

# Design of short-time work schemes: International experience and recommendations for Ukraine

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# Executive summary

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- A short-time work (STW) scheme exists in Ukraine and is being used during the Coronavirus crisis
  - Two programme lines with different eligibility criteria create confusion
  - Benefits below unemployment insurance levels reduce take-up incentives
  - Lack of funding and unclear application rules have limited roll-out
- International experience with STW schemes has been very positive and indicates that the Ukrainian scheme should be extended
- The scheme should be streamlined into one line
  - Main eligibility criterion: production reduction due to economic reasons (e.g. using a revenue reduction threshold)
  - Coverage: all regular companies, socially insured indiv. Entrepreneurs
  - Programme benefits should be equal to UI benefits
- Administration of applications should be optimised and made easier
- Fraud prevention should occur through quick ex-ante checks and more substantial ex-post audits

# Structure

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1. Introduction
2. Design options for short-time work schemes
3. The Ukrainian „partial unemployment“ scheme
4. International experience
5. Recommendations for Ukraine

# 1. Introduction

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## **Background:**

- Heavy impact of COVID-19 pandemic on companies due to lockdown and reduced demand for products
- Reducing labour costs quickly is challenging for companies in Ukraine, many had to resort to firing employees although being sub-optimal (PS/01/2021)
- A limited short-time work “partial unemployment” scheme already exists, but has not been used very extensively so far
- Extending the scheme could be an option to help companies in crisis and their employees (PS/01/2021)

## **Purpose of this Policy Briefing:**

- Analysis of existing Ukrainian scheme and international experience
- Policy recommendations for extending the “partial unemployment” scheme and improving adaption of the Ukrainian labour market to crises

## 2. Design options for short-time work schemes

### 1. Economic design options

Design option	Content
Scalability	Can working hours of employees be reduced partially or do employees need to be furloughed completely (not working at all)?
Coverage	Under what circumstances are <i>companies</i> eligible use the scheme (e.g. turnover decrease thresholds; measures by authorities etc.)
Eligibility	Which <i>workers</i> can receive support (regular employees, fixed-term employees, posted workers)?
Generosity	What is the level of short-time work benefits?
Co-payment	Do companies still have to bear some costs (e.g. social insurance contributions, top-up of short-time work benefits)?
Duration	For how long can workers receive short-time work benefits?
Decision rules	How can companies switch to short-time work, who needs to agree to this, how is it implemented in labour law?

# Design options for short-time work schemes

## 2. Administrative/institutional design options

Design option	Content
<b>Financing</b>	<ul style="list-style-type: none"><li>• How is the system funded (e.g. independent entity/budget item or within the general unemployment insurance system)?</li><li>• Is there a need for political decisions to allocate funding for the system?</li></ul>
<b>Processing applications</b>	<ul style="list-style-type: none"><li>• How is the trade-off between facilitating quick and easy applications and ensuring that companies meet criteria of the scheme addressed?</li><li>• Are digital methods used for applying and processing applications?</li></ul>
<b>Combating abuse</b>	<ul style="list-style-type: none"><li>• What institution (scheme itself or an enforcement agency) is responsible?</li><li>• Is a preventive or an ex-post approach to combating abuse used?</li></ul>

# 3. The Ukrainian “partial unemployment” scheme

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## History

- 2013: first law providing financial aid to large *production* enterprises on downtime for economic or technical reasons
- 2020: the programme was amended due to COVID to cover SMEs and self-employed that had to stop due to state restrictions

## Use during Coronavirus crisis

- Both old and new programme lines were used. Whereas old line is more permissive with regard to reasons (economic and technical vs. COVID regulations), it is only available for large production enterprises
- New line available for SMEs and individual entrepreneurs, but only in case of closure due to COVID regulations
- In 2020, almost 400 thsd. individuals received benefits, 50% of them self-employed under the new line of the scheme
- Perceived lack of clarity who could apply to what, untransparent decisions by local employment agencies on eligibility of companies

