



The World Bank

**IN SEARCH OF OPPORTUNITIES?  
THE BARRIERS TO MORE EFFICIENT  
INTERNAL LABOR MOBILITY IN UKRAINE**

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# BASIC INFORMATION ABOUT UKRAINE



- ▶ Area: 603,628 km<sup>2</sup>
- ▶ Population: 45.4 million people
- ▶ Density: 75.2 people/km<sup>2</sup>
- ▶ Urban share: 69%
- ▶ Female share: 53.8%
- ▶ Life expectancy at birth: 71 years (M 66, F 76)
- ▶ Lower-middle income country (GNI per capita, Atlas method USD 3,500, rank 136/213; GNI per capita, PPP, USD 7,180, rank 126/213)
- ▶ But high human development (HDI 0.74, rank 78/187)
- ▶ Local currency: Ukrainian hryvnia (1 USD=11.38 UAH)

Capital city of Kyiv (Kiev): 2.9 million people (6.3 percent of total population)



- ▶ Administrative division: 24 oblasts + Crimean Autonomous republic + 2 cities with special status (Kyiv and Sevastopol)



# OUTLINE

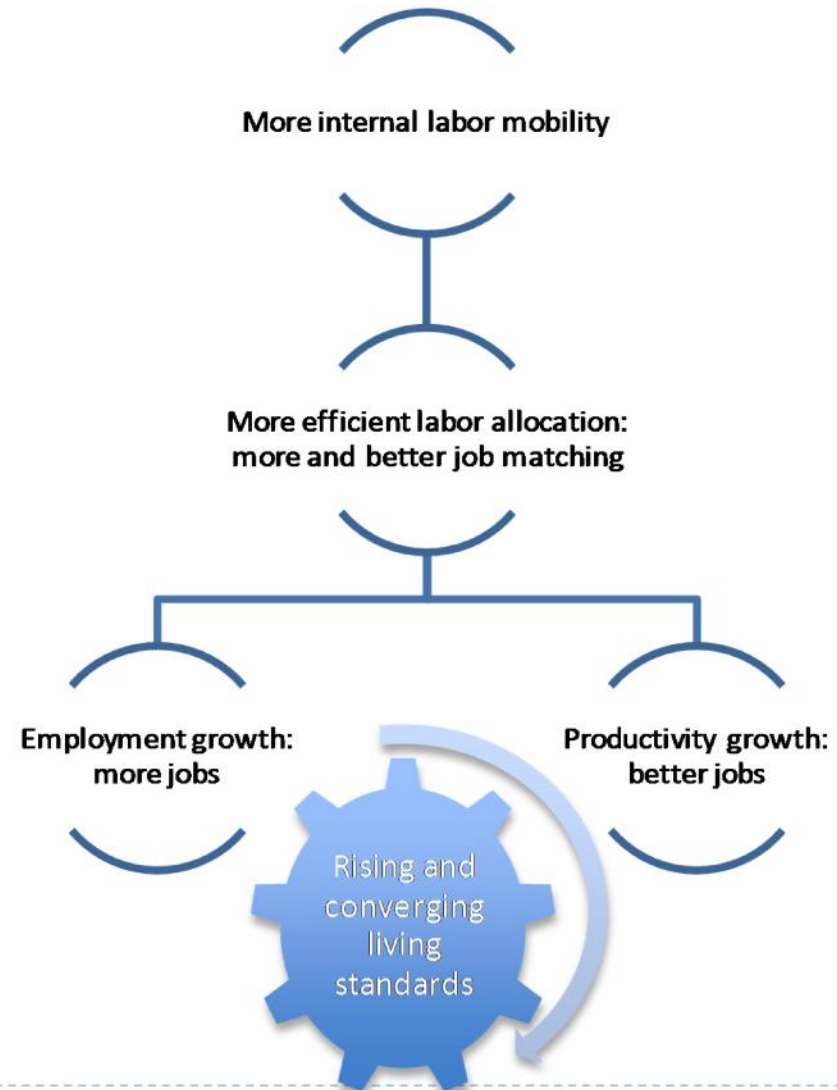
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- **Why does internal labor mobility matter in Ukraine?**
- Barriers to more efficient internal labor mobility in Ukraine
- Policy implications

# WHY DOES INTERNAL LABOR MOBILITY MATTER?



- ▶ **Efficient labor allocation...**
  - ▶ From dispersion to agglomeration
  - ▶ From rural to urban
  - ▶ From lagging to leading regions/sectors
- ▶ **...contributes to higher growth...**
  - ▶ More efficient use of labor
  - ▶ Higher productivity
- ▶ **...and higher living standards**
  - ▶ Helps workers to take advantage of new and better opportunities

