Regional programmes promote employment and entrepreneurship

With its vast territory, the Russian Federation has relatively distinct regional labour markets. Many of them are mono-industrial in nature and typically show low geographical workforce mobility and limited entrepreneurial activity. In order to diversify the regional economies and improve labour mobility, the federal government has decentralized employment promotion since January 2007. This includes a focus on regional employment programmes, combined with federal support for local infrastructure investment and small and medium-sized enterprise development. Regional employment programmes were scaled up during the deep 2008–09 recession as part of a package of anti-crisis measures, including a major fiscal stimulus package and interventions by the central bank to support the banking sector. These programmes have been scaled back since 2010, but are still a key element of labour market policies in the Russian Federation.

Regional employment programmes

When the crisis broke out in late 2008, the main goal of federal government policy was to maintain social stability and prevent both an uncontrolled increase in unemployment and a deterioration of living standards. Under the government’s Anti-crisis Programme, the executive bodies of constituent regions were asked to prepare regional programmes, including measures to reduce tensions in regional labour markets. These programmes were formulated and coordinated by the executive bodies and approved by the Ministry of Health and Social Development of the Russian Federation. In order to implement the programmes, staff levels of the regional structures for the Federal Service for Labour and Employment (FSLE) were increased by 20 per cent. Around 90 per cent of programme costs are covered by the federal budget.

In 2009, all the constituent regions of the Russian Federation adopted regional employment programmes. In total, 115.6 billion Russian rubles (RUB) were allocated for employment retention and promotion measures in 2009, including RUB 77.5 billion for employment promotion and RUB 38.1 billion for additional measures to reduce labour market tension. In 2009, this resulted in an overall allocation for employment promotion representing almost 0.3 per cent of GDP, while additional employment measures represented another 0.1 per cent of GDP. In addition to strengthened job mediation, the programmes were supposed to provide assistance to some 1.17 million individuals through vocational training, temporary jobs and public works programmes, internships (for school leavers) or encouraging workers to look for work in another region. Special attention was given to the promotion of entrepreneurship, with 55,800 beneficiaries targeted for support in creating business start-ups. The one-off grant to an unemployed citizen launching a business equaled up to 12 times the amount of the maximum unemployment benefit, or RUB 58,800 (some €1,340).

Job placement was promoted through the weekly updated information portal Labour in Russia. Enterprises also benefited from a 20 per cent reduction on their profit tax in 2009, a measure that was introduced to protect their cash flows and help them retain their workforce.

The regional employment programmes approved in 2010 envisaged an overall expenditure of RUB 41.2 billion, i.e. 0.1 per cent of the country’s GDP. The same year, new measures were introduced, including inter alia employment promotion for people with disabilities, and vocational training for navigators and flight engineers laid off in the restructuring of the air transport sector. Over 1.9 million people were targeted by the regional employment promotion programmes, including support for business start-ups targeting some 200,000 individuals.

As the economic recovery continued in 2011, new priorities were set for the regional programmes to foster greater innovation in economic development and help mono-industrial towns to diversify their industries. In this context, vocational education and internships are now primarily oriented towards enterprises that apply new technologies and enterprises in the manufacturing sector, which is undergoing a restructuring process. Public works and temporary job schemes now focus exclusively on workers of key enterprises in difficulty.
The programmes maintain internships for school leavers as well as employment support for jobless citizens and targeted support to citizens seeking employment in other regions. Based on long-term policy priorities and demographic trends, new measures were introduced in 2011 to encourage greater labour force participation of women and people with disabilities. These include:

- vocational training of women during parental leave to keep or develop new skills;
- professional training of women currently working under harsh labour conditions to encourage their transfer to other professional areas; and
- support for the employment of people with disabilities, parents of disabled children and parents of large families through subsidies to employers for the creation and maintenance of jobs for these disadvantaged groups.

Targeted measures are envisaged for all citizens living in the North Caucasus federal district, including vocational training and internships, and support for citizens seeking jobs in other regions, in order to increase their competitiveness, professional and geographical mobility.

**Supporting small and medium-sized enterprises**

The Federal Programme on Supporting Small and Medium-sized Enterprises (SMEs) was launched by the Ministry of Economic Development in February 2009 as part of the implementation of the Law on SME Development adopted in 2007. This Programme is also carried out by the regions.

The federal SME programme included four pillars: a start-up subsidy of up to RUB 300,000 (in priority regions up to RUB 5 million), while young entrepreneurs would receive up to RUB 1 million and concrete innovative projects even RUB 2.5 million; interest rate subsidies on commercial credits and subsidised lease agreements; the establishment of micro-credit financing institutions (micro-credits being defined as loans of up to RUB 1 million); and the establishment of regional funds providing credit guarantees (up to 50 per cent and for priority areas up to 70 per cent of the credit amount). The federal budget contributed RUB 18.6 billion to the total costs of the programme in 2009. In 2010, state support was primarily channelled to innovative and export-oriented manufacturing SMEs, SMEs in mono-industrial regions/towns and the North Caucasus region but also to enterprises engaged in reconstruction of multi-family houses. The federal budget subsidy reached RUB 15.4 billion in 2010.

