Investing in Youth
LITHUANIA

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Investing in Youth: Lithuania

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BETTER POLICIES FOR BETTER LIVES

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Please cite this publication as:
OECD (2016), *Investing in Youth: Lithuania*, OECD Publishing, Paris.
http://dx.doi.org/10.1787/9789264247611-en

ISBN 978-92-64-24760-4 (print)
ISBN 978-92-64-24761-1 (PDF)

Series: Investing in Youth
ISSN 2412-6330 (print)
ISSN 2412-6357 (online)

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Foreword

As highlighted in the OECD Action Plan for Youth, successful engagement of youth in the labour market is crucial not only for their own personal economic prospects and well-being, but also for overall economic growth and social cohesion. Therefore, investing in youth is a policy priority in all countries, including Lithuania, and requires concerted action to develop education systems and labour market arrangements that work together well.

Following the launch of the OECD Action Plan for Youth in May 2013, the OECD is working closely with countries to implement the plan's comprehensive measures in their national and local contexts and to provide peer-learning opportunities for countries to share their experience of policy measures to improve youth employment outcomes.

The report is the response to a request for collaboration made by the Lithuania Government to the OECD in 2014. It builds on the extensive country reviews that the OECD has carried out previously on the youth labour market and vocational education and training (Investing in Youth; Jobs for Youth; Learning for Jobs and Skills beyond School), as well as on the OECD Skills Strategy.

The present report on Lithuania is the fourth of a new series on Investing in Youth which builds on the expertise of the OECD on youth employment, social support and skills. This series covers both OECD countries and countries in the process of accession to the OECD, as well as some emerging economies. The report presents new results from a comprehensive analysis of the situation of disadvantaged youth in Lithuania exploiting various sources of survey-based and administrative data. It provides a detailed diagnosis of the youth labour market in Lithuania from an international comparative perspective, and offers tailored recommendations to help improve school-to work transitions. It also provides an opportunity for Lithuania to learn from the innovative measures that other countries have taken to strengthen the skills of youth and their employment outcomes, notably through the implementation of a Youth Guarantee.

Acknowledgements

The work for this report was carried out within the Directorate for Employment, Labour and Social Affairs (ELS), under the supervision of Alessandro Goglio (Economic Counsellor). Chapter 1 was prepared by Anton Nivorozhkin (Economist, ELS/DO) and Alessia Forti (Junior Policy Analyst, ELS/DO); Chapter 2 was prepared by Alessia Forti; Chapter 3 was prepared by Anton Nivorozhkin. Andrea Bassanini (Senior Economist, ELS/EAP) calculated and provided the employment protection legislation indicators for Lithuania used in Chapter 2. Alex Hijzen (Senior Economist, ELS/EAP) and Balint Menyhert (Research Assistant, ELS/EAP) provided support with the calculation of the OECD Job Quality indicator for Lithuania used in Chapter 1. Editorial assistance was provided by Anna Irvin Sigal, Natalie Lagorce and Marlène Mohier. The report benefited from the many useful comments provided by Stefano Scarpetta (ELS Director) as well as by staff in the Directorate for Employment, Labour and Social Affairs (ELS) and the Economics Department.

The OECD Secretariat would like to thank the Ministry of Social Security and Labour of Lithuania for its excellent support in carrying out this project and for organising the initial fact-finding mission in March 2015 as well as participants of bilateral meetings for sharing expertise and providing useful comments on earlier versions of the report. In particular, Laura Žebrauskaitė (Ministry of Social Security and Labour) deserves special thanks for her considerable contributions in ensuring a successful completion of this project.

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Acronyms and abbreviations

ALMP	Active labour market programme
BTEA	Basic tax-exempt amount
CPI	Consumer price index
EPL	Employment protection legislation
ESF	European Social Fund
EU-SILC	European Union Survey on Income and Living Conditions
ILM	Intermediate Labour Market
ILO	International Labour Office
INVEGA	Investment and Business Guarantees (*Investicijų ir verslo garantijos*)
ISCED	International Standard Classification of Education
LTL	Latvian lat
MW	Minimum wage
NEET	Neither in employment, nor in education or training
PES	Public employment service
PISA	Programme for International Student Assessment
PPP	Purchasing power parity
SSC	Social security contribution
TWA	Temporary work agency
UIF	Unemployment Insurance Fund
VET	Vocational education and training

Executive summary

Lithuanian youth were hit hard by the global economic and financial crisis and, despite notable signs of progress, the unemployment rate continues to be higher than it was at the beginning of the crisis. A key priority for policy makers is to address long-standing challenges, which are manifest in a fundamental problem of poor quality of jobs, implying that many youth are trapped in low-paid, informal jobs, which prevent them from developing and fully utilising their skills and capacities.

Against the background of the OECD Action Plan for Youth and based on experiences of other countries in designing comprehensive policy packages to support youth employment, this report sets out the broad reforms to labour market and social policies that Lithuania will need to implement in order to address the difficulties that youth face in gaining access to productive and rewarding jobs.

Boosting youth employment in Lithuania will first of all require supporting job creation. High labour costs that affect the willingness and ability of employers to hire youth should be brought down as they could prevent employers to hire (formally) youth, and therefore hinder employment opportunities for young people.

Similarly, strict employment protection legislation in Lithuania may undermine firms' ability to adjust to changing economic circumstances and therefore create a barrier to hiring. Introducing more flexibility, while ensuring adequate social protection and assistance to displaced workers, is needed for enhancing employment prospects for youth.

Policies to support job creation should be supplemented with policies that assist youth to enter the labour market. In this respect, the recently-launched EU Youth Guarantee, which calls on countries to offer youth an education, training or work experience intervention within four months of leaving education or entering unemployment, is a highly relevant but challenging initiative for Lithuania to implement.

Despite its ability to reach out to a large number of youth the Lithuania's PES remains understaffed, which undermines its capacity to provide personalised support. Furthermore, government spending in, and coverage of, active labour market programmes (ALMPs) is very low by international standards, which suggests room for more generous and effective spending on these programmes.