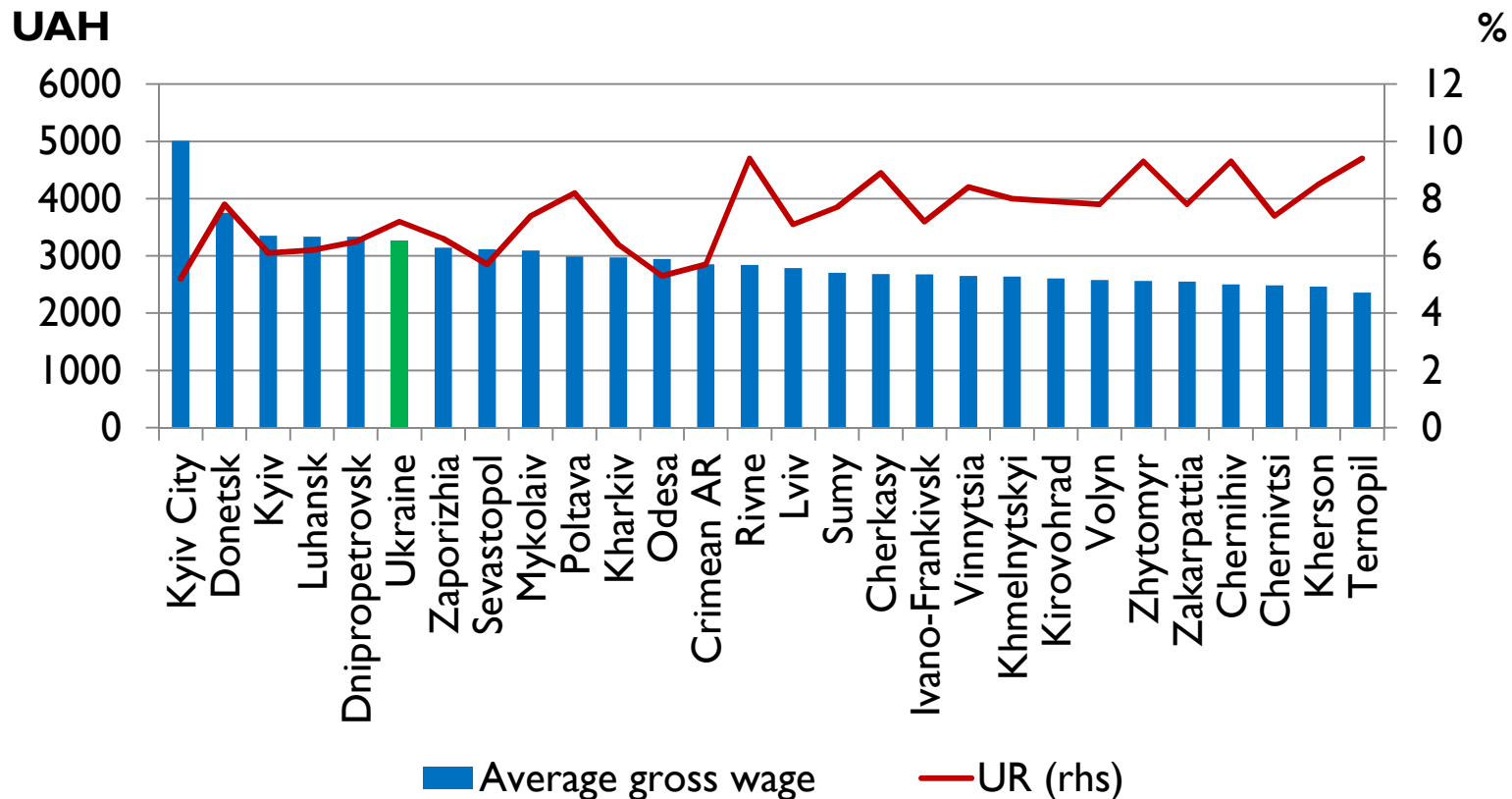


# WHY DOES INTERNAL LABOR MOBILITY MATTER?



- ▶ In Ukraine, there are reasons to move because of dispersion in unemployment and wages. Over time, there was some convergence in regional indicators, but gaps remain

Unemployment rates and wage levels across 27 regions, 2013

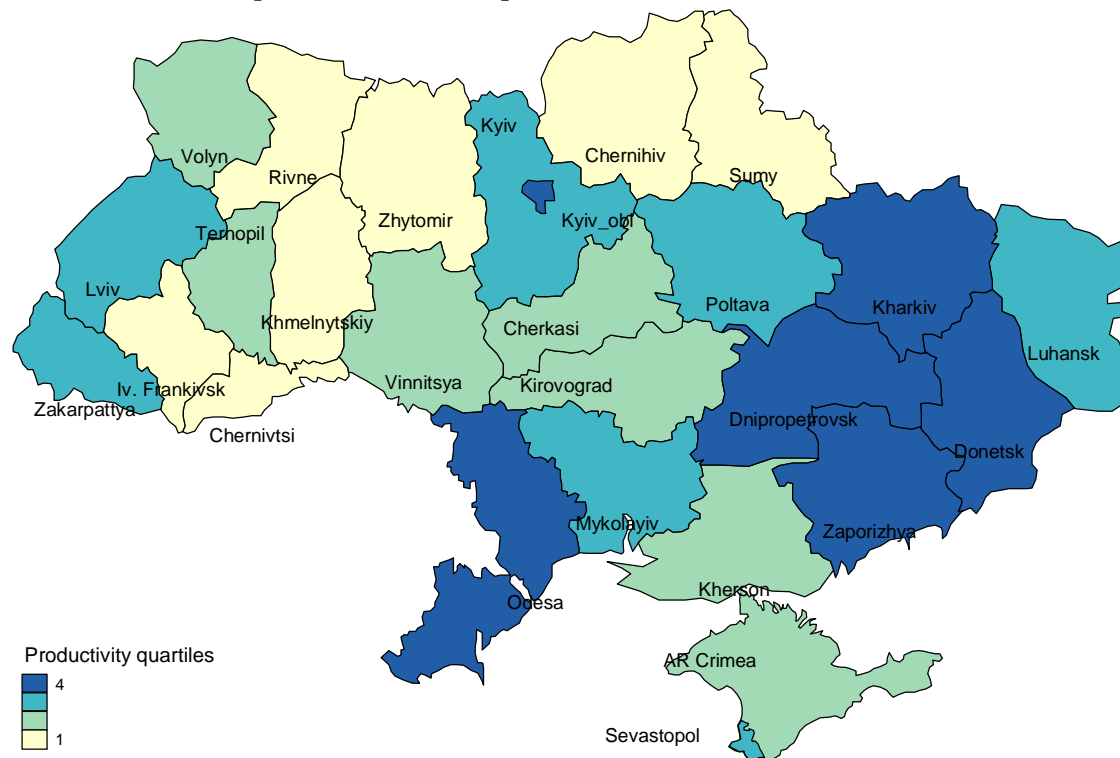


# WHY DOES INTERNAL LABOR MOBILITY MATTER?



- ▶ Gaps in labor productivity are amplified by significant differences in sectoral composition of output and employment across regions, with large gaps in productivity between the traditional and modern sectors of the economy

Mean total factor productivity of Ukrainian firms across regions, 2009

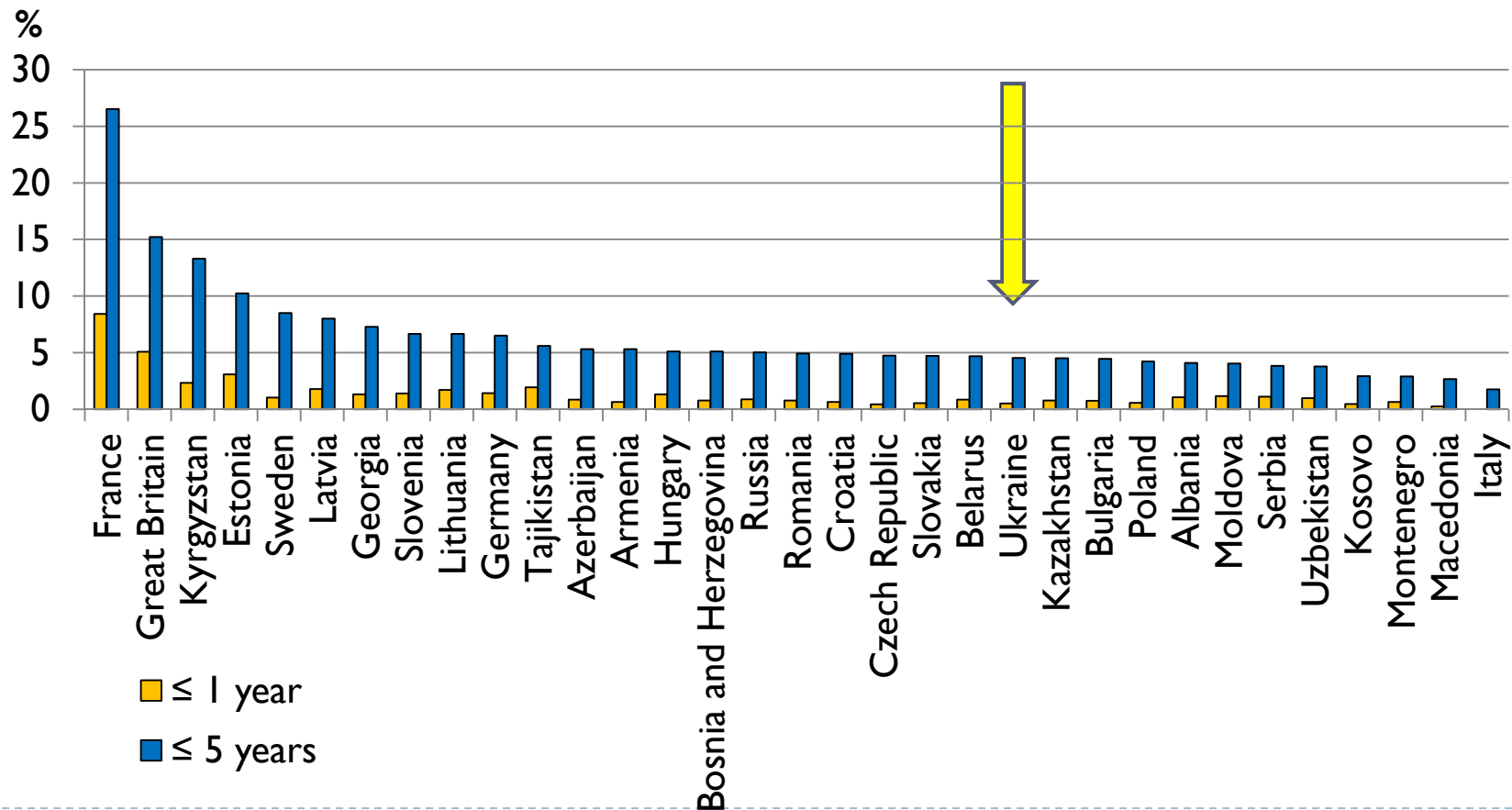


# WHY DOES INTERNAL LABOR MOBILITY MATTER?



- ▶ BUT: there is not much actual movement of people...

