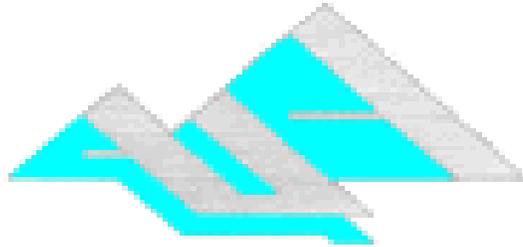


**AMERICAN UNIVERSITY OF ARMENIA**



**A STUDY OF THE EVOLUTION OF LABOR MARKET POLICIES IN  
ARMENIA:  
EXPERIENCE OF SHIRAKI MARZ**

**A MASTER'S ESSAY SUBMITTED TO  
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## **LIST OF ABBREVIATIONS**

CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
FSU	Former Soviet Union
PEF	Pension and Employment Fund
SIF	Social Insurance Fund
OECD	Organization for Economic Cooperation and Development
UNDP	United Nations Development Program



## ABSTRACT

*Contrary to early predictions, persistent unemployment has emerged as one of the most critical outcomes from socialism in Former Soviet Republics (FSU). High unemployment rates, including a growing proportion of long-term unemployed, represent a serious challenge to social welfare systems and policy makers. This paper analyses labor market developments in Armenia focusing on the unemployment in the republic and the dynamics of the active labor market behaviour.*

*Macroeconomic reforms and the output collapse initiated dramatic changes in labor markets. Following decades of stability and near zero level unemployment, demand for labor plummeted. Labor force size contracted, and public sector employment fell substantially. Long-term unemployment has been growing steadily, comprises a high share of total unemployment, and is increasingly correlated with deep poverty.*

*Labor markets have become key determinants of the winners and losers in the transition process. Young worker and those close to retirement, have been most impacted by reductions in the demand for labor. Gender is not a key dimension of unemployment in most countries, but more women than men have left the labor force. Job losses, leading to unemployment, or labor force withdrawals, have not only meant loss of wages, but also a range of other benefits previously associated with employment.*

*After the referendum in 1991, the Republic of Armenia has undergone several changes. Market-oriented reforms were initiated in 1992, and the transition to a market-oriented economy is in progress, although it has been affected by the conflict in Nagorno-Karabakh. Also the devastation of the 1988 earthquake is still felt in the country.*

*The socio-economic changes of the last decade have lead to a high level of unemployment in Armenia. There is a need to develop a comprehensive labor and employment policy supported by an appropriate legal framework. Further, the Department of Labour and Employment within the Ministry of Social Security needs to gain knowledge of international structures and organisational methods of Employment Services.*

## INTRODUCTION

The move to a market system is central to the reforms in almost all Former Soviet Union (FSU) countries. This is as true in labor markets as in other parts of the economy. Labor market is one of the most complex segments of market economy. It is not subject to simple regulations and is hard to predict is highly dynamic and problematic because of the subjective behavior of individuals, historical, cultural preferences and other factors, that are not very easy to quantify and account for. Effective labor markets are essential to assist the movement of workers into jobs where they are most productive (Mirzakhani, 1999).

During the communist era, unemployment in FSU was illegal and officially nonexistent, but labor hoarding and disguised unemployment were pervasive (Fretwell, 1997). State enterprise managers were interested purely in meeting annual output targets, regardless of the cost. Even if enterprise managers had not had a direct stake in keeping superfluous workers on their roles, that practice was to insure that "full employment" was maintained. Large subsidies were provided to state enterprises to pay employees' salaries as well as for other purposes. These efforts to prevent open unemployment were essentially a massive social program (as well as a means of social control), substituting for the vast amount of unemployment assistance that would have been needed if market forces had been allowed to prevail. But as Fretwell (1997) argues despite its overwhelming shortcomings, the Communist system built its social policy on the principles of general social protection and maximum social guarantees. The state provided free education, medical care, housing, and recreation, pensions for the elderly and the disabled and allowances for children, while also implementing the ideology of general employment.

One of the most important elements of Soviet social policy was subsidizing for essential commodities. Social needs were also covered through resources allocated from the funds of

individual enterprises, trade unions and other organizations. A low level of polarization was one of the main characteristics of Soviet society. The income ratio of the top 10% of society to the bottom 10% were 3.35 and 3.38 in 1976 and 1986, respectively (Mirzakhonian, 1999). The transition to a market economy drastically changed the situation, as the social sphere has been most affected by transitional difficulties. It is becoming increasingly obvious that limited state financial resources, divided equally among education, health, science and culture, and assistance to vulnerable groups of the population, among other needs, do not solve any social problems and only dilute the resources of the budget (Mirzakhonian, 1999).

According to Mirzakhonian (1999) the problems of the labor market are the most exigent at the current stage of Armenia's development. By the level of official unemployment rate (11% in 1997) the country is in the first place among the republics of FSU. But unofficial estimates are even much higher. According to Barr (1994) the level of unemployment in Armenia is comparable to Eastern European countries in most of which it fluctuates between 10-15 %. The change to a market system, along with government economic policy, mass privatization, political events, and an unstable economic legal framework, has caused a massive slowdown for many enterprises, resulting in unemployment or artificial employment or low productivity in Armenia. As Mirzakhonian (1999) argues, the absolute decline in overall employment in Armenian economy in 1991-97 was accompanied by the decline in country's GDP by 37 %. In 1992, with the adoption of the Employment Act and its procedures for registering the unemployed, already by the end of the year there were 64,000 unemployed registered with the employment services. Further the official statistics indicated that by December 1, 1998, the number of unemployed

who were registered with the employment services already constituted 180,000 to 190,000 people (11-12% of economically active population)<sup>1</sup> (Mirzakhanian, 1999).

Figure 1 shows a systematic decrease in overall employment in the economy is noticed since 1992 (See Appendix A). The level of employment, which was relatively stable from 1985-1990 at about 45%, decreased to 36% by 1997, which was very low by international standards.

