Despite the mixed evaluation picture, governments have little choice but to use active programming as one instrument in their response*** to the economic and social problems associated with unemployment and poverty in the labor force.

Obviously, program design and the context in which the program operates matters a great deal. ***Comprehensive packages of services, programs that are oriented to labor demand and linked to communities and real workplaces, and careful targeting are good design features.***

Policy makers should be realistic about what ALMPs can achieve and allocate resources on the basis of cost-effectiveness. The challenge then is to learn from others' experiences, investing in programs that have positive returns, and altering or dropping programs that do not. If ALMPS are going to be an economically useful policy, ***it is important that governments carefully evaluate their current programs and introduce interventions on the basis of what will work domestically and at the community level.***

TALORING ALMPs TO OBJECTIVES

ALMPs can serve various objectives and policy makers need to be clear about which are their priorities. ***The economic orientation of an ALMP strategy can be to control downturns, reduce structural imbalances or otherwise improve the functioning of the labor market, increase productivity, support disadvantaged or at-risk workers, or some combination of the above.*** Each of these objectives calls for different types of ALMPs and different client populations. Table 6.1 provides an illustration of how policies might differ depending on objectives. Annex C provides a summary of ALMP evaluation results that can be useful in determining the interventions that would be the most appropriate to a country's particular circumstance.

Table 6.1: Tailoring Active Labor Market Programs to Objectives⁹¹

OBJECTIVE	PROGRAM ORIENTATION	TARGETING ORIENTATION
Control downturns	<ul style="list-style-type: none"> • Direct job creation • Wage subsidies • Training (subsidies or grants to workers or employers) • Self-employment support 	<ul style="list-style-type: none"> • Vulnerable groups • Hard-hit regions and industries
Reduce structural imbalances	<ul style="list-style-type: none"> • Employment services • Training • Wage subsidies 	<ul style="list-style-type: none"> • Proximate regions, industries, or occupations
Improve general labor market functioning	<ul style="list-style-type: none"> • Employment services • Training (apprenticeships, school-to-work transition) 	<ul style="list-style-type: none"> • All
Enhance skills and productivity	<ul style="list-style-type: none"> • Training and retraining (including in-service and apprenticeship) 	<ul style="list-style-type: none"> • At-risk or disadvantaged worker categories (especially for retraining)
Support disadvantaged or at-risk workers	<ul style="list-style-type: none"> • Employment services (counseling, job search assistance) • Training (grants, subsidies) • Wage subsidies 	<ul style="list-style-type: none"> • At-risk or disadvantaged worker categories

To reactivate formal labor markets capable of absorbing labor restructuring in the coal sector, the following areas should receive additional emphasis:

- **Recognition of the sector’s unique challenges.** Traditional labor support mechanisms should be adapted to incorporate the coal sector’s unique challenges, such as remoteness of the population, an under trained workforce, and lack of market orientation.
- **More effective and targeted education and training.** Workforce development requires upgrading and systematic improvement of education and training systems and programs. The oversupply of idle and underused labor in all SEE countries can boost higher growth rates if skills and certification are upgraded to qualify workers for entry level and in-demand jobs. Vocational training and worker skills programs should be streamlined to produce trained workers more quickly.
- **Consideration of the role of the private sector.** The private sector has not been brought into the reform process until mid- or late-stream. Although privatization may not be the goal of restructuring, early involvement of the private sector can improve training and placement success rates.
- **Strengthen work incentives for the unemployed.** Further reforms are needed to reduce administrative hurdles for the unemployed and employers to access employment and training

⁹¹ Based on table 2.1 from: Gordon Betcherman, Amit Dar, Amy Luinstra, and Makoto Ogawa, *Active Labor Market Reform Programs: Policy Issues for East Asia*, Social Protection Discussion Paper N. 5, (Washington: World Bank, 2000): 3.

- programs. Amendments could emphasize personal initiative and responsibility for the unemployed to find jobs and provide additional funds for this purpose.
- **Adopt early intervention methods.** Where government has given some consideration to labor and social impacts before restructuring, labor impacts have been mitigated. Early- and long-term intervention is critical to successful worker transition. Restructuring packages that include workers, communities and spin-off companies can mitigate the negative impacts of transition.
 - **Increase awareness of labor, social, and economic issues.** Recognition of labor impacts, social and economic transition issues, and methods for timely action to address them should be heightened among all stakeholders.
 - **Strengthen the rule of law, reduce corruption, and improve public services and institutions.** Improvements to build business confidence and create a supportive investment climate will help attract foreign investors (who can provide necessary financing, know-how, and new markets) and small and medium enterprises (which are most likely to expand quickly and employ increasing numbers of workers).
 - **Systemize monitoring and evaluation programs.** Monitoring and evaluating reforms and sharing the results with stakeholders and donors will enable government to gain from “lessons learned.”
 - **Adapt donor programs to SEE environment.** Post-conflict conditions require customized labor restructuring strategies beyond traditional transition adjustment programs. Donor funding should be designed to support overall restructuring for longer terms.
 - **Harmonize employment policies with European Union (EU) requirements.** EU accession has become the engine that drives change. The impetus for governments to reform energy laws and institutions should be carried forward into the labor arena. The 2003 initiatives from the Bucharest Conference on Employment⁹² included a series of Country Reviews of Employment Policy that could provide invaluable information to target and coordinate employment reforms to mitigate the effects of coal sector restructuring.