# Design of the Ukrainian scheme (I)

## 1. Economic design

Design option	Implementation in Ukraine
<b>Scalability</b>	Fully flexible: working hours of employees can be reduced partially or fully. Working hour decreases can vary across employees and divisions of a company.
<b>Coverage</b>	Large companies in the manufacturing sector on downtime due to technical and economic reasons (old line), companies and individual entrepreneurs unable to operate due to state restrictions (new line)
<b>Eligibility</b>	Old line: Socially insured employees of large production enterprises if at least 20% of staff affected and hours reductions of at least 30%. New line: All socially insured workers on employment contracts, insured self-employed (since Jun 2020), working pensioners (since Mar 2020)
<b>Generosity</b>	Large production enterprises: 2/3 of base salary, capped at subsistence level; SMEs: 2/3 of base salary, capped at state minimum salary; self-employed: 2/3 of personal social insurance base. Maximum disbursements are smaller than maximum unemployment benefits.
<b>Co-payment</b>	Employer pays social insurance contributions for the actual salary paid; temporary social insurance contribution waivers for self-employed; partial unemployment benefits are not taxed.
<b>Duration</b>	COVID-related reasons: over duration of state-imposed quarantine restrictions + 30 days extra. Economic reasons: max 180 days.
<b>Decision rules</b>	Trade union needs to agree to working hours reductions. If no trade union exists, each affected worker needs to agree working hours reductions.

# Design of the Ukrainian scheme (II)

## 2. Administrative design

Design option	Content
<b>Financing</b>	<ul style="list-style-type: none"><li>• Funding comes from State Social Insurance Fund</li><li>• Financial resources at the Fund were not sufficient for large-scale use</li></ul>
<b>Processing applications</b>	<ul style="list-style-type: none"><li>• Split into two lines creates confusion about eligibility, results in need for local employment agencies to decide about which applications to accept without clear guidelines</li><li>• Formal process of application screening leads to rejection of applications for minor wording issues</li><li>• Capacity issues due to purely manual processing of applications</li></ul>
<b>Combating abuse</b>	<ul style="list-style-type: none"><li>• Currently no checks of companies' operations/financial statements possible</li><li>• Risk: Companies could get benefits while actually working</li></ul>

# Problems of the Ukrainian PUI scheme

	Design option	Problem	Consequence
Economic design options	Coverage	Two lines with confusing and inconsistent criteria of eligibility of companies for support	Insufficient usage of the scheme
	Duration	Support may end before companies' business situations are back to normal	
	Generosity	Workers disincentivised from agreeing to PUI rather than unemployment	
Administrative design	Financing	Limited funds in Social Insurance Fund	Scheme cannot expand
	Processing applications	Manual and formal approach to processing applications, arbitrary decisions by local agencies	
	Combating abuse	Lack of ability to verify that no abuse takes place	Abuse + costs

- Analyse international case studies to find potential and tested solutions
- Focus on “economic design” options

## 4. International Experience

- We analyse STW schemes in 4 countries (Germany, UK, Romania, Japan)

Overview of STW schemes in four case studies

	Germany	UK	Romania	Japan
<b>Launch of scheme</b>	1910 (first programme), 1957 (current law)	March 2020	2003	1957
<b>Crisis-specific scheme?</b>	General, independent from national crisis	Specific, to end in September 2021	Support during state of emergency or natural disasters	General
<b>Amendments during COVID-19 crisis</b>	Yes, conditions relaxed, generosity increased	N/A	Yes, eligibility criteria relaxed	Yes, conditions relaxed
<b>Take-up during COVID-19 crisis</b>	6 m workers in April 2020	11.5 m jobs supported so far	N/A	4.0 m jobs supported so far

- Aim: See how these countries tackled with the problematic issues for Ukraine (esp. coverage, duration, generosity)

# Lessons from international experience (I)

## 1) Economic design

Design option	Results
Coverage	<ul style="list-style-type: none"><li>• No restrictions on firm size or on COVID-measures (only as an additional ground for claiming support).</li><li>• Thresholds often used to determine eligibility of companies for benefits: Revenue reduction (RO, JP), work volume reduction (DE).</li></ul>
Duration	<ul style="list-style-type: none"><li>• Limits exist esp. for „general“ schemes existing independently of crisis (range from 100d (JP) to 1y (DE) maximum support duration).</li><li>• During crisis, frequent adjustments/extensions of schemes are normal.</li></ul>
Generosity	<ul style="list-style-type: none"><li>• UI benefits level is the <b>minimum</b> floor for STW benefit generosity.</li><li>• Higher STW than UI benefits can be seen as a social policy measure to further mitigate impact of crisis, esp. where UI benefits are low, will depend on fiscal capacities of state.</li></ul>

- **All analysed cases have broader and deeper STW programmes than UKR.**
- **Experience has been positive, no complaints of excessive costs.**

# Lessons from international experience (II)

## 2) Administrative design

Design option	Results
<b>Financing</b>	<ul style="list-style-type: none"><li>• Financing through unemployment insurance system makes sense.</li><li>• Funding of UI and STW needs to be increased for crisis situations (from general budget revenues).</li></ul>
<b>Processing applications</b>	<ul style="list-style-type: none"><li>• Digitalisation of applications procedure necessary.</li><li>• Main aim: Quick pay-outs to eligible companies.</li><li>• Quick cross-checks with company records advisable for fraud prevention.</li></ul>
<b>Combating abuse</b>	<ul style="list-style-type: none"><li>• Final review by employment agency after company ends usage.</li><li>• Possible repayments if companies overestimated support need.</li><li>• In case of suspected fraud, prosecution authorities should take over.</li><li>• Anonymous designated hotlines for reporting abuse.</li></ul>

- **Ukraine should shift the focus towards speedy applications and pay-outs**
- **Smart approach to fraud prevention: verify legitimate company ex-ante but only extensively audit the entitlement to assistance after conclusion of support**

## 5. Recommendations for Ukraine

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- Ukraine should simplify its programme by unifying the two programme lines under a simple, consistent set of criteria.
  - Main criterion: economic reasons (e.g. revenue drop) for reducing production.
  - Coverage: all regular companies, socially insured indiv. Entrepreneurs.
  - Programme benefits should be equal to UI benefits.
- Administration should be streamlined to ensure speedy and consistent treatment of applications.
  - Automatic processing of digital applications (for example, via Diia App) with suitable, fast cross-checks for fraud prevention.
  - Elimination of leeway for decision by local agencies and of purely formal checks and criteria.
- Fraud prevention should occur through reasonable, quick ex-ante checks and more substantial ex-post audits to combine quick support with good control.
- Funding through the unemployment insurance system is reasonable. In crisis, funding of the UI system (incl. STW) needs to be scaled up to meet needs.

# About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

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# Annex: International experience

## 1) “Kurzarbeit” in Germany

Design option	Implementation in Germany
<b>Scalability</b>	Relatively flexible: benefits cover employees with pay decreases between 10% and 100%. Working hour decreases can vary across employees and divisions of a company.
<b>Coverage</b>	All companies having to reduce work for at least 10% of employees (COVID: 1/3) by at least 10% due to economic reasons, if work reduction is temporary, unavoidable and caused by an inevitable event.
<b>Eligibility</b>	Regular employees, workers on fixed-term contracts, trainees if work reduction is min. 30 working days
<b>Generosity</b>	Compensation of 67%/60% (with/without children), same as unemployment benefits. New: 77%/70% from 4th month, 87%/80% from 7th month of reception.
<b>Co-payment</b>	Pre-COVID, companies paid Social Insurance contributions for workers on Kurzarbeit; has been waived during COVID-19 crisis.
<b>Duration</b>	Normally: Max 12 months. COVID-19 special conditions: 24 months for workers put on Kurzarbeit before end of 2020.
<b>Decision rules</b>	Works council needs to agree to Kurzarbeit. If no works council exists, each affected worker needs to agree to Kurzarbeit.