Key recommendations for Lithuania

There are important demand-side barriers to youth employment in Lithuania, both for what concerns the cost of labour and the strictness of employment protection legislation. As a consequence, the OECD suggests that:

- The cost of hiring young workers should be contained. In particular:
  - Reductions in employers' social security contributions should be introduced to complement existing hiring incentives. At the same time, foregone social security contributions should be shifted towards other forms of taxation (such as wealth and environmental taxation) to achieve revenue neutrality.
  - Existing hiring incentives should be re-designed in a way to minimise substitution effects, by imposing more effective conditions on employers. These may include obligations to reward only net employment gains in the company; provide training to subsidised workers; hire the worker beyond the subsidy period. There is also scope for improving the targeting of some programmes, such as the "Support for the First Job".
  - More robust and regular evaluation of hiring incentives should be conducted, not only on the effect of subsidies on participants, but also on the size of deadweight and substitution effects.
  - In addition, the Lithuanian Government could consider introducing a more differentiated structure of wages for youth. International experience suggests that two options are available to Lithuania, i.e., the introduction of sub-minima wages for youth, or training wages. Under the first option, in order to mitigate the impact of sub-minimum wages on youth's net incomes, the non-taxable income could be increased to the level of (sub-) minimum wages.
- Employers should be given more flexibility to adjust quickly to changing economic circumstances. In particular:
  - Employment protection legislation should be relaxed on permanent contracts. In particular, dismissal notice periods should be shortened and severance pay reduced at least for people with shorter job tenure.
  - Smaller firms in Lithuania should be regulated by more flexible employment protection legislation. The Labour Code should ease dismissal procedures for smaller firms, notably by shortening notice periods and reducing severance pay. However, a careful balancing is needed when exempting small firms from employment protection requirements, as too generous exemptions may impede firm growth.

Key recommendations for Lithuania *(cont.)*

- Longer trial periods should be introduced in Lithuania. This would allow employers more time to test new workers and reduce the risk associated with taking on new unexperienced workers, such as youth.
- Temporary contracts should be liberalised to a certain extent. However, liberalisation of temporary contracts should be carefully balanced so as to avoid the creation of a dual labour market characterised by too different regulations between fixed and permanent contracts.

The PES in Lithuania is very successful in reaching out to vulnerable youth. Although participation of youth in ALMPs has increased, international comparison suggests that activation of youth jobseekers remains significantly less frequent in Lithuania than in most other OECD countries. Therefore, the OECD suggests that:

- Scale up ALMPs spending in a gradual manner and supported by the results of rigorous evaluations to ensure that scarce public resources are put to the highest value use.
- Consider implementing the Youth Guarantee following an approach in two phases, each with a distinct policy focus.
  - Phase 1 would involve a low cost intervention aimed primarily at enhancing human capital and rapid job entry.
  - Phase 2 would involve three main programme elements: training with considerable workplace based experience; a work experience programme with a strong focus on the quality of the experience delivered; and Intermediate Labour Market (ILM) positions.
- The recent steps to improve the image and attractiveness of the Lithuania vocational education system go in the right direction but need to be complemented by a scaling up of the financial incentives to firms hiring apprentices.

Lithuania has a modern system of unemployment and social assistance benefits provision. However, there is still scope to fine-tune their design. In this respect, the OECD suggests that:

- If the new draft of the Labour Code is indeed approved and severance pay actually decreased as planned in the near future, the impact of this change should be offset by increasing the generosity of unemployment benefits, along with implementing concomitant measures to strengthen the role played by activation policies.
- In the case of youth (who are less likely to be covered by traditional unemployment insurance systems due to a lack of necessary contributions or sufficiently long employment history), special financial support to assist them in the job-seeking process (a jobseeker's allowance) could be introduced.

Key recommendations for Lithuania *(cont.)*

- Public works programmes (or even employment guarantees) could be used to provide an essential insurance function to the unemployed, while also providing work experience and training.
- Job-search and job availability should be made mandatory during participation in supported employment programmes, in order to facilitate the transition towards employment and minimise lock-in effects.
- Conditions of accepting job referrals may be strengthened for unemployed with relatively long unemployment duration. Sanctions applied to benefit recipients should be adjusted to encourage active job-search.

Assessment and recommendations

Lithuanian youth (aged 15-24) were hit hard by the global economic and financial crisis, with the unemployment rate increasing sharply and peaking to over 35% in 2010. Despite notable signs of progress, at 16.7% (in Q2 2015) the unemployment rate continues to be higher than it was at the beginning of the crisis (around 10%) and there are signs of building labour markets pressures, fuelled by long-standing challenges. These are manifest in a fundamental problem of poor quality of jobs, which means that many youth are trapped in low-paid, informal jobs, which prevent them from developing and fully utilising their skills and capacities. There is a link between these tensions and the market propensity of Lithuanian youth to look for better job opportunities abroad and migrate.

Helping youth getting a better start in the labour market should be given high priority in Lithuania

Population is ageing rapidly in Lithuania and a shrinking labour force means that mobilising all available resources should be a first priority. However, as discussed in Chapter 1 of this report, one distinctive feature of the Lithuanian labour market is the substantial underutilisation of youth talents. Only 27.9% of young Lithuanians are employed (in Q2 2015), which compares to 40% across the OECD and 32.9% across the European Union. Moreover, Lithuanian youth face high inactivity rates (67.2%, versus 53.4% across the OECD and 57.2% across the European Union). Although the proportion of all youth who are neither in Employment, Education or Training is still relatively low in Lithuania by OECD standards, it is increasing rapidly. In 2014, 12.9% of young people (aged 15-29) were NEET, up from 10.7% in 2005. Young NEETs are often very-low skilled, come from low-income households, are migrants or children of migrants.

Going beyond the aggregate picture, the labour market is characterised by considerable heterogeneities across groups:

- Youth with primary education face a much higher risk of unemployment or inactivity than their peers with higher educational attainments.

- Substantial differences are observed across counties. For example, in 2014, the youth unemployment rate ranges between 41.6% in the relatively lagging Alytaus County and 12.3% in Klaipėdos County.

- Furthermore, in 2014, young women have much lower employment rates than men (24.1% versus 31%). This stems primarily from higher inactivity rates (70.4% versus 61.4%), while their unemployment rates are somewhat lower (18.7% versus 19.6%).

