

**TWINNING CONTRACT**

**Development of new statistical methodologies and indicators in selected areas of statistics in line with EU statistical standards**

**Ukraine**



**MISSION REPORT**

**on**

**Evaluation of Methodology for Salary Measuring concerning Compliance with EU and ILO Standards**

**Component no II – Activity 2.4**

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Kiev, October 2<sup>nd</sup> – 5<sup>th</sup> 2012

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## List of Abbreviations

|      |                                     |
|------|-------------------------------------|
| ToR  | Terms of Reference                  |
| SSSU | State Statistics Service of Ukraine |
| DST  | Statistics Denmark                  |
| LCI  | Labour Cost Index                   |
| LCS  | Labour Cost Survey                  |
| SES  | Structure of Earnings Survey        |
| SF   | Statistics Finland                  |

## 1. General comments

This mission report was prepared within the Twinning Project „Development of new statistical methodologies and indicators in selected areas of statistics in line with EU statistical standards”. It was the fourth mission to be devoted to Component II of the project. The mission was aimed at harmonizing the national salary measuring methodology with the EU standards.

The concrete objectives of the mission were:

- Detailed consideration of available data sources to calculate labour cost index and development of recommendations on these calculations.
- Improve the practical skills and expertise of the SSSU on EU experience on organizing and conducting short-term surveys of labour remuneration and wages structure survey.
- Draft methodology on measuring salaries and wages is evaluated in terms of its correspondence with the EU standards.

The consultants would like to take this opportunity to thank all officials and individuals met for the kind support and valuable information which they received during the stay in Ukraine, and which highly facilitated the work of the consultants.

The views and observations stated in this report are those of the consultant and do not necessarily correspond to the views of EU, SSSU or DST.

## 2. Assessment and results

Wages and salaries are, also in Ukraine, something which for a long time has been of huge interest for both politicians and economists. This interest is reflected in a very comprehensive statistical system of wages and salaries.

The consultants gave an in-depth presentation of the legislation of the LCI and LCI issues that are often discussed in Eurostat meetings. Also the delivery of the LCI to Eurostat and what it should contain was treated. The presentations was a good starting point for some interesting talks about among other things hours worked and what is included.

The consultants also made a presentation covering calculation of LCI in DST and which information is sent to Eurostat. Furthermore the consultants explained the calculations Eurostat makes on the delivered data. This subject raised a lot of interesting questions and there were some discussion of the Danish method of using identical enterprises (enterprises in both quarters) in the calculation of the LCI figure to Eurostat.

The consultants explained the different forms of dissemination that Eurostat does for the LCI. The latest news release was presented and explained, the homepage for LCI – resent trends was introduced and the Eurostat database was presented and explained in detail. Also the news release that Statistics Denmark publish on the LCI was shown as inspiration to SSSU. The news release from Denmark has increased the interest for the LCI in Denmark.

SSSU gave an introduction to the surveys that are already produced by the SSSU and will be a source for the LCI calculation. The plan is to use the quarterly questionnaire “Labour Report” for the LCI. For the reason of being in-line with EU standards on labour cost SSSU has also developed a four yearly LCS. The latest LCS done in Ukraine has the reference year 2010.

SSSU is also aware that currently the users in Ukraine are more interested in absolute values and not index values as the LCI shows. SSSU might start the calculation of the LCI somewhere in 2013. It is the consultants suggestion that when SSSU starts to publish the LCI, SSSU should make some kind of

comparison between Ukraine, Ukraine's closest neighbours and EU with the focus on increase in LCI to increase users interest.

SSSU presented an example of calculation the LCI with the sources available to SSSU. The example was an unadjusted index following the legislation. The consultants has offered SSSU help in the coming months or at the last mission if they have any questions with aggregating NACE sections or weighting of the LCI.

In general the quarterly "Labour report" is covering the different aspects of the LCI. SSSU is aware though that there are some gaps that have to be solved before they can fully live-up to the current EU-legislation. SSSU do not wish to expand the current questionnaire with new questions as an increase in response burden is not a good solution. Instead SSSU will try to get the information from administrative sources or use estimation. The consultants believe that the current questionnaire combined with data from administrative sources or estimation will be acceptable to EU. The most important part that is currently missing from the questionnaire is employer's social contribution.