## 2) Coronavirus Job Retention Scheme in UK

Design option	Implementation in UK
<b>Scalability</b>	Fully flexible (flexible furloughing): working hours of employees can be easily adjusted.
<b>Coverage</b>	Any company can apply for grants for any number of employees.
<b>Eligibility</b>	Regular employees (including foreigners on employment visas), apprentices, part-time and zero-hour contract workers.
<b>Generosity</b>	Furloughed employees are entitled to furlough pay of 80% (70% from July 2020, 60% from August 2021) of their usual monthly wage costs for unworked hours, up to a cap of GBP 2,500 a month. Max scheme benefits are much higher than max unemployment benefits (max GBP 74.70 per week).
<b>Co-payment</b>	Employers responsible for all taxes and pension contributions for worked and unworked hours (since Aug 2020); from Jul 2021, employers will pay 10% for hours not worked by furloughed employees (20% from Aug 2021).
<b>Duration</b>	Min. 3 weeks, no max. duration (subject to scheme extension; average duration of one scheme round is 4 months, re-application is possible).
<b>Decision rules</b>	Employee's written consent to furlough is needed.

### 3) Technical unemployment scheme in Romania

Design option	Implementation in Romania
<b>Scalability</b>	Relatively flexible: working hours of employees can be reduced by at most 80%; any number of employees (COVID reasons), or for at most 75% of employees within one company can benefit (economic reasons).
<b>Coverage</b>	Companies closing totally or partially their activities due to state restrictions (COVID reasons) and companies unable to cover workforce costs and showing at least a 10% drop in revenues over previous month (economic reasons).
<b>Eligibility</b>	Regular employees, apprentices (since Apr 2021).
<b>Generosity</b>	Employees are entitled to 75% of pay for hours not worked; benefit amount is capped at 75% of national gross average wage. Max scheme benefits are much higher than max unemployment benefits (75% of subsistence level + up to 10% of last salary).
<b>Co-payment</b>	Employers pay social insurance for employees and may supplement the benefit (rest of 25%).
<b>Duration</b>	At least 5 days over a 30-day period; at most over duration of pandemic.
<b>Decision rules</b>	Working hours reductions must be approved by trade union or employee representatives; employee's consent is needed.

## 4) Employment adjustment subsidy programme in Japan

Design option	Implementation in Japan
<b>Scalability</b>	Fully flexible, but minimum working hours reduction is one day (for all employees) or one hour (for individual employees).
<b>Coverage</b>	Companies fully stopping operations due to state restrictions (COVID reasons) or showing a 10% y-o-y drop in revenues (COVID: 5%) over past three months (economic reasons).
<b>Eligibility</b>	Regular and non-regular employees on temporary paid leave; employees not covered by employment insurance (since May 2020).
<b>Generosity</b>	State reimburses 2/3 of paid leave allowance for SMEs and 50% for large firms (COVID: 100% for SMEs and 75% for large firms); benefit amount is capped at JPY 8,370 per day (COVID: JPY 15,000 per day). Max unemployment benefits are higher than scheme compensations (80% of last salary).
<b>Co-payment</b>	Employers have to co-pay 1/3 of paid leave allowance that is not reimbursed by the state.
<b>Duration</b>	Max duration is 100 days, re-application once a year (COVID: subject to scheme extension).
<b>Decision rules</b>	No specific agreements between employer and employee needed.

# 5) Administrative design: International experience

## Typical administrative process design

### Application

- Digital applications normally possible.
- Usual monthly (re-)applications generated high volume of applications, necessitating automatic processing.
- Example UK: 27% of employees were on scheme in May 2020, more than 11.5 m employees were supported so far.

### Disbursement

- Quick verification of existence of company (e.g. social insurance registration, corporate tax ID)
- Assessment of stated reason for application
- Aim is fast disbursement to eligible companies.

### Ex-post checks

- Was company entitled to the funding it received.
- Usually conducted by authority handling disbursements (often employment agency) with right to demand documentation.
- In case of suspected fraud, specific enforcement agencies take over.

## Financing

- Usually financed through the unemployment system.
- Specific budget allocations for the STW scheme are usually required.
- No automatic financing, but in case of crisis allocations for the scheme have to be (frequently) adjusted, as for claims on unemployment benefits, too.
- No evidence of practical problems arising from the need to adjust the budget.