Mobility rates (recent migrants in % to total population aged 18+), 2010

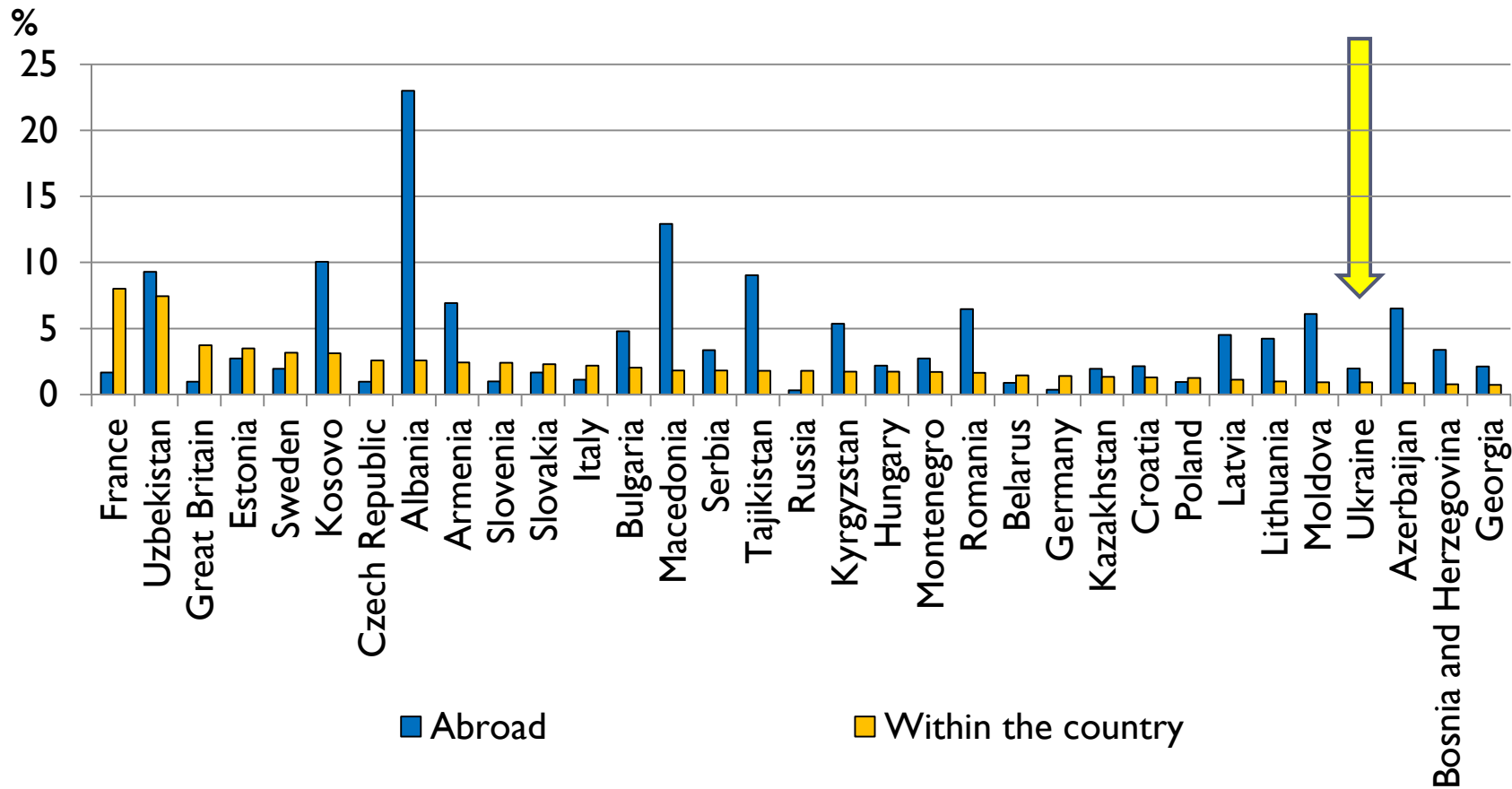


# WHY DOES INTERNAL LABOR MOBILITY MATTER?



- ▶ ... and intention to move within the country is quite low

Intention to move in the next 12 months (% of total population aged 18+), 2010



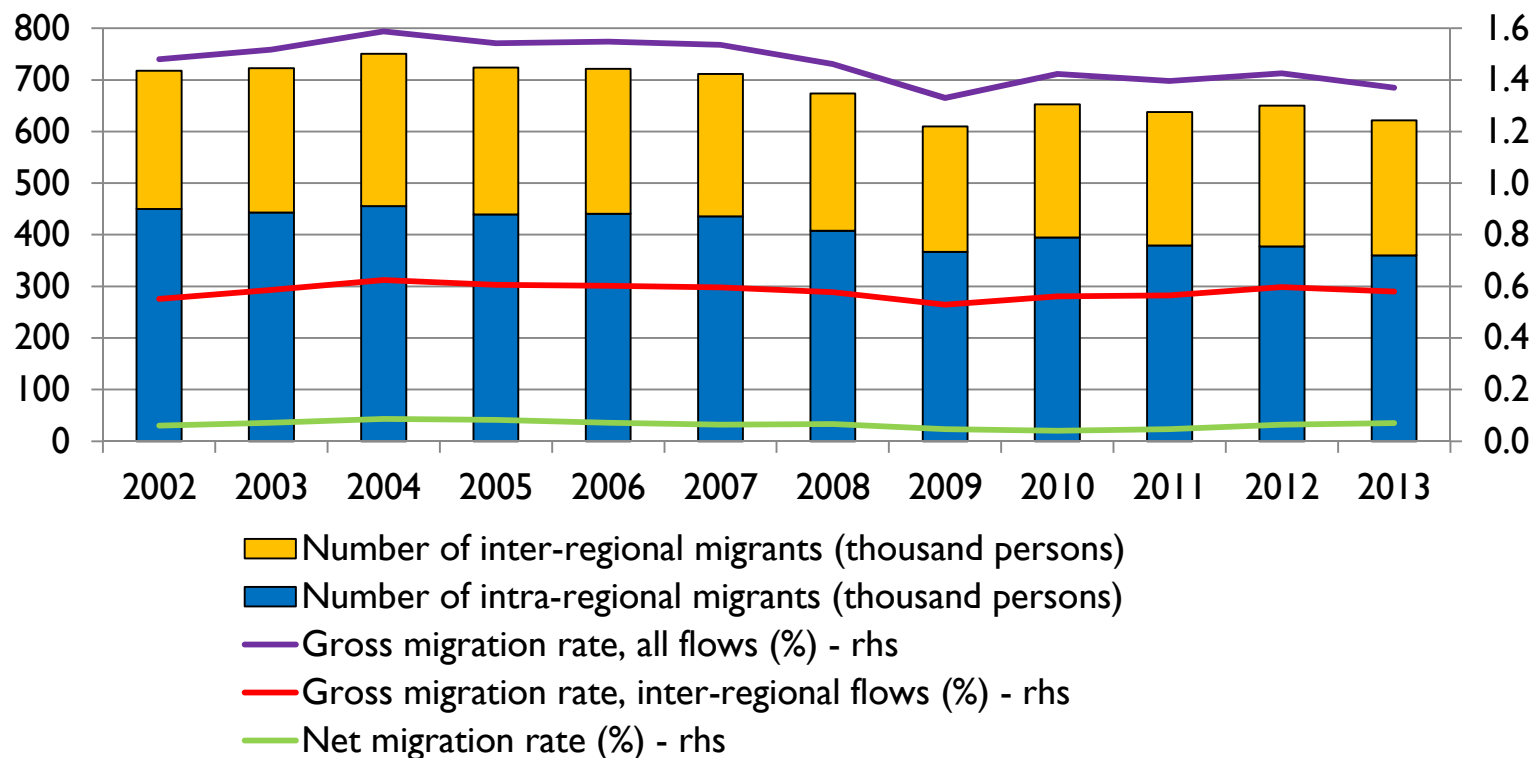


# WHY DOES INTERNAL LABOR MOBILITY MATTER?



- ▶ Gross migration rate remains below its pre-crisis levels in 2004-2007

## Main indicators of internal migration according to official statistics, 2002-2013

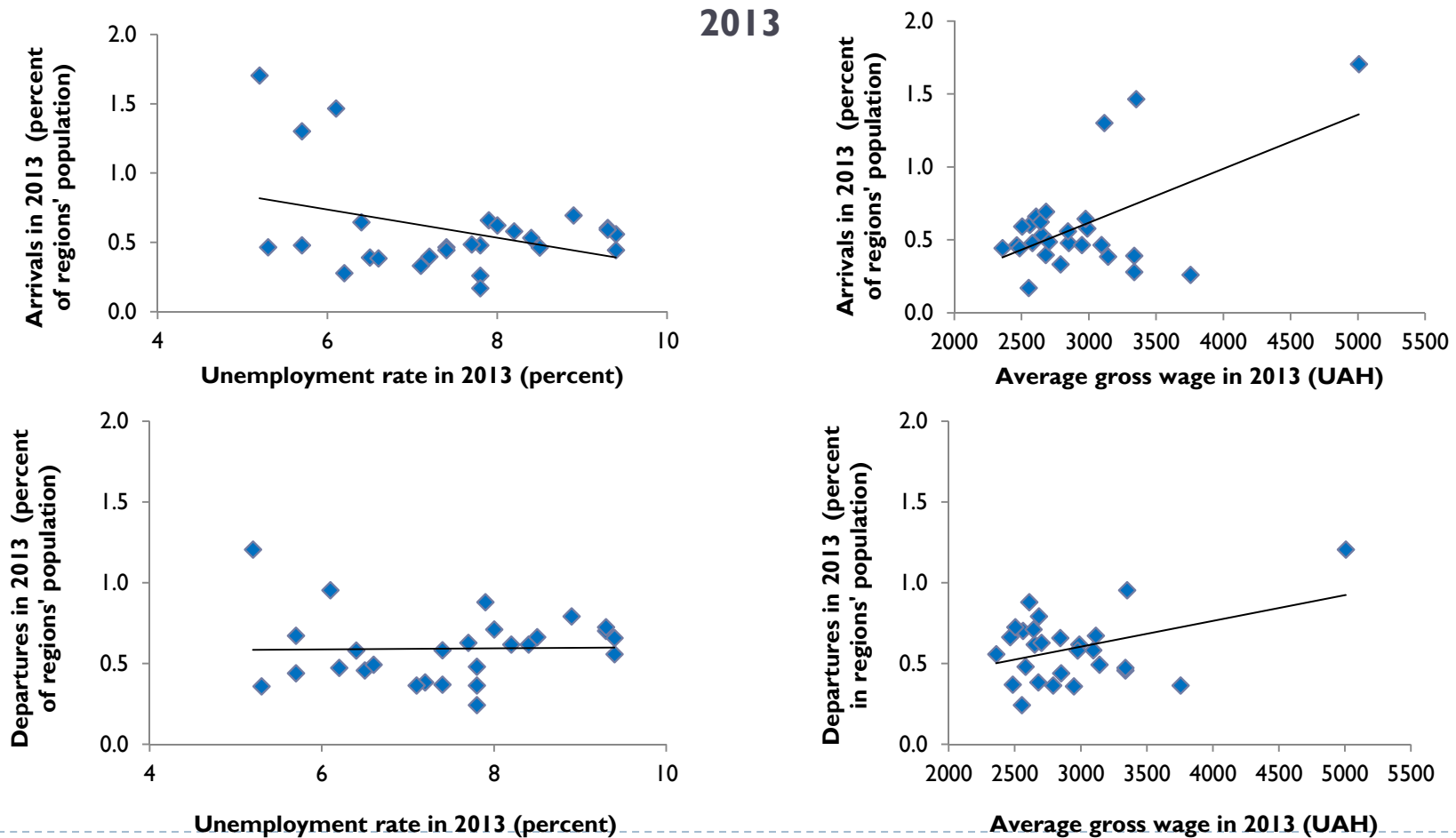


# WHY DOES INTERNAL LABOR MOBILITY MATTER?



- ▶ The movement we see is not necessarily in the right direction

Arrivals and departures and of internal migrants versus unemployment rates and wages,



# WHY DOES INTERNAL LABOR MOBILITY MATTER?

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- ▶ Internal migration remains key to Ukraine's development.
- ▶ The regional differences in labor market conditions across Ukraine represent opportunities for more and better jobs, if people moved to grasp them.