All in all, comparative evidence points to a strong case, social and economic, that more must be done to give Lithuanian youth better opportunities to become integrated in the world of work. The importance of addressing this challenge is particularly strong for the most vulnerable youth, who are typically less skilled. If any, the crisis has reinforced this message with more than two thirds of young Lithuanians feeling that young people have been marginalised and excluded from economic and social life by the crisis, a much higher proportion than the European Union average (57%; Eurobarometer, 2014).

The OECD Action Plan for Youth provides a useful framework for comprehensive youth policy actions

This report provides advice to Lithuania in its efforts to set out comprehensive actions for giving youth a strong start into the labour market. To this end, it uses the framework provided by the OECD Action Plan for Youth, which outlines a broad range of measures against which countries can benchmark their policies to tackle youth employment and to strengthen the long-term employment prospects of youth. The Action Plan for Youth builds upon the extensive OECD analysis over the past 25 years period of education, skills and youth-related employment policies, as well as a number of international initiatives, including the ILO Resolution on "The youth employment crisis: a call for action", the G20 commitments on youth employment and the EU Council's agreement on the Youth Guarantee. Box 0.1 provides the key elements of the Action Plan to which ministers committed at the OECD Ministerial Council Meeting in May 2013.

Box 0.1. The OECD Action Plan for Youth and its key elements

Tackle the current youth unemployment crisis

1. Tackle weak aggregate demand and boost job creation.
2. Provide adequate income support to unemployed youth until labour market conditions improve but subject to strict mutual obligations in terms of active job search and engagement in measures to improve job readiness and employability.
3. Maintain and where possible expand cost-effective active labour market measures including counselling, job-search assistance and entrepreneurship programmes, and provide more intensive assistance for the more disadvantaged youth, such as the low-skilled and those with a migrant background.
4. Tackle demand-side barriers to the employment of low-skilled youth, such as high labour costs.
5. Encourage employers to continue or expand quality apprenticeship and internship programmes, including through additional financial incentives if necessary.

Strengthen the long-term employment prospects of youth

6. Strengthen the education system and prepare all young people for the world of work.
   - Tackle and reduce school dropout and provide second-chance opportunities for those who have not completed upper secondary education level or equivalent.
   - Ensure that all youth achieve a good level of foundation and transversal skills.
   - Equip all young people with skills that are relevant for the labour market.
7. Strengthen the role and effectiveness of vocational education and training.
   - Ensure that vocational education and training programmes provide a good level of foundation skills and provide additional assistance where necessary.
   - Ensure that VET programmes are more responsive to the needs of the labour market and provide young people with skills for which there are jobs.
   - Ensure that VET programmes have strong elements of work-based learning, adopt blends of work-based and classroom learning that provide the most effective environments for learning relevant skills and enhance the quality of apprenticeships, where necessary.
   - Ensure that the social partners are actively involved in developing VET programmes that are not only relevant to current labour market requirements but also promote broader employability skills.

Box 0.1. The OECD Action Plan for Youth and its key elements *(cont.)*

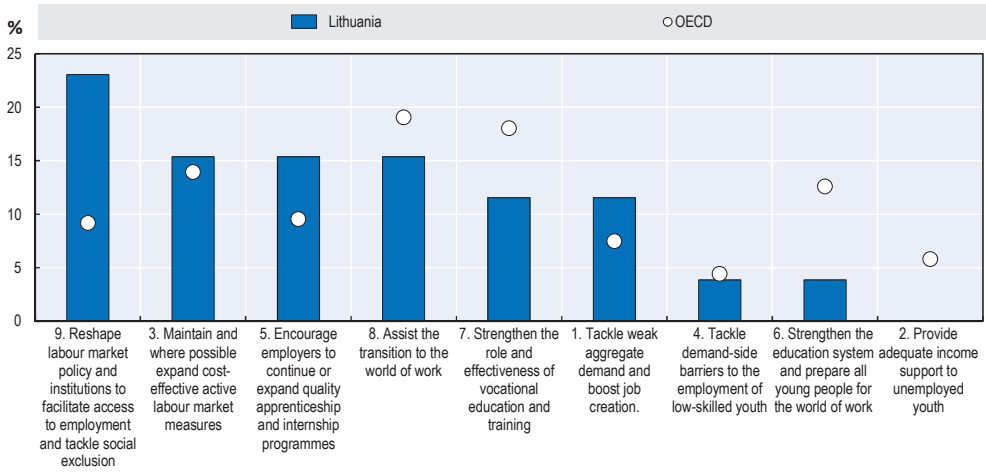
8. Assist the transition to the world of work.
   - Provide appropriate work experience opportunities for all young people before they leave education.
   - Provide good quality career guidance services, backed up with high quality information about careers and labour market prospects, to help young people make better career choices.
   - Obtain the commitment of the social partners to support the effective transition of youth into work, including through the development of career pathways in specific sectors and occupations.
9. Reshape labour market policy and institutions to facilitate access to employment and tackle social exclusion.
   - Ensure more equal treatment in employment protection of permanent and temporary workers, and provide for reasonably long trial periods to enable employers to give youth who lack work experience a chance to prove themselves and encourage transition to regular employment.
   - Combat informal employment through a comprehensive approach.
   - Provide effective support to youth not in employment, education or training (NEET) through intensive programmes with a strong focus on remedial education, work experience and adult mentoring.

Figure 0.1 provides a snapshot of the key policies and measures recently undertaken by Lithuania in the nine broad policy areas for action highlighted in the OECD Action Plan for Youth. It builds on the information compiled and submitted by Lithuania and 25 OECD countries which have accepted to answer a common questionnaire. The summary allows placing Lithuania in the international context with regards to a wide range of policy measures implemented or announced to address youth challenges. No attempt is made to assess how effectively these measures have been implemented or their impact.

From the results of this mapping exercise it appears that reshaping labour market policy and institutions (Action 9 in Box 0.1) is the area in which Lithuanian policy makers have concentrated a significantly stronger regulatory attention in the recent past than the average of the countries considered in the comparison. Maintaining cost effective active labour market measures (Action 3); encouraging employers to continue or expand quality apprenticeship and internship programmes (Action 5); and tackling weak aggregate demand (Action 1) are also areas that seem to have attracted considerable more policy attention in Lithuania than in the average of the countries observed.