Since independence, the distribution of the employment has also changed significantly. While the transition to a market economy has freed the population from a dependence on the state for employment and has allowed the formation of an employment market, more significant structural adjustments were not performed (Mirzakhanian, 1999).

The distribution of the unemployed by gender reveals a steady increase in the share of women. Women constitute 64.4% of the officially registered unemployed. Their densities in the total number of the unemployed have a tendency to decrease and in comparison with the same period of the previous year. But as it will be mentioned later these changes are not due to the increases in women employment, but mostly because of the migration (Adamyan, 2001).

Table 1: The Distribution of the Unemployed by Gender in Armenia (2000).

Total Number of Unemployed	200.3 thousand
Women	128.8 thousand
Men	71.3 thousand

The employment policy of the state since independence up until 1997 had been a passive one. State regulation of labor agreements and supervision of employer-employee relations was feeble or non-existent. In order to cope with the employment crisis in 1992 the Supreme Soviet of Armenia adopted the “Law on Employment” and employment services were created all over

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<sup>1</sup> data from the Ministry of Social Security

the country under the Ministry of Labor and Social Security (presently the Ministry of Social Security). The law provided mechanisms for registering the unemployed in search of employment, acquiring unemployment status and determining the size of unemployment benefit (Mirzakhanian, 1999). At first the employment services were rather registration centers than intermediary organization, which often didn't register employment seekers in order not to meet their financial and other responsibilities toward them. The services have predominantly led passive labor market policy i.e. registration, benefit payments, unemployment assistance, psychological assistance, etc. The number of unemployed, registered with the employment services, was reflected monthly (at the end of each month) in official statistics of the country (Mirzakhanian, 1999).

However, very soon it became clear that passive labor market policy did not prove to be useful. According to the interview carried out in 1995, in fact, only one unemployed of every four used the employment services and such an approach was quite stable – only one of every 3.8 unemployed addressed those services in hope to get work (Karapetyan, 1998). Some of the factors influencing such a behavior are rather weak guarantees for a status of unemployed, the poor quality of assistance rendered by employment services. In order to register for unemployment benefits, a large number of documents were necessary, while benefits were small and last for only 5-10 months (Adamyan, 2001). In order to stimulate activities in this field, Armenian government has introduced job subsidies, training and retraining programs, micro-credit and micro-works.

**The purpose of this study is to show that in a depressed economy such as Armenia's, with a relatively slow pace of economic restructuring, the training and retraining programs would be a cost effective way to unemployment reduction.**

This study will mainly be concentrated on the situation in Shiraki Marz concerning the given issues. During the Soviet period, Shirak region was the center of light industry in the Republic, and the majority of the population (70%) was engaged in this sphere. The Marz, known for its industrial and agricultural production during the Soviet times, was devastated by the 1988 earthquake, which severely damaged Shirak's capital Gyumri and hundreds of small villages around it, as well as a significant part of the industrial facilities of the region, and resulted in billions of dollars in damage.

Shiraki Marz has five centers and the main part of the unemployed in Armenia is officially registered there. At the end of December 2000, 200.3 thousand unemployed citizens were registered in the republican service of work and employment, 87.4% of whom were given the status of unemployed. 33457 unemployed were registered in Shiraki Marz in 2001, 26878 of which were registered in Gyumri (it is constituted about 16.7% of the total work force in Gyumri). During the interview (2001) A. Adamyan mentioned that the number of unemployed, registered with the employment services, is reflected monthly in official statistics of the country. With the few exceptions, the absolute level of unemployment for 1992-1997 steadily increased. Since 1997, however, there was a decrease in the level of unemployment (from 34315 to 26878). These changes as Adamyan (2001) explained are due to the fact that in 1997 the "Law on Employment" was changed and only "those who do not have work, actively seek work and have at least one year of experience are considered to be unemployed" (Karapetyan, 1998).

The following research questions are important to investigate:

What policies (training/retraining programs) has Armenian government introduced?

Are these policies coordinated?

Are these policies effective?

## *CHAPTER 1*

After gaining independence Armenia faced a difficult situation: social tensions, plummeting growth and mounting unemployment. Compared to the FSU countries, the Armenian labor market possesses some unusual characteristics and shares some common trends. The countries of FSU are characterised, most strikingly, by an asymmetrical employment response to output contradiction, that is a large drop in the GDP that has not been matched by a corresponding fall in total employment. Armenia shares this asymmetry, but it is more extreme because the elasticity of employment with respect to output is amongst the lowest for all FSU countries (Mirzakhaniyan, 1999). According to the statistics supplied by the Territorial Employment Services 200.3 thousand unemployed citizens were registered in the republican service of work and employment as of December 1999, 87.4% of whom were given the status of unemployed.

According to the Ministry of Statistics (1998) the distribution of the unemployed persons between the urban and the rural population is also different in Armenia as compared with the other FSU countries (Mirzakhaniyan, 1999). As measured by the Household and Labor Force surveys unemployment is mostly in urban areas. 95.0% of the unemployed population is centralized in urban settlements: 28.7% of them - in Yerevan, 16.7% - in Gyumri and 8.8% - in Vanadzor. The unemployed persons live in rural areas, too, but they appear to have little support and are particularly destitute when they are either landless or incapable of working their land (Mirzakhaniyan, 1999). The level of unemployment in rural settlements in January - December 1999 was 18,1%. In urban areas, those hardest hit by unemployment are younger workers and new entrants. In analyzing unemployment by age, Armenia has difficulty integrating younger generations into the economy: 27% of unemployed are new entrants to the job market. The

problem of unemployed youth is particularly acute in urban areas where between the ages of 17 and 25 unemployment reaches 60% (Mirzakhanian, 1999).

In December 1999 the level of the unemployment, calculated as the ratio of the number of the unemployed registered in the employment service and the number of economically active population (employed and unemployed), was 11.6%. It should be mentioned that since 1990s there was a shift of employment between spheres of activity and the sectors of economy, during which a part of the labor force temporarily or permanently passes to the group of the unemployed or economically non-active group of the population (Mirzakhanian, 1999).