The analysis from this research has established that the way forward must include fostering institutional frameworks, capacity building for institutional and industry actors, and consultation with communities. Key next steps for policymakers in considering labor restructuring programs in SEE include:

1. **Explore potential partnerships.** Key actors include policymakers, companies, trade unions, the investment community, local communities, and non-governmental organizations. Such partnerships may well include players who are not usually engaged in restructuring. A list of key stakeholders including institutions related to energy, labor, economy, privatization, and trade unions is provided with each country report. A table outlining roles and responsibilities for major stakeholders in mine closures is included as Annex B.
2. **Strengthen or transition institutional frameworks to facilitate successful worker and community adjustment programs.** Build capacity to monitor labor and social impacts during the restructuring process to ensure mitigation programs are meeting the needs of workers and communities.
3. **Develop capacity building programs for national employment agencies to manage worker transition based on early intervention lessons learned.** Such programs could include skill transfer and knowledge from lessons learned through case study analysis, regional workshops and study tours to exchange experience, and service delivery program development. Additional capacity building is also required for enterprise human resource managers, community stakeholders,

⁹² Cooperation on Employment in South East Europe, *Review of Employment Policies and of the Performance of Employment Services in the Stability Pact's Beneficiary Countries*, Terms of Reference, prepared at the first meeting of the Permanent High-Level Committee (Brussels: 9-10 December 2003).

and local government agencies that must support labor redeployment efforts and incorporate labor transition activities into their planning. This includes planning for delivery of social services formerly provided by the coal sector.

CONCLUSION

Significant labor restructuring has transpired throughout the SEE coal and power sector to date. Labor restructuring will continue to occur as the remaining state-owned companies slated for privatization are sold or closed, as market mechanisms and institutions function properly, and as regional integration and liberalized trade progress.

In closing, this report was created in recognition of the fundamental divide between the interests of coal sector restructuring and the workers and communities that desire income opportunities to last over time. It has attempted to increase understanding and commitment in formulating effective approaches to address labor restructuring. This document serves as a guide for key stakeholders involved in labor restructuring in order to stimulate innovation and creative solutions tailored to the particular circumstance of each country.

ANNEXES

ANNEX A: DONOR FUNDED REGIONAL ACTIVITIES

ACTIVITY	STATUS	DONOR	YEAR	AMOUNT
Energy Sector				
<u>Energy Sector</u> Rehabilitate Energy Sectors and improve supply of electricity to homes and businesses in Serbia, Kosovo, Montenegro, and Macedonia. <ul style="list-style-type: none"> • Macedonia– €14 m (\$17.64 m) • Serbia – €453.1m (\$570.91 m) • Kosovo – €403 m (\$507.78 m) 	Active	EAR	1999-2006	€879.7 million (\$1,108 million)
<u>Energy Community of South East Europe (ECSEE)</u> Integrate energy markets of the countries of South East Europe with EU using adaptable program lending (APL) for ECSEE members. (See Table 4.4 for members and funding estimates.) Investments can be made in power generation, power transmission and systems operation, and power distribution. Technical assistance can provide institutional development and project implementation and development assistance.	Active	World Bank	2005-2013	\$1,000 million
<u>Sustainable Energy Systems</u> Increase regional cooperation in electricity, heat, energy efficiency, and natural gas and promote market and regulatory harmonization. 2006 program focus is to expand and improve access to economic and social infrastructure, improve economic policy and business environment,	Active	USAID	1991-2011	\$7.2 million
<u>Central and Eastern Europe Power Fund</u> Invested in private sector projects in power generation, transmission, and district heating. <ul style="list-style-type: none"> • Bulgaria – €436,000 (\$548,100) • Romania – €436,000 (\$548,100 USD) 	Closed	EBRD	1999	\$250 million (EBRD will invest up to \$50 million.)
<u>Southeastern Europe Electrical System Technical Support Project (SEETEC Balkans)</u> Fostered economic growth through improvement of management, delivery, and rational use of electricity within the Balkan region.	Closed	CIDA	2001-2003	€7.13 million (\$8.98 million)