Employer's social contribution is only collected every fourth year, so SSSU will try to get information from an administrative source. The so-called *pension fund* in Ukraine has this information on enterprise level, but right now that is not a part of the information that the SSSU already gets from the pension fund. Before 2011 employers had to pay contribution to several different funds but now only one payment to the pension fund of Ukraine is needed. The pension fund will then distribute the contribution among the different funds. The SSSU estimates that employer's social contribution counts for around 30 % of total labour costs. The estimate is based on the four-yearly survey.

SSSU informed the consultants that revising the protocol to exchange data with the pension fund might be a long process. The consultants recommend that the information concerning employer's social contribution is based on the information collected by the pension fund. We therefore highly recommend that the pension fund makes the contributions available to SSSU. If SSSU can't get access to this information SSSU will have two options:

1. Estimation by using known data and current legislation
2. Add an extra question to the quarterly questionnaire

Option 2 is not in-line though with the current EU target on decreasing the response burden concerning obtaining statistical information from companies.

In case SSSU gets access to the contributions from the pension fund, different solutions to implement the figures was discussed. One possible solution could be to link the local units from the quarterly questionnaire with the enterprises from the pension fund. Another solution could be to use the information from the pension fund to calculate a matrix that could be used to add employer's social contribution.

There are a few other issues with elements in variable D4 and D5 of the LCI regulation where SSSU doesn't collect information quarterly or at all. The percentages of these items compared with total labour costs are low and the consultants will not recommend collecting these information but suggest that they collect these information every fourth year as a part for the LCS. Then SSSU will be able to follow the development and maybe later add them into the survey. The consultants underlined the importance of describing these conditions in the quality report of the LCI.

There is also a small problem concerning bonuses. The LCI has to be calculated including and excluding bonuses. Today SSSU collect information on bonuses which are systemic or not. However this is not the approach of EU. SSSU collects quarterly bonuses as a systemic bonuses and EU defines it as non-systemic. This is a minor issue and can be explained in the quality report. There is no need to change the questionnaire.

SSSU and the consultants also talked about the calculation of backdata when changing NACE revisions and we also had a talk about confidentiality for data in EU and nationally.

For the up-coming mission a few details were discussed. In the next mission there will be a workshop with the users of salary statistics in Ukraine. The plan is to invite relevant state institutions, the pension fund, researchers, representations from trade unions and the confederation of employers. The workshop will be 3 hours. The plan for presentations are:

1. Status of the SES. Responsible: SSSU.
2. Information about the plan to calculate the LCI. Responsible: SSSU.
3. Presentation of the European system of Labour Cost and Earnings. Responsible: DST, Steen.
4. Presentation of the source used for the different surveys and the use of administrative sources including mentioning that EU would like to reduce the response burden. Responsible: SF, Seppo.
5. Presentation of Eurostats database and what kind of figure that are available. Responsible: DST, Maria.

It is important that the consultants send the presentation to be revised and translated no later than 2 weeks before start of the mission.

Mission 2.5 will be for 2.5 days and take place from March 4<sup>th</sup> 2012 to March 6<sup>th</sup> 2013. The first day will be used to prepare for the seminar and discuss the presentations. The second day will be used on the workshop 10-13 and the rest of the second day and day three will be used to solve any questions still left unanswered.

### **3. Conclusions and recommendations**

The consultants believe that SSSU are very close to be able to live-up to the EU legislation on LCI.

The item that's missing is employer's social contribution. The consultants support SSSU's wish to get the information from the pension fund of Ukraine. If it is not possible to get the information from the pension fund SSSU will either have to estimate employer's social contribution or increase the response burden by adding a new question to the survey. Getting the information from the pension fund will be in-line with EU's current goal of using more administrative data to decrease the response burden.

When SSSU has calculated the LCI it is advisable to get users interested in this new survey to make a need for the survey in the future. This could be done in a news release where Ukraine is compared with its neighbouring countries.