As Karapetyan mentions (1998) according to the estimations, 70.6% of the employed population are employed in the private sector, 28.9% - in the state sector and the government system, 1.0% - in the social and religious organizations and funds. In January-December 1999, in the total number of the employed people, the densities of the people employed in the state sector and the government system decreased by 1.9 percentage items, while the number of the employed in the private sector increased by 3.3 percentage items. It should also be mentioned that the number of those employed only in the state sector was by 7.5 % loss than in the previous year, while the number of those employed in the private sector (excluding the self-employed in rural economies) increased by 11.2 %. Thus, the employment in the state sector decreases, while in the private sector it falls on the share of rural economies (the number of those employed in the rural economies constitutes one third of the total number of those employed in the economy), (Karapetyan, 1998).

Nowadays, the private sector “draws in the labor force and indulges concealed employment, particularly in the sphere of the self-employment” (Karapetyan, 1998, p. 32) . It

should be mentioned that these working places are not stable in the result of continuous changes of both the number of the subjects of economy and the spheres of activity (Karapetyan, 1998).

As figure 1 shows (See Appendix A), classifying the unemployed by the sectors of origin does not show any particular sector-specific risks; unemployment equally affects all sectors of the labor force, with the possible exception of agriculture (Karapetyan, 1998).

The structural changes of the economy led to the so-called “agrarisation” of the economy and ruralisation of population (Mirzakhonian, 1999). In the 80s Armenia was characterized as a country with a predominant share of developed industrial production in the economy (the share of industrial production in GNP was approximately 70%), while in the 1990s the structure of economy changed toward “agrarisation”. The share of agricultural sector increased not only because of its strong growth, but also as a result of the deep crisis in country’s industrial production caused by the collapse of the soviet economic space (especially the military-industrial complex, which had significant share of the Armenian industry). Compared to 1988, the level of industrial production in 1998 declined by almost 64%, and in some sectors, food production in particular, even by 90%. As a result, the share of agriculture in the structure of national economy (GDP) increased by 2.5 times or from 17.2% in 1995 to 40.2% in 1998 (Mirzakhonian, 1999).

According to Mirzakhonian (1999) the “agrarisation” process of the economy accompanied by populations ruralisation, which started in 1992 and was expressed in the constant increase of rural populations share in country’s overall population ( 1999 - 33.1%).

According to the data taken from the work and employment service of the Republic of Armenia the distribution of the unemployed persons by the gender, age and education varies greatly (Karapetyan, 1998). The distribution of the unemployed by gender reveals a steady increase in the share of women, from 63% in 1993 to 73% in 2000, analysis of age composition

shows a continuous growth of the ratio of the group aged 30-49. More than 2/3 of the unemployed persons has secondary or lower education.

**Table 2: Comparison of the Unemployed by Sex, Age, Education,  
In December 2000 (Ministry of Statistics)**

	The total number of the unemployed	Women, % of the total
Unemployed, the total number	100	100
<b>Including at the age of:</b>		
Up to 18	1.3	1.2
18-22	7.9	8.1
22-30	21.9	21.9
30-50	60.0	61.3
Older than 50	8.9	7.5
<b>Education:</b>		
Higher	11.5	11.2
Secondary, vocational	23.0	22.9
Secondary, general	58.4	59.9
Secondary, incomplete	7.1	6.0

The analysis of age - gender and education structures of unemployment allows us to conclude that middle aged women (30-49) with secondary education or lower are under the highest risk of becoming unemployed (Karapetyan, 1998).

The next chapter discusses the situation in Armenia, the implementation of active labor market policies in Armenia.

## ***CHAPTER 2***

In 1992 the Supreme Soviet of Armenia adopted the “Law on Employment” and employment services were created under the Ministry of Labor and Social Security (presently the Ministry of Social Security). The law provided mechanisms for registering the unemployed in search of employment, acquiring unemployment status and determining the size of unemployment benefit. It is from 1992 that the economic notion “unemployment” was statistically registered. The number of unemployed, registered with the employment services, was reflected monthly (at the end of each month) in official statistics of the economy (Mirzakhanian, 1999).

Employment services are separate services reporting to the Ministry of Social Security. There are 51 employment services in Armenia, each employing maximum 28 members of staff.

The 51 employment services register and pay the unemployed persons. Each employing service has 5 main departments:

- \* Co-ordination
- \* Methodological Assistance and Information
- \* Employment
- \* Employment Inspection

\* Finance and General

Each department has its own responsibilities including training, re-training programs, and other special programs designed by the government. It should be mentioned here that until 1998 only some of the employment services implemented the training programs, not systematically and not based on thorough labor market surveys. University teachers, who generally lack adult training methodologies, conduct the training programs. The total budget for these programs was in 1998 around 1.5 million USD. In 1999 around 80% of this budget was utilized. It should be mentioned here that according to Karapetyan (1998) it was due to the ineffective work of the government. Their expertise was limited in translating requests from industries into practical training courses. Later on, however, labor market surveys were conducted, but there were informally and not systematically (Mirzakhanian, 1999).

According to Amalia Adamian (2001), the head of the Employment Service in Shiraki Marz, the employment policy of the state up until 1997 has been a passive one (registration, benefit payments, employment assistance, etc.). State regulation of labor agreements and supervision of employer-employee relations was feeble or non-existent, at that time. Furthermore, according to Adamyan (2001) labor was not organized to demand labor rights from employers. While the transition to a market has freed the population from dependence of the state for employment and has allowed the formation of an employment market, more significant structural adjustments, through the joint efforts of the state, labor unions, and employers were not performed. Because shock therapy of the economy resulted in deep structural displacements, the transition process required an active state role in implementing employment policy (Adamyan, 2001).