ACTIVITY	STATUS	DONOR	YEAR	AMOUNT
Labor and Social Policy				
<u>TBIH Financial Services</u> Expansion of insurance and pension operations in central and eastern Europe. <ul style="list-style-type: none"> Bosnia and Herzegovina – €1.318 m (\$1.661 m) Bulgaria – €6.402 m (\$8.067 m) 	Closed	EBRD	2000	\$74 million (EBRD invested \$9.5 million.)
<u>Community Assistance for Reconstruction and Stabilization (CARDS)</u> Support participation of Western Balkan countries (Albania, Bosnia and Herzegovina, Croatia, Serbia, Montenegro, Kosovo, and Macedonia) in the process of stabilization through reconstruction of democratic institutions, institutional and legislative development, sustainable economic and social development, and promotion of closer regional and EU cooperation. <ul style="list-style-type: none"> Bosnia and Herzegovina – €502.8 m (\$633.5m) Macedonia– €298.2 m (\$375.7 m) Serbia and Montenegro (includes Kosovo) – €2,559.8 m (\$3,225.3 m) Regional – €229.6 m (\$289.3 m) 	Active	EU/CARDS	2000-2006	€5,130.2 million (\$6,464.1 million)
<u>Poland and Hungary: Assistance for Reconstructing their Economy (PHARE)</u> Provide institution support to pre-accession countries (Bulgaria and Romania) to assist with the restructuring and political changes necessary to join the EU. Strengthen public administration and institutions to function within EU, promote convergence with EU legislation and policies, and promote economic and social cohesion. <ul style="list-style-type: none"> Bulgaria Romania 	Active	EU/PHARE	1998-2006	
<u>Central and Eastern Europe: Regional Capacity Building</u> Developed region-wide strategies to incorporate lessons learned for local, regional, and national sustainability of labor market transition (Hungary, Bulgaria, Macedonia, Poland, Romania and Ukraine).	Closed	USAID/USDOL	1999-2003	\$1.74 million

ACTIVITY	STATUS	DONOR	YEAR	AMOUNT
Private Investment and SME Development				
<u>Black Sea Fund</u> Equity investment in medium-sized local enterprises and facilitation of foreign direct investment in the region. <ul style="list-style-type: none"> Bulgaria – €9.518 m (\$11.993 m) Macedonia– €425,000 (\$535,500) Romania – €9.52 m (\$12 m) Serbia and Montenegro – €4.116 m (\$5.186 m) 		EBRD	1997-2002	\$100 million
<u>Advent Central and Eastern Europe Successor Fund</u> Private equity fund investing in central and eastern Europe. <ul style="list-style-type: none"> Bulgaria – €7.5 m (\$9.45 m) Romania – €7.5 m (\$9.45 m) Serbia and Montenegro – €5 m (\$6.3 m) 		EBRD	2004	(EBRD to invest up to €50 million.) (\$63 million)
<u>AIG New Europe Fund (AIGNEF)</u> Private equity fund investing in central and eastern Europe. <ul style="list-style-type: none"> Bulgaria – €2.368 m (\$2.984 m) Romania – €7.1m (\$8.946 m) 		EBRD/ American International Group (AIG)/ others	1999	Up to \$350 million (EBRD invest \$50 million.)
<u>Argus Capital Partners II</u> Private equity fund supporting medium sized enterprises. <ul style="list-style-type: none"> Bosnia and Herzegovina €300,000 (\$378,000 m) Bulgaria – €4.5 m (\$5.67 m) Romania – €4.5 m (\$5.67 m) Serbia and Montenegro – €300,000 (\$378,000 m) 		EBRD	2005	Up to €200 million (\$ 252 million) EBRD invest up to €30 million. (\$37.8 million)
<u>Emerging Europe Convergence Fund II</u> Direct equity fund investing in central and eastern Europe. <ul style="list-style-type: none"> Bulgaria – €6m (\$7.56 m) Romania – €6m (\$7.56 m) 		EBRD	2005	€500 million (EBRD will invest up to 10% of capital.) (\$630 million)
<u>EU/EBRD SME Finance Facility</u> Private equity fund and financing for SMEs in EU accession countries in central and eastern Europe. <ul style="list-style-type: none"> Bulgaria – €72.75 m (\$91.67 m) Romania – €193.75 m (\$244.13 m) 		EBRD/EC	1999-2005	€846 million (€716 m EBRD/ €130 m EC.) (\$1,066 million USD: \$902 m EBRD/\$164 m EC)