Figure 0.1. Number of policy measures by key areas of the OECD Action Plan for Youth

Percentage of all policy measures



1. The following OECD countries have responded to the questionnaire: Australia, Austria, Canada, Czech Republic, Finland, France, Germany, Greece, Ireland, Italy, Japan, Korea, Mexico, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States.

2. For OECD countries, the data presented represents the number of policy measures as a percentage of all policy measures identified in the questionnaire across the OECD. For Lithuania, the data presented represents the number of policy measures identified in the questionnaire as a percentage of all policy measures in Lithuania.

Source: OECD questionnaire on recent measures to improve labour market outcomes for youth.

At the other hand of the spectrum, Lithuanian policy makers appear to have paid considerable less attention than elsewhere on the accompanying policies aimed at assisting the youth to achieve a smoother transition from school to work (Action 8). A similar conclusion applies to the policies that aim to strengthen the role and effectiveness of vocational education and training (Action 7), along with to strengthen the education system and prepare all young people for the world of work (Action 6). Furthermore, unlike the other countries, Lithuania does not seem to have put much effort into the policies to reinforce the provision of income supports to unemployed youth (Action 2).

Broad reforms to labour market and social policies will be essential to address the difficulties that youth face in gaining access to productive and rewarding jobs

Against the background of the OECD Action Plan for Youth and based on experiences of other countries in designing comprehensive policy packages to support youth employment, the report analyses two interdependent axes for addressing youth policy challenges in Lithuania:

- Chapter 2 of the report focusses on demand-side barriers to youth employment. These include the role played by the cost of hiring (as determined by non-wage costs and minimum wages) and the strictness of the employment protection legislation. It also discusses policies currently in place to tackle such barriers (including wage subsidies) and offers a range of policy options to create more favourable conditions for employers to hire youth, while still ensuring decent wages and the respect of an adequate level of protection for workers.

- Chapter 3, the second axis, recognises the importance to underpin the above policies through complementary actions aimed to address labour market and social barriers to youth entering productive and rewarding jobs. These include the role played by the policies and institutions that affect the most disadvantaged groups of youth at greatest risk of becoming permanently marginalised from the labour market and society. To this end, Chapter 3 asks how the functioning of public employment services, activation policies and social welfare programmes can be improved in Lithuania with a view to strengthen the employability of most vulnerable youth. It also discusses the role that vocational education and training (VET) plays in smoothing transitions from school to work.

The reminder of this overview discusses the findings from the OECD's analysis of each axis identifying a set of possible directions for policy actions.

High employers' social security contributions represent a burden to employers, which hampers their willingness to hire youth

High labour costs can be a barrier to (formal) employment, especially for the low-skilled and those who lack work experience, including youth. Part of the pressures can stem as an outcome of high non-wage costs, such as employers' social security contributions and payroll taxes. In Lithuania employers' social security contributions are very high by OECD standards,

especially for low-wage and minimum wage earners. One policy option to remove the adverse effects of high social security contributions on the willingness of the business sector to hire youth would be to introduce reductions of, or exemptions from, employers' social security contributions targeted to youth or, alternatively, low-income earners. Although the latter are not directly targeted at youth, they are likely to benefit many youth, whose entry wages are generally lower. The fiscal space needed to support this change could be created by combining the targeted reduction of employers' social security contributions with measures to achieve better targeted hiring subsidies (see below) and/or other tax measures to shift the tax burden to other sources, which are known as being less detrimental to growth and employment – for example, environmental and wealth taxation.

Existing hiring incentives help to mitigate the impact of high labour costs but their design should be improved

In Lithuania, the adverse effects of high non-wage costs on the hiring of youth are countered, at least in part, by means of relying on a vast array of hiring incentives. Most such hiring incentives have proved effective in helping youth to enter the labour market. However, one particular challenge lies in the need to minimise deadweight losses (i.e. subsidising jobs that would have been created even in the absence of the subsidy) and substitution effects (i.e. crowding out non-subsidised workers to the advantage of subsidised workers). Addressing this challenge, should be given urgent priority, the more so if the government considers that implementing the above discussed reduction of social security contributions is not immediately feasible, at present. In this context, one viable option to reduce deadweight losses would be through better targeting of some existing hiring incentive programmes, redirecting them to the most disadvantaged youth only – those most likelihood of being unable to find their way in the labour market without the wage subsidy. On the other hand, addressing substitution effects would require subjecting the employers to more effective conditions of access to the subsidies. Drawing from international practices, these could include the introduction of the obligation by the company to create net employment gains in order to receive the subsidy; to provide training to subsidised workers; or to hire the worker beyond the subsidy period.

Policy options for ensuring that the statutory minimum wage plays a role in strengthening the employability of youth

Lithuania has had a statutory minimum wage (MW) in force since 1995. From the governance perspective, the level of the MW is assessed annually by the government, taking into account the recommendation of the

independent Tripartite Council. Although the legislation allows setting different MWs (through sectors, categories, or regional wage agreements), in practice there is a single national MW in Lithuania and no sub-minimum wages exist for youth. Operationally, the MW is calculated on an hourly and monthly basis (40 working hours per week).

The international comparison suggests that the currently enforced gross level, expressed as a percentage of both the average and the median wages, is only marginally above the level observed for the average of the OECD countries that have a statutory MW. That being said, comparing Lithuania with the other Baltic countries shows that the MW is relatively high in Lithuania: 52% of the median wage, as against 48% in Latvia and 39% in Estonia. It should be acknowledged, however, that the ratio for Lithuania has been driven by a low median wage (which has declined strongly during the crisis) rather than an increasing minimum wage. This points to the fact that further increases in the minimum wage would not hurt jobs opportunities if indexed on the median wage – as this latter could increase again as economic growth picks-up. At the same time, many OECD countries have statutory sub-minimum wages for youth, which suggests that the level of the generally applied statutory minimum wage in Lithuania could be at cases comparatively high, relative to the statutory sub-minimum wages for youth in the OECD.

In addition, unlike most OECD countries, youth are not overrepresented among MW earners in Lithuania: in Lithuania 19.3% of young people (ages 15-29) earn MWs or below, compared to 18.2% of Lithuanian adult workers (ages 30-64). Such a very small difference is a symptom of unexploited earning potentials for youth, which tend to persist well beyond the early stages of their careers. Or, it indicates that some of them may receive additional compensation on top of formal earnings.