**Supporting mono-industrial regions/towns**

A large number of mono-industrial regions/towns were particularly hard hit by the crisis. In 2010, the Federal Anti-crisis Programme for Mono-industrial Towns aimed to create new jobs and diversify their economies through investment and modernization plans. By mid-February 2011, 264 out of a total of 335 mono-industrial towns prepared such programmes, reports the Ministry of Regional Development. Under the programme, 35 pilot towns received support at a total cost of RUB 22.7 billion for restructuring and modernization of ineffective enterprises, new investment projects, SME development, and rehabilitation of houses. Mono-industrial towns also get additional allocations for employment promotion measures within regional employment programmes, while key enterprises benefit from state orders.

**Impact**

The number of actual beneficiaries of the regional employment programmes (2.8 million in 2009 and 1.9 million in 2010) largely exceeded the planned figures for both years (table 1). Also, some 49 per cent of jobseekers were placed in regular jobs by the FSLE in 2009, a share which increased to 60 per cent in 2010. While the economic recovery that started in the second half of 2009 has been the main factor behind the gradual revival of labour demand, the regional employment programmes have played an important role in preserving 2 million jobs and creating 4 million additional jobs, of which 394,400 permanent ones, over the period 2009–10.

The unemployment rate has fallen from its peak at 9.4 per cent in February 2009 to 7.6 per cent in February 2011.

According to a 2010 survey by the All-Russia Centre for Public Opinion, the vast majority of participants in the regional programmes reported positive outcomes: 82 per cent of the respondents who took part in training were able to keep their jobs, 10 per cent were redeployed to another job within their enterprise and 3 per cent found employment in a new enterprise. Some 79 per cent of those placed in temporary or public works jobs returned to their previous job. A total of 58 per cent of school leavers placed in internships were employed by the same organization after completion, while 13 per cent were hired by another organization. In addition, 88 per cent of those who received business start-up support started their own businesses and 89 per cent of persons with disabilities who received assistance found a permanent job. Nevertheless, some problems persist, as shown by the fact that unemployment and underemployment have not yet fallen back to their pre-crisis levels and many new jobs are only temporary.

Within the SME programme, activities in 2009 concentrated on establishing financing institutions, which meant that a subsidy was granted to not more than 8,000 entrepreneurs. However, the programme also contributed to the creation of almost 85,000 new jobs and the preservation of some 275,000 jobs, while 11,000 entrepreneurs obtained credit guarantees. In addition, the labour market situation in mono-industrial towns improved considerably in the course of 2010.
as a result of a better economic performance boosting labour demand and of the measures adopted. During 2010, the measures contributed to the creation of 434,000 temporary and more than 10,000 permanent jobs, while the number of registered jobless persons declined by 49 per cent. The average registered unemployment rate in mono-industrial towns decreased from 5.7 per cent in 2009 to 3.8 per cent in 2010 (for comparison, the national average registered unemployment rate was 2.7 per cent in 2009 and 2.4 per cent in 2010).

**Linking regional measures to broader economic and social policies**

Since the start of the crisis in 2008, the direction of regional measures has shifted in accordance with the changing labour market and social situation. The regional employment promotion and SME support measures applied during the crisis complemented other economic and social measures aimed at stabilising the financial sector, the real economy, the labour market and incomes of the population. However, some measures were already supportive to the restructuring of major enterprises and the diversification of the local economy of mono-industrial towns, as well as the modernization of industrial production and technological innovation through SME development and internship and training programmes. In the current post-crisis period, this new direction of regional measures towards boosting development of the industrial and productive potential of the country as well as structural diversification and technological advancement of the national economy, is increasingly accentuated in line with and in support of the new programme “Innovative Russia – 2020”.

**Effectiveness of regional measures**

ILO, EU and OECD studies have shown that properly designed and implemented employment retention and promotion measures, including support to SMEs, have had a positive impact on reducing lay-offs and unemployment during the crisis. While the abovementioned survey among participants in regional programmes in the Russian Federation showed positive results, it also highlighted the temporary nature of the vast majority of the newly created jobs. Executive bodies of the country’s constituent regions in charge of supporting employment should be further strengthened to improve their job-matching services and place more vulnerable jobseekers in relevant active labour market programmes responding to the demand of employers and the special needs of jobseekers. These programmes would also require more funding as well as regular monitoring and evaluation of their efficiency.

While the SME programme has simplified conditions for new business start-ups, the overall business climate still needs to improve and further steps in this direction as well as additional support for SMEs are necessary in order to make their growth sustainable. It should also be noted that the recent positive results of the Federal Anti-crisis Mono-industrial Towns Programme have come at a cost – the migration of 6.4 per cent of the economically active population of these towns to other regions. Efforts to restructure key enterprises and diversify the economy through boosting SMEs thus have to be intensified in order to bring lasting effects for the economically viable towns. On the contrary, in the case of non-viable towns, the programme should support accelerated migration of their population to other regions.

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1. The average annual exchange rate for 2009 was RUB 44 to 1 euro.
2. Maternity leave is 140 days (70 days prenatal and 70 days postnatal leave), while parental leave can be taken until the child’s third birthday.
References: