

**INTERNATIONAL LABOUR ORGANIZATION
UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE**

REGIONAL FORUM

“Social Aspects and Financing of Industrial Restructuring”

26 and 27 November 2003, Moscow, Russian Federation

Topic 6. Regional dimension of industrial restructuring

The Restructuring of Core Enterprises in Single-Industry Towns: Avoiding
Social Tensions

By Ms. Ludmila ISTOMINA - Programme Officer
and Ms. Taisia ELETSKIKH – Project Manager

UNDP Belarus

(This paper is being circulated by the secretariat as received from the author)



UNITED NATIONS

Restructuring of core enterprises - reducing social risks in single-industry urban communities

(a review of a UNDP project in Belarus)

Ludmila Istomina, UNDP Projects Coordinator (Candidate of Sciences, Economics)

Taissyia Eletsikh, Project Manager (Candidate of Sciences, Economics)

Socio-economic conditions in single-industry urban communities in Belarus

Industry location policies in the former Soviet Union have generated the phenomenon of single-industry towns, whose economy depends entirely on core enterprises that constitute its core. Those are the enterprises that provide most of the jobs within the community, generate the lion's share of local revenues and are often responsible for maintaining the city's social services. This link between the steady work of a core enterprise and the socio-economic development of a city is the most apparent in small cities. Belarus has a total of 170 small cities, of which 71 have mono-industrial economies.

Socio-economic surveys of such single-industry communities have revealed that most (88%) are facing severe unemployment problems that approach critical levels. Some common features of such communities are as follows:

- The actual rate of unemployment is significantly higher than the official rate;
- The number of excess staff in the core enterprises has a tendency to grow;
- Limited job vacancies significantly restrict the opportunities for re-employment. As a result, the proportion of long-term unemployed, who have been out of a job for six or more months, is disproportionately high.
- The majority of unemployed are young people;
- The proportion of people with incomes below the minimum consumer budget is on the increase.

The labour markets in small urban communities can be described as isolated, immobile and in a near-critical condition. In such communities, layoffs of excess personnel from the core enterprises have the highest risk of producing high social tensions.

As 35% of state-owned core enterprises are operating at a loss, their reform and modernization is high on the government's agenda. However, there is also a broad recognition that substantial changes in those enterprises will have multiple and complex effects on the life of the communities and surrounding regions and that such transformations would also impact people's living standards and well-being. The risk of increased social tensions and high unemployment are some of the biggest concerns.

Because the life of a small community is so closely linked to the fortunes of its core enterprise, enterprise restructuring is not just a local matter, but rather a priority for the entire region. The preparation for restructuring requires involvement of all relevant stakeholders – national and local-level government institutions, enterprise managers, employment services, employer associations, small business support institutions, and the trade unions. The project was meant to respond to the apparent lack of a mechanism that would enable those parties to consolidate their efforts in preparing for the changes to come. It reflected the obvious fact that social dialogue and greater interaction among partners in a socially responsible enterprise restructuring could foster collaboration in designing measures to minimize the social risks of change and avert social tensions.

Bearing in mind the crisis in the employment markets of single-industry cities, the heightened risk of unemployment in the wake of enterprise restructuring, and limited experience of dealing with those challenges, the Ministry of Labour and Social Protection turned to UNDP for assistance in developing a policy response to those problems. The joint project of UNDP and government of Belarus "Fostering regional-level dialogue and social partnerships in minimizing the risk of unemployment and poverty in the wake of enterprise restructuring" was implemented from 1 September 2002 to 30 September 2003 with funding from the UNDP Global Poverty Trust Fund.

The project's primary aim was to assist the national and local government authorities in managing the risks of unemployment and poverty in the wake of enterprise restructuring in small single-industry urban communities of Belarus.

The project's main objectives included:

- Initiating social dialogue among national and local governments, enterprise managers, enterprise employees, public organizations and business associations;
- Formulating a joint action programme to minimize the social risks of enterprise restructuring;
- Strengthening the national capacity in the area of socially responsible enterprise restructuring;
- Involving enterprise employees early in the restructuring process; raising their awareness about the possible impact of enterprise restructuring.