- ▶ The reasons Ukraine's workforce does not seize these opportunities lie deeper than ignorance or interest in better opportunities.
- ▶ To a large extent, Ukrainians realize they could improve their job prospects by moving.
- ▶ BUT they do not move to leading regions because of significant barriers.



# OUTLINE

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- Why does internal labor mobility matter in Ukraine?
- **Barriers to more efficient internal labor mobility in Ukraine**
- Policy implications

# BARRIERS TO MORE EFFICIENT INTERNAL LABOR MOBILITY IN UKRAINE

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- ▶ Seventeen focus groups among employed and unemployed, carried out as background work for the 2013 WDR on Jobs.
- ▶ Two focus groups among migrant workers in Kiev, one with high-skilled participants and the other with low-skilled participants.
- ▶ Survey of experts on internal mobility: 4 trade union representatives, 4 representatives from employers' organizations or members of employers' organizations, and 11 labor market and migration experts from think tanks and universities.
- ▶ Although not representative and subjective in nature, this exercise can provide a simple and cost-effective way to get a better sense of the most binding constraints to internal mobility in Ukraine and the local perceptions on the role and importance of internal labor mobility for Ukraine's economic growth and development.

# **BARRIERS TO MORE EFFICIENT INTERNAL LABOR MOBILITY IN UKRAINE**

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- ▶ **Housing market**
  - ▶ Lack of affordable (rental) housing
  - ▶ Underdeveloped real estate and mortgage market
- ▶ **Labor markets**
  - ▶ Labor market rigidities
  - ▶ Lack of information about job opportunities
- ▶ **Skills and education**
  - ▶ Skills mismatches: skills for better jobs in other regions are missing
  - ▶ (Perceived) differences in quality of skills and education
- ▶ **Social services and benefits**
  - ▶ Health
  - ▶ Education
  - ▶ Social assistance, housing
  - ▶ Unemployment benefits