According to Karapetyan (1998) up until 1997 in Armenia, the state regulation mechanisms of employment were inadequate for the country's situation. Given the weakened labor unions and the lack of state intervention, labor continued to be at a significant disadvantage to employers. Additionally, small salaries, low productivity, and artificial employment were compensated for by the shadow economy or by illegal employment, with the tacit approval of the state (Karapetyan, 1998).

In order to register for unemployment benefits, a large number of documents were necessary, while benefits were small and lasted only for 5-10 months. Moreover, unemployment figures do not always count the artificially employed or the partially employed. When combined with the fact that unemployed were unlikely to register because of the poor benefits and excessive bureaucracy, unemployment statistics were undoubtedly skewed (Karapetyan, 1998).

In order to stimulate activities in this field Armenian government has introduced job subsidies, training and re-training programs, micro-credit and micro-enterprise development and labor-intensive public works (Mirzakhonian, 1999). It means that Armenian government finds the passive labor market policy inappropriate to the current stage of Armenia's development. Due to the assistance rendered to small businesses, loans for the self-employed, the provision of employment for the disabled, and the implementation of other programs the situation was drastically changed (Mirzakhonian, 1999).

The last part of this chapter examines the process of active labor market policies implemented in Armenia. Two questions precede the main discussion of the chapter: What is the rationale for this kind of policy? What are the major parts of such policies?

Since 1997 Armenian government began to implement the so-called active labor market policies. According to Fretwell (1997) active labor market policies are aimed at helping the

unemployed persons return to work (as against the passive policy of paying unemployment benefits). The starting point is to ask why such measures are necessary at all? Their rationale is at root the same as that for unemployment benefits - namely to protect households from fluctuations in their income more volatile than policymakers regard as acceptable. In the absence of private insurance, government has a role in supporting the living standards of individuals whose employment opportunities have collapsed. This insurance can operate through cash benefits, but it can also take the form of cushioning labor market shocks or of helping people move into new jobs (Fretwell, 1997).

According to Fretwell (1997) the balance between active and passive measures, given a commitment to provide some help for the unemployed, will depend in part on their relative budgetary costs and in part on their economic effects - both positive and negative - on the working of the labor market. Certainly active measures, such as job counseling, training schemes and temporary work tend to be more costly than cash benefits in the short-run. But in the long run they may decrease the duration of unemployment and increase productivity. Cash benefits involve less government interference but blunt the incentive to seek work and may be subject to abuse by the fraudulent or idle (Fretwell, 1997).

What, then, determines the balance between support in kind in the labor market?

According to Adamyan (2001) cash benefits allow the individual to choose whether to acquire new skills or move to a different locality. If the consumer (worker) is the best judge of his or her best interests, he or she may well do better than a government agency in determining the best course of action. The unconditional availability of cash benefits may, however, deter people from devoting resources to seeking work or from incurring the costs of retraining or the risks of moving to a new locality. At the same time Adamyan (2001) argues that cash benefits

may also strengthen the shadow economy, because persons working in undeclared activities may additionally be able to claim benefits. Of course, these problems can in part be countered by vigilant administration of the benefit system, but employment office staff in Armenia often has neither the resources nor the experience to prevent the abuse. What has often happened instead is that entitlement to benefit has been restricted, for example, to those with recent work experience, or confined to a limited duration of unemployment. Although these administrative restrictions may cut abuse, many people in particular the long-term unemployed, fall through the net (Adamyan, 2001).

According to David Fretwell (1997) active labor market policies have major advantages in that they attempt to counteract market imperfections, including the inefficiencies associated with the payment of benefits. Active policies help the unemployed to find work by means of counseling and bringing together information on vacancies. They also encourage labor mobility by financing training and relocation. They may maintain an individual work experience by providing a temporary job during a downturn, thereby improving his/her chances of getting back into work once the recovery comes. And lastly, active labor market policies may be an effective way of stopping abuse: benefit claimants who already have undeclared jobs, or who are not seriously looking for work, will stop claiming benefits if payments are made conditional on participation in some temporary work or training scheme (Fretwell, 1997).

As it has already been mentioned active labor market policies are costly, and subject to many of the problems of government failures. It is one thing to organize interviews or to finance training schemes or temporary jobs, but quite another to ensure that these activities truly benefit the unemployed. In principle, obviously, people should be trained only in skills for which there is, at least potentially, a market demand. According to Amalia Adamyan (2001) in practice, the

persons running the employment services are not necessarily the best judges of what skills may be needed or how new skills should be taught. They may not even have an incentive to do so. According to her, even where active labor market policies are desirable in principle, they may well not be cost-effective way in practice. It may be explained by the claims that in the short run the payment of benefits are more desirable and not very costly (2001).

Why, then, are such policies desirable at all? The answer is that the relevance of such programs depends on the context. According to Fretwell (1997) active programs are a response to declining industries, which is well known in the West. Persistent unemployment in countries of the Organization for Economic Cooperation and Development (OECD) is generally attributed to structural factors, themselves resulting from various rigidities in the labor market (OECD 1990s). Western governments are, therefore, urged to make their labor markets more flexible, in part by removing rules and regulations which impede adjustments and mobility and in part by shifting from passive to active labor market policies, such as job counseling, work experience, or longer-term training, which are designed to help workers relocate themselves from one sector of the labor market to another. An extensive survey of their experience argues that active labor market policies if designed, clearly targeted, and efficiently managed can reduce unemployment (OECD, 1990s) (Fretwell, 1997).

Table 3 (see appendix B) shows the government spending on the active labor market policy in OECD countries and in Armenia. It clearly shows that in such countries as USA and Great Britain labor market policies do not have such an important role as in European countries (Fretwell, 1997).

According to Adamyan (2001) although formal unemployment was not recognized in Armenia before the transition, some active labor market policies existed and were used to ensure

the availability of workers of the industrial sector. Production targets were the dominant forces in shaping policy for the development and deployment of labor. Although individuals could choose where to work, career opportunities were primarily subject to the needs of the enterprise within the confines of the overall plan.

### ***CHAPTER 3***

This study is mainly concentrated on the Shiraki Marz as it has the largest ratio of the unemployed persons. What are the specifics of the Marz?

According to Mirzakhanian (1999) during the Soviet period Shiraki region was the center of light industry in the Republic of Armenia, and the majority of population (70%) there was engaged in this sphere. The situation severely changed in 1989-91, when in the aftermath of the devastating earthquake of 1988 one third of the country's economic potential was lost, and, as a result of Karabakh conflict and political crisis in the country, economic activities in all areas were frozen (Mirzakhanian, 1999).

As Amalia Adamian (2001) mentions in her annual report the population, while hardworking, was accustomed to Soviet guarantees of a job and income, and thus continued to expect significant assistance from the government in providing jobs as well as regulating labor relations. The continued expectations of state-provided employment contributed to popular inertia, and was the most likely reason why highly paid employment was placed on the first row among twenty social values, according to the 1992 poll, conducted in Shiraki Marz (Adamyan, 2001).

The weaknesses of the old system involved unhelpful attitudes toward unemployment and job seeking, inadequate institutions for resolving political conflict, restricted occupational

mobility, and active labor policies and institutions which were poorly adapted to the needs of the transition (Adamyan, 2001). The inherited attitudes to unemployment and job seeking were poorly suited to the needs of a market system. Workers under the old system did not have to worry about finding employment. They were not accustomed to unemployment or to the continued fluctuations of and changes in labor demand, which are common in market economies. Nor were they used to the varied patterns of work in a market economy, including contract employment, job sharing and part-time work. Taking responsibility for finding work is likely to be particularly difficult for displaced workers, many of whom will expect the state - or, more specifically, the technically weak and understaffed public labor offices - to allocate them a job, as under the old system (Adamyan, 2001).

According to the statistics supplied by the Employment Services (2000) the main part of the unemployed population in Armenia (16.5%) is officially registered in the Shiraki Marz.

Table 4 shows the indicators characterizing the economic activity of the population by Marzes (See Appendix C). In December 2000, 200.3 thousand unemployed citizens were registered in the Republican Service of Work and Employment. 87.4% of them were given the status of unemployed. Of them 33457 were registered in Shiraki Marz in 2001 (13.7% of the total work force) (Adamyan, 2001).

Table 5 gives data about the number of unemployed population in Gyumri. The table shows that up until 1997 the number of the unemployed people steadily increased. Since 1997, however, the number of unemployed decreased. But these changes are not due to the increase in employment, as it was mentioned in the report made by the head of the Employment Service in Gyumri Amalia Adamyan (2001). These changes are due to the fact that in 1997 the Law on Employment was changed and only those “who have one year of experience” are considered to

be unemployed. It also means that the newly graduates are automatically excluded from that category (Adamyany, 2001).

Table 5: Number of Unemployed Persons Registered in the Gyumri  
Employment Service

YEAR	NUMBER OF UNEMPLOYED	THOSE WHO GET BENEFITS	THOSE WHO GET INSURANCE BENEFITS
1996	27816	8800	-----
1997	34315	5800	1175
1998	25175	1620	1060
1999	29385	4473	2608
2000	27254	629	1449
2001	26878	744	916

Shiraki Marz has five Employment Services. The majority of the registered unemployed population in Shiraki Marz are female (73%). Unemployment is high in the industrial sector, in particular textiles. Seasonal underemployment is strong in agricultural sector. Among the registered job seekers people between 30 to 50 years of age form the main group. Of this group 18 percent have university level education, 32 percent higher professional education, and the remaining lower level of education. A detailed classification of the registered persons is not available (Adamyany, 2001).

There are many routes to raising the productivity of labor. According to Adamyan (2000) in market economy skills needed constant updating, and one way of doing it is examined in this chapter: it is investing in human capital through training and retraining to improve the skills of the labor force.

Retraining policies are one aspect of skill improvement. The economic return to retraining is controversial, both because of its expense and because of its low return, particularly in excess supply situations (Fretwell, 1997). Because of the structural nature of a significant part of unemployment in Armenia, however, the option must be considered. The question, perhaps, is not if, but rather how and to what extent retraining can be accomplished. “Too much training too soon is not warranted, but demand signals clearly show exactly where labor is in excess supply (heavy / light industry) and where labor is scarce (the service sector, information technology)” (Mirzakhanyan, 1999, p. 16).

According to Akopyan (2000) training for unemployed adults is made available to approximately 1 percent of the labor force each year in the highly industrial countries, as opposed to about 0.1 percent in Armenia and 0.5 percent in Russia. The differences reflect multiple factors: a lack of labor market information, a lack of requests for retraining, problems in determining what programs to initiate, difficulties in mounting flexible retraining programs, financial constraints, and a philosophy of waiting until demand emerges at the local labor exchange, which may never occur Akopyan (2000).

Presently, Employment Services endeavor to provide professional training, opportunities for the improvement of professional qualifications, and retraining for those who are jobless and/or who wish to change their profession on the advice of employers (Adamyan, 2001). Those who are still employed, but risk unemployment in the future, may also be retrained. However,

within the last three years, only 200 unemployed persons were retrained in this system. According to Amalia Adamyan (2001) some of the reasons for a lack of significant achievements are the economic recession, the lack of targeted retraining programs, the scarcity of financial resources and the slow restructuring of the labor market.

According to S. Poghosian (2000) the retraining process is also supported by traditional educational institutions affiliated with various ministries. In 1997, more than 11,000 specialists all over Armenia upgraded their qualifications at government expense. It was planned to retrain 9000 specialists in 1999. Usually, however, “upgrading qualifications” types of retraining have nothing to do with economic reforms. They are routine left-overs from the planned economic system (Poghosian, 2000).