## **Annex 1. Terms of Reference**

### **Twinning Project**

#### ***“Development of Ukrainian Statistical Methodologies in line with EU Standards”***

##### **Terms of Reference**

*for the short-term mission to the State Statistics Service of Ukraine*

*Activity 2.4 “Labour cost index and Labour cost survey”*

### **Background information**

Statistics Denmark in partnership with Statistics Finland, Statistics Lithuania, Central Statistical Bureau of Latvia, Statistical Office of Slovak Republic, INE Spain - National Statistical Institute of Spain and Statistics Sweden, implements in Ukraine "Development of New Statistical Methodologies and Indicators in Selected Areas of Statistics in Line with EU Statistical Standards" Twinning Project. The State Statistics Service of Ukraine (State Statistics of Ukraine) is the Beneficiary of this Project).

This action is being implemented under Component 2 “Measuring salaries and wages”. The purpose of this Component is harmonisation of the national methodology of measuring salaries and wages with the EU standards.

This action will contribute to achieving the abovementioned objective and reference indicators specified in the contract, namely:

- improvement of practical skills and expertise of the SSSU on EU experience on organising and conducting short-term surveys of labour remuneration and wages structure survey;
- draft methodology on measuring salaries and wages was evaluated in terms of its correspondence with the EU standards.

### **Purpose of the Mission**

The prior purpose of the Mission is:

Detailed consideration of available data sources to calculate labour cost index and development of recommendations on these calculations.

### **Expected Results**

Outlining necessary actions to implement labour cost index calculations in the national statistical practice.

### **Actions**

The tentative schedule of the Mission is the following:

*October 2, 2012.*

1) Labour cost index (LCI) and main characteristics of the survey serving a basis for its obtaining: organisation, questionnaire to be used, data collection and processing; sample

and revision of its plan; procedures used for evaluation; calculation of index; publication; quality report.

*October 3, 2012.*

2) General characteristics of labour force survey (LFS) and study of labour remuneration issues within its framework.

3) Ensuring of data confidentiality during survey data dissemination.

*October 4, 2012.*

4) Detailed consideration of a possibility to calculate labour force cost index based on state statistical survey data “Business survey on labour statistics issues” and “Companies’ expenses on labour force maintenance”.

5) Discussing expert recommendations on updating the quarterly questionnaire of the state statistical survey “Business survey on labour statistics issues” to ensure labour force cost index calculation.

*October 5, 2012.*

6) Summing up and discussing general recommendations on improvement of the national methodology of measuring salaries and wages.

## **Tasks to be fulfilled by SSSU to facilitate the mission**

The SSSU will ensure the presence of Labour Statistics Department specialists and access to information (guidelines, questionnaires, etc.) needed for the Mission.

## **Consultant and Partner**

The Mission will be conducted by:

**Steen Bielefeldt Pedersen** - head of Division, Statistics Denmark

**Maria Boye** - head of section, Statistics Denmark

The partner from the country-beneficiary will be:

Personnel of the Labour Statistics Department of the SSSU:

**Inesa Senyk** – Director of the Labour Statistics Department

**Tetiana Bochkariova** – Deputy Director of the Labour Statistics Department – Head of the Division for Labor Remuneration Statistics

**Nadia Sokurenko** – Chief economist of the Division for Labor Remuneration Statistics

**Natalia Usyk** - Chief economist of the Division for Labor Remuneration Statistics

## **Timing**

The mission will be conducted from October 5 till October 5, 2012 in Ukraine.

## **Report**

The summary report on the results of the mission should be submitted not later than two weeks after the mission is completed.

## **Annex 2. Persons met**

### SSSU:

Inesa Senyk, Director of Labour Statistics Department

Nadia Sokurenko, Chief Economist of Labour Payment Statistics Unit

Natalia Usik, Chief Economist of Labour Payment Statistics Unit

Tetiana Bochkariova, Deputy Director of Labour Statistics Department – Head of division for the labour remuneration Statistics

### RTA Team:

Irina Bernstein, RTA

Volodymyr Kuzka, RTA Assistant

Anna Chornous, Interpreter