Implementing a more differentiated wage structure for youth could be appropriate in this context. By raising the prospects of putting the youth on a path of wage progression, it would have the potential to attract more low-skilled youth to the labour market, thereby reducing their likelihood of falling into long-term unemployment or becoming NEETs. Two alternative options are put forward by the OECD report:

- The first more ambitious option would involve a move towards a reduced MW level for younger workers, similar to the approach now in use by about half of the OECD countries. In some of the countries where sub-minimum wages for youth exist – e.g., Australia, Belgium, France, Israel, Luxembourg, the Netherlands, the Slovak Republic and the United Kingdom – they increase progressively with age. Increasing MW in several small steps avoids large jumps in labour costs from

one year to the next, and helps to lower the risk that employers would base hiring and firing decisions primarily on age or seniority.

- Should Lithuanian authorities consider that the introduction of a lower MW for youth is not feasible at present, recourse to a system of training wages could be a viable alternative for youth people. Some OECD countries, such as France, for example, already apply lower wages for workers under training – such as people on apprenticeships. To account for the productivity differential, training wage schemes in these countries are set out in such a way to allow for a progressive increase of the level of the wage, as learning advances.

Observers in Lithuania are concerned that the more ambitious approach of a lower MW for youth could trigger an increase in the incidence of low-pay jobs among youth, whose wages are already relatively low. One policy option to address this concern could be to combine the introduction of the lower minimum wage for youth with a new provision to increase the statutory level of the monthly non-taxable income (basic tax-exempt amount, BTEA).

Delivering a less strict employment protection legislation to support youth hiring

Employment protection legislation in Lithuania is very strict by international standards, for both permanent and temporary contracts. Employees on regular contracts benefit from high levels of protection against individual dismissal, reflecting long notice periods in case of fair dismissal; high severance pay; relatively short trial periods; and high compensation in the case of unfair dismissal. Provisions for collective dismissal can also be particularly burdensome in Lithuania. Legislation on temporary contracts is also strict as the employers can essentially conclude temporary contracts only under limited circumstances (e.g. for seasonal and project work) and can in no case use fixed-term contracts for work that is of a permanent nature.

As a welcome steps towards addressing these challenges the new draft Labour Code foresees introducing more flexible contract arrangements for permanent workers, while at the same time easing hiring and dismissing procedures, and balancing working time arrangements. In addition, smaller firms – with less than ten employees – would be entitled to benefit a longer trial period, alongside shorter dismissal periods and reduced severance pay. Although these are welcome developments, the international experience suggests that some cautious should be used when exempting small firms from employment protection requirements. In fact, too lax a regulation for

small firms compared to larger firms could lead companies to decide to remain small, splitting their operations between smaller units to remain below the threshold and possibly privileging the hire of non-standard workers.

More flexible legislation of temporary contracts is also being designed. Not only employers would be allowed to conclude temporary contracts also for work positions that have a permanent nature. In addition, the new draft Labour Code would introduce a range of new types of more flexible contracts, such as training and apprenticeship contracts, while also providing more flexible regulation of part-time work.

One key challenge is that the liberalisation of permanent and temporary contracts must be carefully balanced in order to prevent that the reforms lead to the emergence of a dual labour market. In the past decades, and particularly during the 1990s, many OECD countries have focussed for the main on the liberalisation of fixed-term contracts while maintaining legislation around permanent contracts unchanged, which has led to increased labour market segmentation. One way in which the new draft Labour Code attempts to limit these risks is by means of envisaging the introduction of a unified contract and applying similar termination costs to all contract types. According to the new draft, the new regulation on severance pay – entailing the payment of one average monthly wage – would apply indistinctly to all employment relations of one year or more, including employees on fixed-term contract. It will be important to ensure that the reform of the Labour Code includes measures to strengthen the evaluation framework to assess progress and to identify possible areas for further improvements.

Even though the Lithuania's public employment service (PES) reaches out to a large number of youth the services provided are incapable of helping youth with the employability support they need

Chapter 3 starts by acknowledging the strong capacity of Lithuania's public employment service (PES) to reach out to a large number of youth. At around 80%, the share of unemployed youth registered with the PES is very high by international standards – much higher than the average of the European OECD countries (67%), as well as than in Estonia (46%) and Latvia (41%). First and foremost, this reflects the fact that youth register with the PES because this qualifies them to receive unemployment or social assistance benefits, along with benefits from the public health insurance coverage. Moreover, the PES allows access to a comprehensive "vacancy bank", which is regularly updated and covers the majority of job openings. Furthermore, the PES is empowered, in principle at least, with a wide range

of employment services to enable young job-seekers stay in contact with the labour market and potentially gain some professional experience.

Despite the success in reaching out to youth, the case for strengthening the PES further remains considerable if it is to provide an effective set of employment services. International comparison suggests that activation of youth jobseekers remains significantly less frequent in Lithuania than in most OECD countries. Taken as a percentage of the youth labour force, the proportion of young participants in ALMPs (aged 25 or below) was 3% in 2010, which compares to an OECD average of 9% for youth. One key factor behind this is that Lithuania spends comparatively little on ALMPs. Furthermore, caseloads of counsellors working at the Lithuanian PES are high, which limits the capacity to follow up on the most disadvantaged youth and to enforce the conditionality of income support to programme participation. Greater investments will need to be made, particularly with the aim to strengthen the capacity to provide cost-effective services of Local Labour Exchanges to clients from the rural areas.