The project was piloted in Beryozovka, a small community located in Lida District, Grodno Region. With an economy built around the glass factory “Neman”, Beryozovka is facing many of the problems affecting most other small urban communities within the county. At the start of the project, the factory Neman employed 70.9% of Beryozovka’s workforce. Layoffs were expected to affect 600 people. Given the lack of jobs outside the factory, such extensive personnel cuts were likely to lead to increased social tensions.

Implementing dialogue and partnership

In order to facilitate social dialogue and partnership, a provisional working group was established at the project demonstration site. The group was composed of eight members representing the local government, enterprise management, the trade union, rank-and-file employees, local employment services and the regional business incubator. The working group focused on the planning and coordination of restructuring-related action on many fronts. The group’s meetings addressed some of the following issues:

- Findings of the glass factory’s initial evaluation and its main restructuring priorities;
- Risks of forthcoming personnel cuts and opportunities for re-employment;
- Options for corporatisation and arrangements for debating those options with employees;
- Transferring the ownership of social service facilities to the city;
- Enhancing the social insurance package;
- Promoting private enterprise within the city.

The group’s successful performance clearly suggests that a similar model can be applied in other parts of Belarus as a tool for fostering social partnership and stakeholder interaction in socially responsible enterprise restructuring. Such a group should be active not only at the preparatory and planning stage, but also later in the process of enterprise restructuring. Throughout the reform process, it should facilitate coordination and interaction among the stakeholders and monitor the implementation of the joint action plan on socially responsible restructuring.

Strengthening local government capacity for leadership in socially responsible restructuring was a particular priority. The aims were to:

- involve local government officers in all training activities in order to enhance communication and raise problem awareness, and
- advise on measures to prevent unemployment and social tension in the community and integrating those measures in the socio-economic development plans.

Analytical and educational activities

Three analytical teams were created. The first team evaluated the labour market and its performance in small single-industry urban communities. Through such work, it became possible to evaluate the potential of the local labour market and make recommendations on reducing the social risks of restructuring for the community. More specifically, the team’s analysis led to recommendations on the gradual streamlining of personnel, social compensation and voluntary separation packages, early retirement, training and retraining programmes, and advisory services for those wishing to become self-employed.

The experience of economic reform in East Germany – studied within the project – points to the crucial importance of social contingency planning as a key component of any enterprise restructuring plan developed jointly with the trade unions, personnel departments, employment services and the local government.

A social contingency plan may include:

- Selection criteria for staff to be laid off;
- List of positions to be eliminated;
- List of employers re-employed by new companies established through separation of the core enterprise’s former auxiliary units and social service and public utilities facilities; description of social compensation packages for the employees being laid off;
- List of employees wishing to establish their own businesses;
- Professional training, retraining and upgrading programmes;

- Arrangements for job creation and self-employment;
- Voluntary separation packages;
- Financial compensation offered and received;
- Early retirement conditions;
- Costs and funding arrangements for the social contingency plan.

The project's analytical materials formed the basis of a joint action plan to minimize the social risks of restructuring. They also helped to formulate personnel policy recommendations and to propose mechanisms to manage the gradual staff reduction process.

The second team, composed of employees of a consulting agency – assisted enterprise managers and technical staff in adjusting financial transactions and preparing for corporatisation. Participation in this work was also extended to rank and file employees and middle-level managers of the enterprise's auxiliary units and utilities facilities. The result was a staged restructuring plan and recommendations on reforming the enterprise-owned social services and utilities facilities with a view to improving the enterprise's competitiveness and operating efficiency. The key outputs of this work were debated at a working group meeting and accepted by the enterprise management as a roadmap to meeting the key objectives of enterprise restructuring.

The third team was concerned mainly with reducing the costs of restructuring borne by the rank and file employees, the most vulnerable stakeholder group. This was done by involving those employees in making decisions on restructuring and informing them about the existing re-employment opportunities, social protection arrangements and ways of starting their own business.

Employee and trade union representatives have participated in every workshop on socially responsible restructuring and were included in the provisional working group, where they were directly involved in the debate on restructuring, corporatisation, labour protection and social compensation. As a result, employee needs have been reflected in the restructuring plan and joint action programme.

An information booklet was produced, explaining the social compensation provisions and opportunities for employment, self-employment, professional training and retraining.

A series of workshops was conducted for the employees and managers of the core enterprise's auxiliary units expected to separate from the core enterprise in the process of restructuring. During the workshops, participants were offered training in the foundations of private enterprise. The workshops covered business organization, registration and planning and provided a detailed study of options for the transformation of enterprise-owned greenhouses as into an independent vegetable-growing business and of the emergence of the enterprise-owned cafeteria as an independent public catering enterprise.

Special emphasis was made on training the project participants in the methodology of socially responsible restructuring, which depends on the involvement of social partners in the decision-making processes. Two three-day workshops were conducted at the project demonstration site involving international consultants. The workshops' 35 participants included representatives of the local government, enterprise management, lead specialists, trade union leadership, rank-and-file employees, employees of the enterprise-owned social service and utilities providers, employment services and the staff of the consulting agency. Workshop participants were divided into working groups, focusing on core and non-core production processes, the social infrastructure, and the work of the economic planning unit. Discussion within the working groups focused on the challenges facing the enterprise in these problem areas and options for improving performance in each of them. The output materials and the lessons learned from the deliberation process were highly appreciated by the enterprise's managers.

The project has produced three brochures:

- "International best practices in socially responsible restructuring". The brochure presents the experience of several countries in implementing the principles of socially responsible restructuring, discusses different aspects of such restructuring relevant to regional development and reviews concepts of local-level economic and social policies.
- "Socially responsible restructuring of a core enterprise – definitions, principles and implementation options". The brochure is based on the materials produced during project implementation. The focus is on the sources of social tensions in single-industry urban communities, unemployment and poverty prevention, and the functions of local labour market infrastructures as they relate to socially responsible restructuring in a core enterprise.
- "Socially oriented restructuring of a core enterprise – a manual for enterprise managers". The aim of this publication is to assist enterprise managers in making effective management decisions during the restructuring process.

Private enterprise promotion

The restructuring of core enterprises is generally accompanied by the growth of private initiative within the community, thus providing a means of reducing social tensions and serving as a prerequisite to the community's sustainable development. After examining the constraints to small business development in Beryozovka, project consultants developed proposals aimed at promoting private initiative and improving collaboration between local employment services and business support institutions during the restructuring process.

The project's main output is the joint action programme to reduce the social risks of restructuring in a core enterprise. The programme outlines:

- Key policy objectives relating to unemployment and poverty prevention in single-industry urban communities;
- Roles and functions of partners in the dialogue on reducing social tensions in the wake of enterprise restructuring and mass layoffs of personnel;
- A package of preventive measures and recommendations to promote industrial recovery and growth of private business in single-industry towns;
- Ways of balancing the needs of the key stakeholders in the restructuring process –business owners, enterprise managers, rank-and-file employees, community residents and public organizations.

Project achievements

The national government has been acquired new tools for reducing unemployment, poverty and social risks in the wake of enterprise restructuring, and has been armed with a tried and tested model of collaboration involving national and local-level government institutions, employment services, enterprise managers, rank-and-file employees and business associations. The action programme and the positive experience of collaborative decision making will accelerate industry reform, facilitate sustainable economic development and lead to improvements in people's living standards.

The local governments have strengthened their capacity for comprehensive socio-economic planning to address the social risks of the forthcoming restructuring process. By enhancing partnerships among stakeholders and ensuring broad participation of the civil society in the drafting of the joint action programme, the project has created opportunities for improved collaboration in programme implementation.

The local employment services have acquired new expertise in implementing proactive social policy interventions aimed at preventing unemployment and managing the social risks of enterprise restructuring.

Enterprise managers and employees have deepened their knowledge of socially responsible restructuring and utilized it to optimize the restructuring process and avoid a number of its potential risks.

Regional business associations and enterprise support institutions have been given the opportunity to participate in, and contribute to, the drafting and implementation of the joint action programme that is conducive to small business development and leads to a better business environment in the community and region.