# **BARRIERS TO MORE EFFICIENT INTERNAL LABOR MOBILITY IN UKRAINE**

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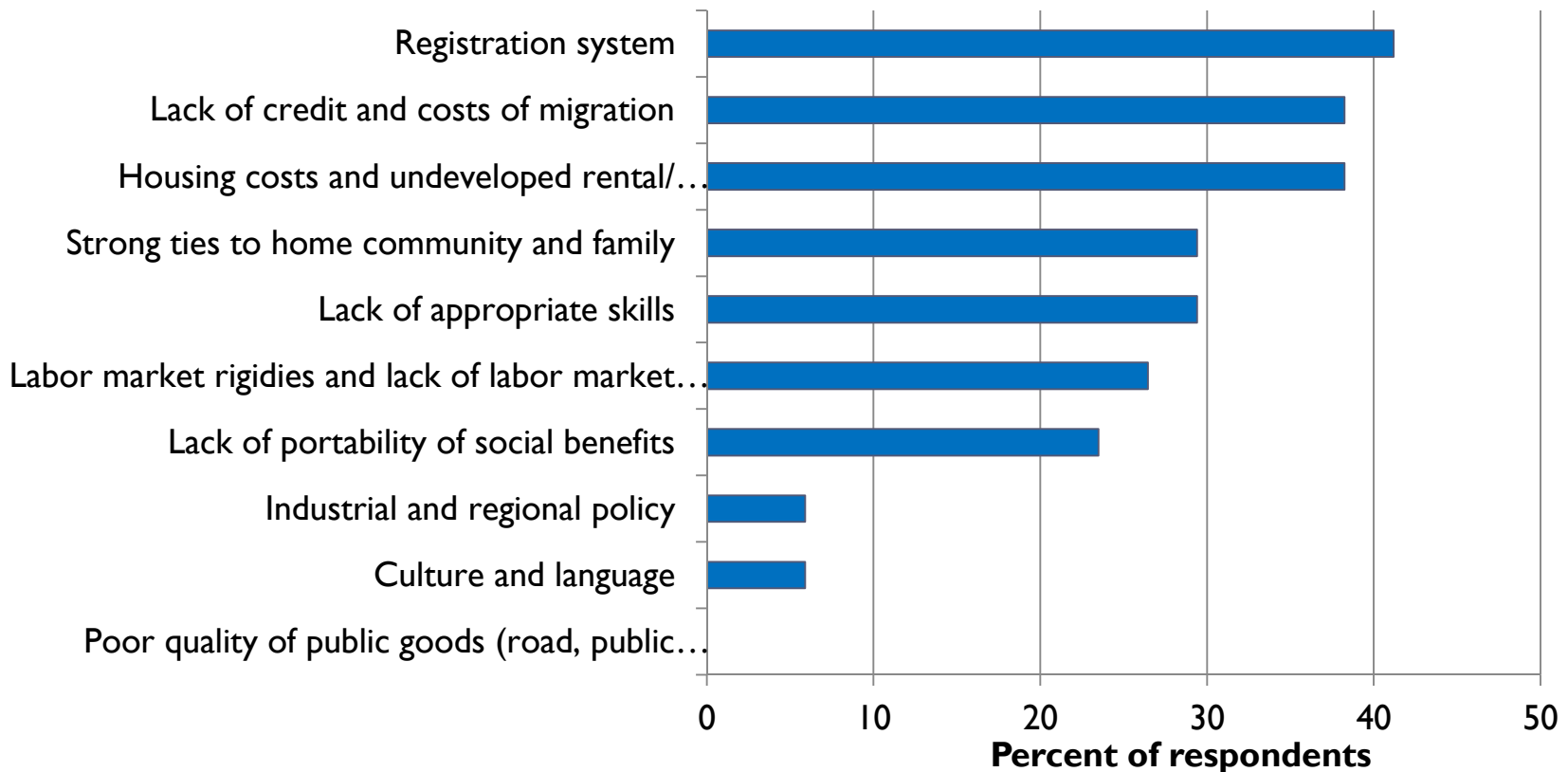


- ▶ **Administrative procedures**
  - ▶ Registration system
  - ▶ Lack of portability of certain benefits
- ▶ **Public goods**
  - ▶ Roads, public transportation infrastructure, related public services
- ▶ **Social capital**
  - ▶ Strong ties with local community and family
- ▶ **Credit markets**
  - ▶ Lack of access to small loans to finance migration
- ▶ **Others**
  - ▶ Language, culture and political attitudes
  - ▶ Discrimination

# BARRIERS TO MORE EFFICIENT INTERNAL LABOR MOBILITY IN UKRAINE



- ▶ The top three barriers are: (i) Ukraine's population registration system; (ii) lack of access to credit and the costs of moving; and (iii) an underdeveloped housing and mortgage market

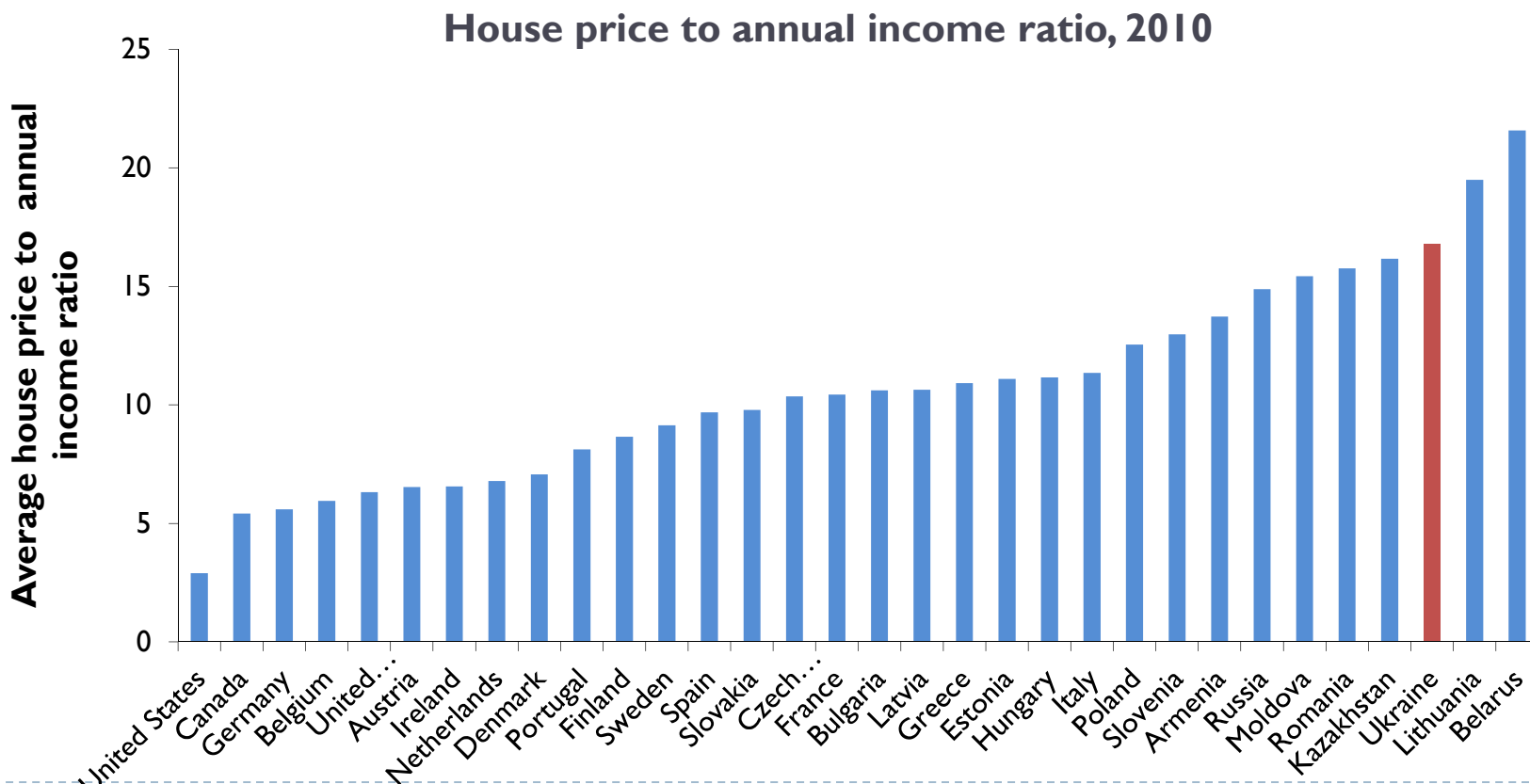




# BARRIERS TO MORE EFFICIENT INTERNAL LABOR MOBILITY IN UKRAINE



- ▶ Housing in Ukraine is very expensive, representing on average more than 16.8 times annual income. This is one of the highest ratios in the ECA region. It is seven times higher than in the United States.



# BARRIERS TO MORE EFFICIENT INTERNAL LABOR MOBILITY IN UKRAINE



- ▶ High private ownership of housing
- ▶ Rental market is under-developed, “shadow” and hardly affordable
- ▶ Real estate market is under-developed
  - ▶ Low availability of housing
  - ▶ Small-size dwellings (55 m<sup>2</sup> which i.e. 1.5 times smaller than in EU -27 (81.4 m<sup>2</sup>); an average Ukrainian dwelling consists of 2.35 rooms – against 3.6 in the EU)
  - ▶ Obsolete, worn out and uncomfortable housing stock
- ▶ Promise of free housing keeps people in their place of residence
- ▶ The new housing supply is too low
- ▶ Mortgage markets are under-developed (and in crisis)
  - ▶ The mortgage to income ratio skyrocketed to 322% in 2010.
  - ▶ For comparison, the corresponding figures are 23% and 37% for the U.S. and Germany respectively. The mortgages are more expensive relatively to income only in Belarus, Lithuania, Moldova and Russia.



# OUTLINE

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- Why does internal labor mobility matter in Ukraine?
- Barriers to more efficient internal labor mobility in Ukraine
- **Policy implications**



## POLICY IMPLICATIONS

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### ▶ Develop for density

- ▶ Three key options for managing geography in a way that will promote economic development: density, distance, or division (WDR-2009)
- ▶ Ukraine needs to increase the mobility of capital and labor to places where economic opportunities are abundant
- ▶ Ukraine's focus should be on spatially blind institutions, including basic services provision that aims to create density by making portable investments in people and helping them to connect to economic opportunity

### ▶ Move people to jobs, not jobs to people

- ▶ The experience in most countries has shown that the most effective policy approach is to help people — especially poor people — secure work in regions and industries where economic opportunity flourishes
- ▶ Ukraine as an emerging market economy should invest in people rather than in places



## POLICY IMPLICATIONS

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- ▶ The importance of government policy in effecting change
    - ▶ The government institutions like the population registry, labor, education and social protection systems that are supposed to help people gain economic opportunity are underperforming in Ukraine.
    - ▶ As a result, Ukrainians often circumvent these institutions and rely on alternative solutions. Informal social networks – friends and family ties – are the most important of these alternative solutions.
    - ▶ But they are a less efficient and less comprehensive way to improve the economy than government policy changes.
    - ▶ Besides, when too much reliance is placed on social networks, they undermine the credibility and authority of government.
  - ▶ Improving government institutions offers long-term solution
    - ▶ It is important for the government to make long-lasting changes in policy and create effective institutions that support labor mobility rather than standing in the way.
    - ▶ For Ukraine, with a population that is aging rapidly, increasing labor mobility must happen sooner rather than later, since an older population is even less likely to migrate to find work.
    - ▶ Greater workforce mobility will help mitigate the negative impact of demographic shifts on Ukraine's labor market and medium- and long-term economic growth prospects.
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## POLICY IMPLICATIONS

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- ▶ Five key areas must be improved so that workers in Ukraine have the freedom to pursue job opportunities throughout the country:
  - ▶ The population registry system must be streamlined and modernized.
  - ▶ Housing and credit markets must be fully developed.
  - ▶ Greater human capital investment must be made, particularly training in high-demand skills.
  - ▶ Labor market institutions must be improved in a way that will spur dynamism in the labor market while still protecting workers, and also provide reliable information about job openings and labor market conditions.
  - ▶ Social benefits must be made portable and adequate.

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Thank you for attention  
and



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