The case for implementing the Youth Guarantee following a stepwise approach

In this context, the recently-launched EU Youth Guarantee, which calls on countries to offer youth an education, training or work experience intervention within four months of leaving education or entering unemployment is a highly relevant but challenging initiative for Lithuania to implement. The Youth Guarantee was launched in 2014 and the implementation process will last until 2020. This means that it is a timely moment now to take stock of the lessons learned so far, assess possible gaps and implement remedial solutions. As a contribution in this direction, the report advices Lithuania to consider implementing the *Youth Guarantee* using an approach in two phases, each with a distinct policy focus:

- Phase 1 would involve a low cost intervention aimed primarily at enhancing human capital and rapid job entry. Priority would be given to new entrants in the labour market (i.e., with an unemployment duration of four months or less) and within this group to those who are most at risk of falling into long term unemployment. The aim of such a first phase is to seek to maximise the potential to move young people into work opportunities ahead of a more substantive, intensive and hence more expensive second phase. It is expected that Phase 1 would start at about four months into a benefit claim.
- Phase 2, the more intensive and expensive intervention, would start at around nine months, although there could be fast tracking for groups

with lower expected chances of finding a job. In Phase 2, three main programme elements are likely to be needed to deliver a Guarantee: training with considerable workplace based experience; a work experience programme with a strong focus on the quality of the experience delivered; and Intermediate Labour Market (ILM) positions (along lines similar to what are called Transitional Jobs in the United States). A third even more intensive phase for the very long-term unemployed and those with serious additional issues such as health problems could be developed at a later stage.

The OECD has recently suggested the same escalator-style approach to Ireland for the implementation of the Irish *Youth Guarantee*. Starting with low-intensity supports in the first phase then moving to more focused interventions at longer durations, has several underpinnings. For example, starting as early as four months with an intensive re-training/work experience programme would incur significant costs and a lot of deadweight (i.e. unnecessary spending) as many unemployed youth can be reasonably expected to find work without such intensive supports. Moreover, an escalator model offers a progression from one phase to the next if the early phase(s) are not successful. This is in contrast to programmes with only one main treatment phase, where those who do not find work are likely to face repeating the same programme multiple times.

The recent steps to revamp vocational education and apprenticeship go in the right direction but more should be done to involve the private sector

The combination between classroom learning and practical training plays an essential role in preparing young people for work and responding to the skill-needs of the labour market. Particularly, vocational education and training (VET), including apprenticeship, provides a strong learning environment and improves transition from school to work by allowing employers and potential employees to get to know each other. It contributes to the output of the training firm, and it links training provision to a direct expression of employer needs. To reap these benefits, the placement has to be of quality, and this is not always the case. In the absence of quality control, workplace training opportunities for young people can degenerate into cheap labour, or involve very narrow and firm-specific skills.

In Lithuania the VET system suffers from both a bad reputation and a lack of attractiveness. The lack of attractiveness has a counterpart in the VET's enrolment rates, which are very low. Only 26.7% of basic school graduates choose to continue their studies in vocational secondary education. At the same time, only 28.7% of students in upper secondary

education (2013) are enrolled in vocationally oriented programmes, which compares with an EU average of 50.4%. On the other hand, positive trends in VET participation are observed. Unlike the trend observed for the number of participants in general education and higher education, which has been decreasing during the past years, reflecting a declining population, VET enrolments have increased more recently. For example in 2014, the number of graduates from upper secondary education that have chosen VET directly after their graduation has increased by 7.5%, whereas the number of entrants into higher education has slightly decreased.

A wide range set of measures are under implementation with the aim to strengthen the labour market relevance of VET, while at the same time improving its status. This includes a new career education programme for both VET and general education schools; new programmes for VET teacher training, these latter implemented in co-operation with employers; renewal and modularisation of VET curricula and measures to raise the attractiveness of VET institutions through strengthening the capacity of programmes to anticipate foreseen development prospects at the regional and local level. Importantly, it also encompasses a major overhaul of the qualification framework to facilitate the recognition of non-formally acquired work-based qualifications. Last but not least, the legal basis for apprenticeship is being revamped with the aim to strengthen the offer of work-based learning.

The stated objective of these welcome steps is to double the proportion of work-based learning in higher education from 15 to 30% by 2020, while at the same time doubling from close to 30 to 60% the proportion of in-company training /apprenticeships that the VET institutions are able to provide. Nevertheless, achieving this ambitious objective may prove difficult in the absence of complementary measures to boost participation in apprenticeship programmes of the business sector, particularly the smaller firms. In many OECD countries, financial incentives are often available to firms both during the apprenticeship (through lower taxes or social security contributions or a direct subsidy to the firm or the apprentice) and at its completion, if the apprentice is hired. As a complementary option, many countries have successfully implemented mandatory workplace learning. The proposition of workplace learning as a mandatory element of programmes often meets some resistance. It is commonly argued that employers will not offer additional placements where this is already part of the working culture. However the international evidence overwhelmingly supports its feasibility.

The system of unemployment benefit need to be adjusted in response to the trade-offs induced by the reform of the labour code

To be effective active labour market and VET policies for youth need to be embedded in an adequate framework of income support for the poorest, i.e., capable of ensuring that all citizens are provided with a minimum acceptable livelihood and protection against risk, while at the same time preserving work incentives. In Lithuania, the level of the combined take-up of unemployment and/or social assistance benefits is in line with the average of the European members of the OECD. However, the aggregate figures hide the fact that high unemployment and informality rates in Lithuania mean that many youths are not contributing to the unemployment insurance and therefore are not benefiting from unemployment benefits. Even when covered by the social insurance and registered with the PES, the youth are unlikely to receive unemployment benefits in the case of job loss, as eligibility criteria for this scheme are very strict. Indeed, Lithuania stands out in the international comparison in that it combines one of the shortest maximum benefit duration with one of the longest minimum contribution period for youth receiving the benefit.

The considerations about the generosity of the unemployment benefit should be seen from a broader perspective, one that pays due attention to the characteristics of the labour market regulatory framework. From a forward looking perspective, one issue of particular importance concerns the trade-offs and complementarities between the generosity of unemployment benefit and that of severance pay. As discussed, severance pay is comparatively generous in Lithuania. This includes for workers with short job tenure, such as the youth. In perspective, however, the new draft Labour Code aims to significantly reduce severance pay. While this has the potential to strengthen the demand for labour by the business sector, particularly of youth workers, it could result in less overall protection for dismissed workers if the unemployment benefit system is not adjusted consequently. Taken together, these considerations suggest that Lithuania should aim to accompany the reduction of the generosity of severance pay with other measures aimed at increasing the coverage and generosity of unemployment benefits, along with further actions to strengthen the role played by activation policies.

Options for improving the structure of the incentives to work

In order to ensure that the benefit system is able to encourage those receiving the benefits to actually search for new job opportunities and take them up, the provision of income support should ideally follow a “mutual obligations” principle, where recipients are required to participate in an

active job search or ALMPs in exchange for targeted actions to help them find a job.

To gauge the overall capacity of the benefit framework to support job search and limit the risk of dependency, the OECD has created an indicators that distinguishes three components: availability requirements and suitable work criteria (an indicator of job readiness and responsiveness to possible job offers), job-search requirements and monitoring (which measures a degree of the individual's commitment and motivation to engage in the search of a job), and sanctions for non-compliance with these rules. For Lithuania a relatively lax regulation on availability and suitable work criteria is found, which contrasts with the presence of relatively strict job-search requirements and monitoring. On the other hand, the overall strictness of sanctions is overall in line with OECD levels.

These findings suggest that one policy option to better align the structure of incentives in Lithuania with international practices would be to make job search requirements and/or availability for work mandatory during participation in in supported employment programmes. A requirement to search for job and be available to take up employment during participation in these programmes, can be expected to result in reduced lock-in effects and improved job outcomes of participants. A complementary option would be to strengthen the definition of "suitable work". The majority of OECD countries impose stricter conditions of "suitable work" requiring unemployed people to accept any job offer at the start of unemployment spell or strengthening conditions progressively as the duration of unemployment lengthens.

At the same time, in Lithuania the sanctions for refusing a "suitable work" entail the suspension of benefits and temporary deregistration from PES, which is excessively severe by international standards. Indeed, in most OECD countries benefits are either reduced or suspended for a short period of time and in some cases only after repeated refusals. It seldom happens that the rules entail the de-registration from PES of those who do not comply. Introducing less strict sanctions in Lithuania – for example a reduction in unemployment benefits without losing the right to remain registered with PES – may be a viable policy option, also on account of the fact that unemployment benefits are not particularly generous. International practices suggest that even mild sanctions can increase willingness to search for a job.

Weak income support means a need to reinforce other forms of provision for vulnerable youth

Like elsewhere, in Lithuanian poor youth who do not qualify for unemployment benefits can access other forms of assistance. This could take the form of direct benefit assistance or in-work assistance. Social assistance benefits is mainly intended for the families in Lithuania, with eligibility being predominantly contingent upon the level of the household income and the value of the assets it owns, rather than own work history. Like unemployment benefits, social assistance benefits are not very generous in Lithuania when compared with the OECD countries. Against this backdrop, providing Lithuanian youth with some special financial support to assist their job-seeking process could be a right move to undertake. In this context, a *Job Seekers Allowance*, such as the one implemented in Australia and the United Kingdom for example, that covers transport costs (and sometimes accommodation) to allow young jobseekers to travel to another locality for an interview, could be a sensible option for Lithuania. Implementing this option could be expected to strengthen the motivation of young unemployed people who are still missing out on unemployment benefits – reflecting the lack of necessary contributions or sufficiently long employment history to qualify – to search for a job.

The case for improving the framework for public works

Public works programmes do play an important safety net role in Lithuania. Like elsewhere, the main attraction of such programmes is twofold: a targeted mechanism that helps direct support to those who need it most; a mechanism to enhance the building of socially useful infrastructure or services. As much as 22% of all young participants in ALMPs engage in this type of programmes. This is significantly higher than VET programmes, for example, which attract around 14.1% of all young ALMP participants. One challenge that Lithuania share in common with many other countries is the poor employment outcomes for participants in public works. Evidence analysis points to the fact that these programmes suffer of three main drawbacks: strong lock-in effects; lack of after-programme job prospects; and adverse opportunities for wage progressions. Overall, public works programmes fail to meet the promise of improving the long-term employment prospects of participants.

Significant steps have been undertaken during the past decade by many OECD and emerging countries with the objective to strengthen the longer-term employment and earnings outcomes of public works. Several lessons can be drawn from these experiences that are of potential interest to Lithuania:

- Remuneration for publicly organised work opportunities should be set at an appropriate level. If wages are set too low the programme will likely

fail to provide adequate social protection to the participants. By contrast, if they are set above the market wage for low skilled workers, some participants will attempt to recycle themselves in the programme instead of moving into work. Clearly defined and well enforced bounds in participation rights are essential in order to properly address these issues.

- In addition, experiences underline the importance to wisely allocate the funds destined to the programmes. This requires taking into due account local poverty statistics with a view to ensuring that the most needy population groups participate.
- Several countries have strengthened the longer-term employment and earnings outcomes of their programmes by linking them to training or other active measures. For example, the *Jefes* programme implemented in Argentina following the 2001 financial crisis, required beneficiaries to also participate in complementary activities, such as adult education, training or participation in community services projects, for up to 20 hours per week. In South Africa, the *Expanded Public Works Programme* included work placements in government and state-owned enterprises, accompanied by training, for jobless people who have never worked.

All in all, investing in youth and giving them a better start in the world of work should remain a key policy objective for Lithuania

While the present report aims to be comprehensive in its analysis and concrete measures put forward, these have to be addressed taking into account their cost dimension and the fiscal space available. That said some of the proposals have the potential to generate savings (e.g., better targeting of hiring subsidies; improvements in the criteria for implementation of the Youth Guarantee; and the rationalisation of public work programmes), which could be redirected into areas where new investment is required. In addition, many recommendations are costless, including employment protection legislation reforms and the greater engagement of employers in the VET system. Some elements of prioritisation will nevertheless be necessary where additional resource is required. With this in mind, the short-run priority should be to lay a basic protection floor for the large numbers of youth out of work, which can be best achieved through the extension and better targeting of benefits. At the same time, the long-run employment prospects of youth need to be strengthened, so that they will be in a position to take advantage of the opportunities arising as the economic recovery gathers pace. Investments to strengthen and expand active labour market policies and the VET system will be essential in this regard.