As Poghosian (2000) continues with the overall technical assistance to be provided to Armenia, US \$ 10 million are allocated for the training or retraining of specialists necessary for the transition to a market economy in the areas of entrepreneurship, management, marketing, finance, and investment. Training and retraining courses aimed at improving teaching qualifications are organized for teachers in different subject areas. These sessions are organized abroad or in Armenia with the participation of foreign specialists.

As Amalia Adamyan (2001) mentioned in her report the following types of training courses has been implemented in Shiraki Marz since 1997:

### **Training Occupation**

- Clerical and sales
- Technical (mostly health care)
- Computer Courses
- Secretary Training

- Service (mostly building maintenance and food service)
- Foreign Language Training Courses

Each training course is organized in accordance with:

- The existing labor demand at the given period of time, which is estimated by the Employment Service.
- Structure of the unemployment

According to Amalia Adamyan (2001) 200 unemployed persons has participated in training/retraining courses since 1997. Of them 164 are women and 36 are men. The table below shows how many persons participated in the courses.

*Table 6: Courses Held in Shiraki Marz and Number of Unemployed Persons Involved in Them*

Clerical and sales	25
Technical (Health Care)	15
Computer Courses	50
Secretary Training	20
Foreign Language Training Courses	55
Service (building maintenance and food service)	35

## ***Research Methodology and Findings***

As it has already been mentioned in the introduction that the research has the purpose to investigate whether the training/retraining programs facilitate unemployment reduction in Shiraki Marz. For this purpose a survey was conducted.

The unit of analysis of the survey is unemployed person of Shiraki Marz who is registered in the Gyumri Employment Service.

The best way of studying is a face to face interview. According to Babbie (1995) the interview is an attractive method of collecting survey data. Interviews are the source of the updated information that will be useful for this essay.

For the survey one city and three villages are purposively selected. The survey is conducted in Gyumri and in three villages of the Shiraki Marz. Gyumri is selected as it is the largest city in the Marz and also because the main part of the unemployed persons of Armenia is officially registered there. The following three villages Gukasyan, Azatan and Vardakar are selected according to two criteria:

- \* First, they are selected concerning to their geographical location, i.e. Gukasyan, Azatan and Vardakar are situated on the south, west, and north of the Marz respectively.

- \* Second, these villages do not have advantages from the land privatization, as the most part of the land near the mentioned villages is not usable for agricultural reasons. Since the land was not good one, population engaged in industrial works in nearby factories. After earthquake and collapse they failed to provide employment to the population.

For this survey two groups of unemployed persons are selected: experimental and control group. Those unemployed persons who has taken part in one of the training programs held by the Employment Service are included in the experimental group. According to Adamyan (2001)

there are 200 trained unemployed persons in the Shiraki Marz. It should be mentioned that the average duration of the unemployment of those mentioned 200 unemployed persons are 4 years. During the mentioned period most of them were engaged in the public works organized by the Gyumri Employment Service (cleaning the streets, repairing the windows and doors of the schools, etc.) (Adamyan, 2001).

Sample included  $\frac{1}{4}$  of the trained population: 50 trained unemployed persons are selected from the lists of the unemployed persons to be included in the experimental group. Every second unemployed person from the list of the trained persons provided by the Gyumri State Employment Services is systematically selected. So, fifty unemployed persons have been interviewed. All of them were given exactly the same questions taken from the questionnaire, which has been prepared by me beforehand (See Appendix D).

### ***Findings:***

The interview of the persons of the experimental group shows:

a) From the fifty unemployed persons who have taken part in one of the training programs 20 persons (40%) has been employed. Moreover, they have been employed according to the training courses they were involved in, immediately after finishing the training course.

b) The age distribution of the mentioned 20 persons shows that 12 of them are women and 8 are men. The distribution by education indicates that 7 of them have high education, 10 secondary-vocational and 3 secondary-general. And lastly the distribution by age shows that they belong to different age-groups.

c) From the other 30 persons, who have not been employed after being trained, 11 left the country during or after the course, another 16 have been employed using different connections.

Next the unemployed persons included in the control group are interviewed. According to Babbie (1995) the foremost method of offsetting the effects of the experiment itself is the use of a control group. Experiments seldom, if ever, involve only an experimental group to which a stimulus has been administered. In addition, the researchers also observe a control to which the experimental stimulus has not been administered. Using the control group allows the researcher to control for the effects of the experiment itself (Babbie, 1995).

The unit of analysis of the control group is unemployed person who has not been engaged in any training program. From the list of the unemployed persons 50 unemployed persons have been selected with the random start. They were selected and interviewed with the same way as in the case of the experimental group. They were given exactly the same questions taken from the questionnaire (See Appendix D). The interview showed that from the fifty unemployed only 4 persons (less than 1%) has been employed during the last six month. It should be mentioned here that they were employed with the help of the Gyumri Employment Service taking into account their previous experience.

In conclusion it should be mentioned that the survey shows that there is a big differences between employment of the unemployed with training and without training. Also, if the training does not directly place a person in a job, it furnishes him or her with skills that make him or her readily employable in labor market.

Also it is important to mention that training gives much more than immediate placement into a concrete job, but gives skills.

So it is correct to include much more people in training courses than there is exact demand for it.

## **CONCLUSION, ANALYSIS AND RECOMMENDATIONS**

Armenia faces high unemployment and high levels of inactivity. The unemployed persons, of whom half have not worked in the formal or informal sectors for a year or more, constitute about 12% of the labor force. Ten years has created very few jobs. Moreover, having a job does not guarantee escaping unemployment in Armenia, because of the low level of remuneration for work and the fact that those with jobs are often supporting many dependants (Pogosian, 2000).

To stimulate activities in this field some countries in transition as well as Armenia have introduced job subsidies, training/retraining programs, micro-credit and support to micro-enterprise development, and labor intensive public work. The purpose of this paper is to investigate whether in a relatively depressed economy such as Armenia, with a relatively slow pace of economic restructuring, it is possible that training/retraining programs would be a cost effective way to reduce unemployment.

A primary objective of active labor market policies is to facilitate restructuring and to anticipate, shorten, and alleviate unemployment to the extent that doing so is feasible and cost-effective. At the same time, active labor market services can increase labor productivity, particularly for the economically disadvantaged and unemployed (Fretweel, 1997).

It may be concluded from the conducted survey that training/ retraining programs, which were held in Shiraki Marz, are rather effective.

As Amalia Adamyan (2001) mentions in her report not any single program organized in Shraki Marz since independence contributed to the reduction of the unemployment so effectively

as training/retraining programs. The survey shows that those, who has been employed after being trained constitutes 40% of the total population. As it was mentioned in the methodology (See Chapter 3) the employment of the unemployed persons after being trained doesn't depend on age, gender and education.

Policy toward training and retraining covers different spares and includes provisions to target the unemployed. It definitely addresses to the needs of a changing and increasingly technological era. There was a competition in the provision of training services and huge investments in programs providing adults with easy access to retraining for career advancement and other reasons.

At first the inadequacy of the inherited arrangements was that community economic development was poorly understood. Local authorities had no experience in identifying areas where their communities had competitive advantages for specific types of investors or in marketing these advantages to potential investors. But today the system encourages individuals or local authorities to take initiative and offered some experience in the use of human capital as an investment incentive, such as offering state-supported worker recruitment and training services as part of a package giving firms an incentive to invest in an economically depressed area.

Today, training and retraining programs are easy to design because there are many experiences taken from the other countries that the lack of skills in the labor force is not a serious constraint to economic growth in Armenia. The experience of the last few years shows that the government appeared to be quite capable of actively and effectively retraining the unemployed persons in those areas where demand has recently been generated by foreign investment, primarily computer skills, foreign languages and accounting.

Macroeconomic reforms and restructuring in Armenia have significantly reduced the demand for labor. In contrast to the socialist period, which was characterized by full employment, workers have faced competitive and contracting job markets. Increased competition for jobs and reduced demand for specific skills and training have compelled many to drop out of the labor force prematurely. Some individuals have withdrawn from the labor force voluntarily, others involuntarily.

\* Some unemployment is an inevitable feature of a free market economy, and the objective of the policy in Armenia can no longer be, as it was under communism, to prevent any unemployment. Rather, it should be to mitigate the rise in unemployment during the process of transition and to maintain it at reasonably low levels thereafter. Full employment in market jobs being provided by private firms producing market output. Over the longer term, a recovery of employment in Armenia will likewise depend on the growth of putting into place the infrastructure of an efficient labor market. In the meanwhile, labor market in Armenia have been hit by enormous shocks and are subject to rigidities and various forms of market imperfection which may lead to unemployment rates in excess of what is economically efficient or politically tolerable.

\* Armenia faces high unemployment and high inactivity since independence. Actually the registered unemployment rate is higher in Armenia than in any other FSU countries. According to unofficial estimates unemployment in Armenia is constituted about 28.3 percent of the total labor force and 45.8 percent for youths between 17 and 25 years old. On the top of this, the country also has the lowest vacancy rate with over 300 job seekers for each single registered

vacancy. This is a reflection of the country's poor record of the job creation, domination by insider power, and informal labor hiring arrangements, factors that exist even in the larger enterprises of the formal sector. Since incentives to register with the employment services are low and eligibility rules are similar to FSU guidelines, Armenia's high unemployment can not be blamed on overly attractive benefits that are more appealing than employment opportunities. At the time of the survey, the average unemployment benefit was 2,000 drams, a mere fraction above the poverty line, and benefits, but even this sum can be essential for households without any cash income. However, only half of the recipients get the benefit on the time without arrears.

Gender and participation rates Women have been disproportionately affected by the erosion of policy measures, which encouraged labor force participation. In comparison with the OECD countries, the share of women in the labor force in Armenia was remarkably high. (47-48 percent, in contrast with 28 percent in the OECD). During the transition, many women have dropped out of the labor force. By 1994, the gape between male and female participation rates had widened. This trend is due, in part, to the deterioration of child allowances, maternity benefits and access to pre-school level education.

Age and participation rates Age has been another contributing factor to labor market adjustments. As in the OECD countries, participation rates in Armenia vary considerably by age group, illustrating the influence of education and experience factors on labor market status.

\* The main message of this paper is that active labor market policy measures (such as training/retaining programs) do have an important role, but, because they are costly, intervention will have to be selective where there is no immediate market return. The need is to target measures on areas where they can be most cost-effective. To illustrate the importance of context,

the return to spending on retraining is likely to depend not only on the existence of gaps in the provision of private training but also on the existence of job openings. The cost-effectiveness of expanding training schemes indiscriminately may be quite high.

Turning to the range of policy instruments - active labor market policies in the context of Armenia may be usefully been divided into three types, each addressing a different element of unemployment. Although the causes of emerging unemployment vary in intensity over time and across countries, three main dimensions arise from different sources and require different policy responses:

- In the short to medium term, economy-wide unemployment is the result of aggregate shocks, such as the impact of macroeconomic stabilization and the sharp fall in aggregate demand, the collapse of central planning arrangements, etc.
- In the medium term, structural unemployment results from sectoral imbalances caused by changes in relative prices, exposure to world trade, modern technology, and management practices. These shocks, which are fundamental to the whole process of transition, make it necessary to restructuring the economy and to shift labor from one sector to another. Active policies for retraining and assisting labor mobility are crucial in this are.
- Even in the long run, the labor market will have to adjust from the excess demand regime characteristics of centrally planned economies to one in which unemployment is a permanent feature of the economic landscape. In most market economies, the public sector is the main agency responsible for running employment exchanges for unskilled and semi-skilled workers. Redeployment or jobs brokering policies bring

together information on job vacancies and advice and expertise about employment opportunities.

These three types of active labor market policy - information services, retraining, and job creation -are summarized in Table 7 (See Appendix E).