ACTIVITY	STATUS	DONOR	YEAR	AMOUNT
<u>US/EBRD SME Finance Facility</u> Financing for SMEs, equity investment, line of credit. ProCredit banks have been established in Bosnia and Herzegovina, Bulgaria, Kosovo, Macedonia, Romania, and Serbia.	Active	EBRD/US and other	1997- 2006	\$150 million (\$100 m EBRD; \$50 m US)
<u>Innova</u> Private equity fund supporting small and medium-sized enterprises. <ul style="list-style-type: none"> Bulgaria – €1.116 m (\$1.4062 m) Romania – €4.465 m (\$5.6259 m) 	Closed	EBRD	1998-2001	\$150 million (EBRD invest up to \$20 million)
<u>Polish Enterprise Fund V</u> Private equity fund investing in central and eastern Europe. <ul style="list-style-type: none"> Bulgaria – €4.65 m (\$5.859 m) Romania – €4.65 m (\$5.859 m) 	Active	EBRD	2004	€300 million (EBRD committed up to 20% of the fund.) (\$378 million)
<u>South-east Europe Equity Fund II</u> Equity fund investing in private funds in south eastern Europe. <ul style="list-style-type: none"> Bulgaria – €8.453 m (\$10.651 m) Bosnia and Herzegovina – €4.227 m (\$5.326 m) Romania – €8.453 m (\$10.651 m) Serbia and Montenegro – €8.453 m (\$10.651 m) 	Active	EBRD	2005	\$200 million (EBRD will invest up to \$50 million)

ANNEX B

MAJOR STAKEHOLDERS IN MINE CLOSURES

ROLES AND RESPONSIBILITIES⁹³

The following roles and responsibilities were developed for mine closures but can inform overall coal sector restructuring with the inclusion of restructured enterprises, trade unions, labor ministries, and local employment offices.

Central government:

- Provide legal and regulatory framework for restructuring.
- Provide institutional support for monitoring the process and the utilization of resources.
- Promote sound regional planning.
- Communicate and coordinate with regional and local level stakeholders.

Mine companies:

- Work in partnership with local government and communities during mine closure planning and actual closure process.
- Ensure availability of financial resources.
- Follow laws and regulations.

Local communities and civil society:

- Participate in closure planning and, where appropriate, service delivery.
- Monitor closure activity.

Local government:

- Prepare for post-closure future.
- Develop plans for service delivery.
- Support economic diversification.
- Support capacity building of local institutions.

Donors:

- Support governments as they establish a legal framework.
- Provide technical assistance as needed.
- Finance closure costs and social safety nets.
- Facilitate planning and economic development.
- Disseminate information on good practices.

⁹³ Adapted from *It's Not Over When It's Over: Mine Closure Around the World* (World Bank and International Finance Corporation, 2002).

ANNEX C

SUMMARY OF ACTIVE LABOR MARKET PROGRAM EVALUATION RESULTS⁹⁴

Intervention	Summary of Overall Impact	Comments
Employment services	Generally positive impacts on employment and earnings in transition countries. Costs relatively low with positive cost-benefit ratio.	Positive impacts when economy is good. Impact limited where lack of labor demand. Requires targeting of resources to those who most need help. Benefits unemployed adult workers, particularly women.
Training for unemployed	Positive impacts on employment and on earnings in transition countries.	Effectiveness benefits from on-the-job training and employer involvement. Women and disadvantaged groups often seem to benefit more than men. Programs have most success when economy is good. Programs should be small-scale and targeted towards those subgroups that can benefit the most.
Retraining for workers in mass layoffs	Little positive impact in high unemployment.	Positive impacts when economy is doing better. Results improved with integrated training and employment services and with demand-driven and targeted approach.
Wage/employment subsidies	Overall negative impacts on employment and earnings in transition countries.	Programs may be more effective when combined with training. Benefits long-term unemployed by providing means to re-enter labor force.
Public works programs	Overall negative impacts on employment and earnings in transition countries.	Can be effective as a short-term safety net for severely disadvantaged groups but not as a program to improve long-term labor market prospects.
Micro-enterprise/Self-employment assistance programs	Very low participation rates among the unemployed; significant failure rate of small businesses.	Some evidence of positive impacts for older groups and better educated workers. Results improve when advisory/assistance services accompany financial aid.

⁹⁴ Consolidated from: Roger Usher, et al. *Labor Issues in Infrastructure Reform : A Tool Kit*, (Washington: World Bank and Public-Private Infrastructure Advisory Facility (PIAF), January 2004); and Gordon Betcherman, Karina Olivas, Amit Dar., *Impacts of Active Labor Market Programs: New Evidence from Evaluations with Particular Attention to Developing and Transition Countries*, Social Protection Discussion Paper N. 402, (Washington: World Bank, January 2004).