\* The government is of the view that job creation is the cornerstone for addressing social issues, which in turn would reduce unemployment rate. Given that flexible labor market play an important role in job creation, in order to create pliable labor markets, the government will revise and, if necessary, change the legislation regulating the labor markets, as well as institutions and policies in this area. The government will rationalize public protection against unemployment and focus on policies, which assist people in finding jobs, such as job search assistance and career counseling.

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## ***APPENDIX A***

## ***APPENDIX B***

### ***ACTIVE LABOR MARKET POLICY SPENDING IN ARMENIA AND OECD COUNTRIES***

<b>COUNTRY</b>	<b>TOTAL SPENDING</b>	<b>ACTIVE SPENDING</b>	<b>PASSIVE SPENDING</b>
	2000	2000	2000
GERMANY	3,56	1,27	2,29
DANMARK	5,63	1,89	3,74
NITHERLANDS	4,90	1,79	3,14
FRANCE	3,22	1,37	1,85
GREAT BRITAIN	1,47	0,42	1,05
UNITED STATES	0,43	0,18	0,25
ARMENIA	0,14	0,01	0,13

## ***APPENDIX C***

### ***INDICATORS CHARACTERIZING THE ECONOMIC ACTIVITY***

#### ***OF THE POPULATION, BY MARZES***

	The level of the economic activity of the population	The level of employment	The level of unemployment
Total, RA	65.9	88.9	11.1
Aragastotn	80.1	97.5	2.5
Ararat	75.3	94.5	5.5
Armavir	71.2	91.4	8.6
Gegharkunik	75.0	92.7	7.3
Lori	63.1	83.0	17.0
Kotayk	67.4	89.2	10.8
Shirak	64.6	77.4	22.6
Syunik	66.7	80.1	19.9
Vayots Dzor	72.8	94.3	5.7
Tavush	76.0	92.6	7.4

Yerevan	57.5	89.6	10.4
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***APPENDIX D***  
***QUESTIONNAIRE***

1. HOW MANY COURSES HAVE YOU TAKEN?

- 1. One q
- 2. Two q
- 3. Three q
- Four and more q

2. IN WHICH COURSES DID YOU TAKE PART?

- 1. Secretary \ Referent q
- 2. Computer Course q
- 3. Foreign Language Training Course q
- 4. Other q

3. ARE YOU WORKING NOW?

- 1. Yes q
- 2. No q

4. DID YOU FIND WORK AFTER BEING TRAINED?

- 1. Yes q
- 2. No q

5. DID YOU FIND WORK ACCORDING TO YOUR TRAINING COURSES?

- 1. Yes q
- 2. No q

6. MENTION THE PERIOD DURING WHICH YOU HAVE BEEN UNEMPLOYED

- 1. 0-6 month q
- 2. 6 month - 1 year q
- 3. 1-5 year q
- 4. 5 years and more q

7.INDICATE YOUR SEX

- 1. Male q
- 2. Female q

8.WHAT IS YOUR AGE?

- 1. 18-23 q
- 2. 24-29 q
- 3. 30-35 q

- 4. 36-40 q
- 5. 41-46 q
- 6. 47-50 q
- 7. 50- and more q

9.WHAT EDUCATION DO YOU HAVE?

- 1. Primary q
- 2. Secondary \ General q
- 3. Secondary \ Special q
- 4. Higher q
- 5. Others q

10. HOW MANY YEARS OF WORK EXPERIENCE DO YOU HAVE?

- 1. 1-3 q
- 2. 3-5 q
- 3. 5-7 q
- 4. 7-and more q
- 5. Not permanently employed q
- 6. Not permanently unemployed q

## ***APPENDIX E***

### ***Description and Assessment of Active Labor Market Policies***

#### ***In OECD Countries***

<i>Measure</i>	<i>Description</i>	<i>Assessment in OECD countries</i>
<i>Employment services</i>	Placement, Counselling, and vocational guidance; job search courses and intensive counselling for the disadvantaged; assistance with geographic mobility	Found to be effective in increasing job placements in United Kingdom, United States, Netherlands
<i>Training</i>	Training programs focused on the adult unemployed or those at risk of losing their job; training takes place usually at training centers or in enterprises	Mixed evaluations; targeted programs, including those for plant closures, successful in Canada, Netherlands, and United States; general programs that improved job prospects in Norway, Sweden, and United Kingdom

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## **Definition of Labor Market Indicators**

### **Labor Force**

*Labor Force*: The sum of employed and unemployed.

*Participation Rates*: The labor force, divided by the working age participation.

*% working age population*: The sum of working age employed and unemployed, divided by the working age population. In, general, working age refers to women 15 to 54 and men 15 to 59.

*% youth working age population*: The sum of youth employed and youth unemployed, divided by the youth working age population.

### **Employment**

*Annual Change*: % change from previous year.

*Self-employment*: Share of employed who are self employed.

*Employment Rate*: The total number of employed, divided by the working age population.

*Sectoral Employment*: % change from previous year.

*Public Sector Employment*: The number of employed in the public sector, divided by the sum of public and private employment.

Private Sector Employment: The number of employed in the private sector, divided by the sum of public and private employment.

## **Unemployment**

Registered Unemployment Rate: Registered unemployed, divided by the labor force.

Unemployment and Age: The number of unemployed in the age group, divided by the corresponding labor force for that age group.

Unemployment and Education: The number of unemployed by the level of education, divided by the corresponding labor force with that level of education.

Unemployment and Duration: The total number of unemployed by length of unemployment: i) less than 3 month; ii) 3-6 months; iii) 7-12 months; iv) more than 12 months; divided by the total number of registered unemployed.

*Long -Term Unemployment (LTU)*:

% male unemployment: The total number of male or female long-term unemployed, divided by the total number of male or female unemployed.

% youth unemployment: The total number of youth long-term unemployed, divided by the total number youth unemployed.

Unemployed and Benefits: The number of registered unemployed receiving income support, divided by the total number of registered unemployed.