Chapter 1

The labour market situation of Lithuanian youth

This chapter provides an overview of youth in the labour market in Lithuania and highlights some of the key challenges faced by policy makers in the country. Lithuanian youth were hit hard by the global economic and financial crisis, with the unemployment rate increasing sharply and peaking to over 35% in 2010. Despite signs of progress, the unemployment rate continues to be higher than it was at the beginning of the crisis. One key concern relates to the continued underrepresentation of the youth in the Lithuanian labour market, manifested by both low employment rates and high inactivity rates. Even when young Lithuanians are in employment, they are frequently in poor quality jobs. Indeed, they often hold low-paid jobs, they face a high risk of unemployment and have lower income protection in case of job loss. Furthermore, the job of a young worker in Lithuania typically offers few possibilities for career development.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

Although labour market outcomes for Lithuanian youth (aged 15-24) have recovered quickly from the economic crisis, today they remain poor from an international comparative perspective. Low youth employment rates combined with high inactivity rates and a raising proportion of young NEETs in the population suggest that action should be taken to bring youth back to the labour market. Even where youth are in employment, the quality of their job is often poor. Wages are generally low, earning opportunities scarce, and income inequalities high. Informality is widespread: many employed youth are estimated to work informally, with little employment security or protection. Even those working under a formal contract, often receive envelope payments. Improving employment outcomes for youth therefore should be a priority for the Lithuanian Government. This chapter provides an overview of youth in the labour market in Lithuania, covering basic demographic and labour market indicators, but also measures of the quality of jobs. It takes an international comparative perspective, with OECD and European Union countries used as comparators.

The key findings of this chapter are summarised below:

Job quantity

- While relatively high, the share of youth in the working age population is expected to decline significantly in the upcoming years.
- Labour market outcomes for youth in Lithuania are recovering from the crisis at a faster pace than across OECD and European Union countries.
- In 2014, youth have low employment rates (27.6%), high inactivity rates (65.8%) and unemployment rates (19.3%).
- Youth labour market outcomes improve with educational attainment, and vary significantly across Counties.
- A rising proportion of the youth (aged 15-29) is NEET: 12.9% in 2014, up from 10.7% in 2005.

Job quality

- Lithuanian young workers fare worse than the OECD average on earnings quality and job insecurity, while they fare similarly to the OECD on job strain indicators.
- Informality is pervasive among youth, with many youth working in the informal economy or receiving envelope payments.

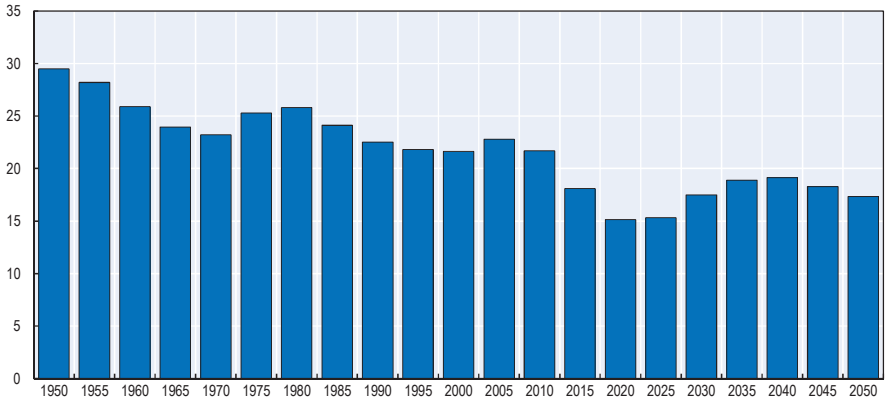
- The incidence of low pay is common: around one fifth of youth earn at the minimum wage or below, and around 61% earn at the median wage or below. This is similar to what is observed among adult workers.
- Lithuanian youth are usually employed under permanent and full-time contracts (respectively 91.5% and 86.4% of youth in dependent employment).
- Skills mismatches are significant: over 30% of young people are either under- or over-qualified for their jobs.

Youth make up a large, but rapidly falling share of the working age population

Today over one fifth in Lithuania's working age population (ages 15-64) is young (ages 15-24). Although this is relatively high in comparison with the OECD countries (just after Mexico, Turkey, Chile, Israel and Iceland), and the highest in the Baltic countries, the share of youth in the working age population is decreasing and is expected to continue to decline at a rapid pace in the years to come, reaching a historical low in 2020 (around 15%), before recovering somewhat afterwards (Figure 1.1). All in all, at 17.4% by 2050, it will be relatively low by OECD standards (where it should be 18.5%), and the lowest in the Baltic countries (Figure 1.2).

Figure 1.1. Share of youth in the working age population, Lithuania, 1950-2050[a]

Population aged 15-24 as a percentage of population aged 15-64



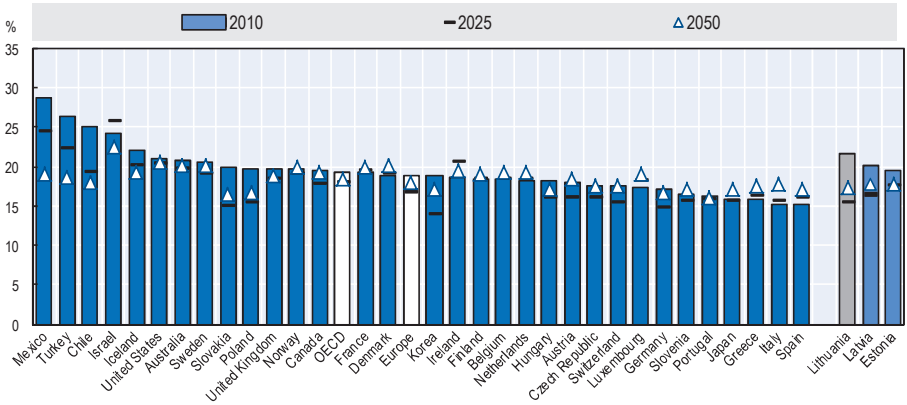
a) Medium-fertility assumption: total fertility is assumed to converge eventually toward a level of 1.85 children per woman.

Source: United Nations, Department of Economic and Social Affairs, Population Division (2013), *World Population Prospects: The 2012 Revision*.

The ageing process that is behind these developments has been ongoing for decades, driven by two primary contributing forces: declines in fertility, themselves further strengthened by the significant transformations in family life undergone by the country since the 1990s; and improvements in longevity, resulting from advances in health. Adding to these sources of pressure, the annual number of young people emigrating from Lithuania has increased steadily during the 2000s, reaching about 10 000 in 2013 – corresponding to about one quarter of total emigration outflows for the year.

Figure 1.2. Share of youth in the working age population, Lithuania, OECD and Baltic countries, 2010-50[a]

Population aged 15-24 as a percentage of population aged 15-64



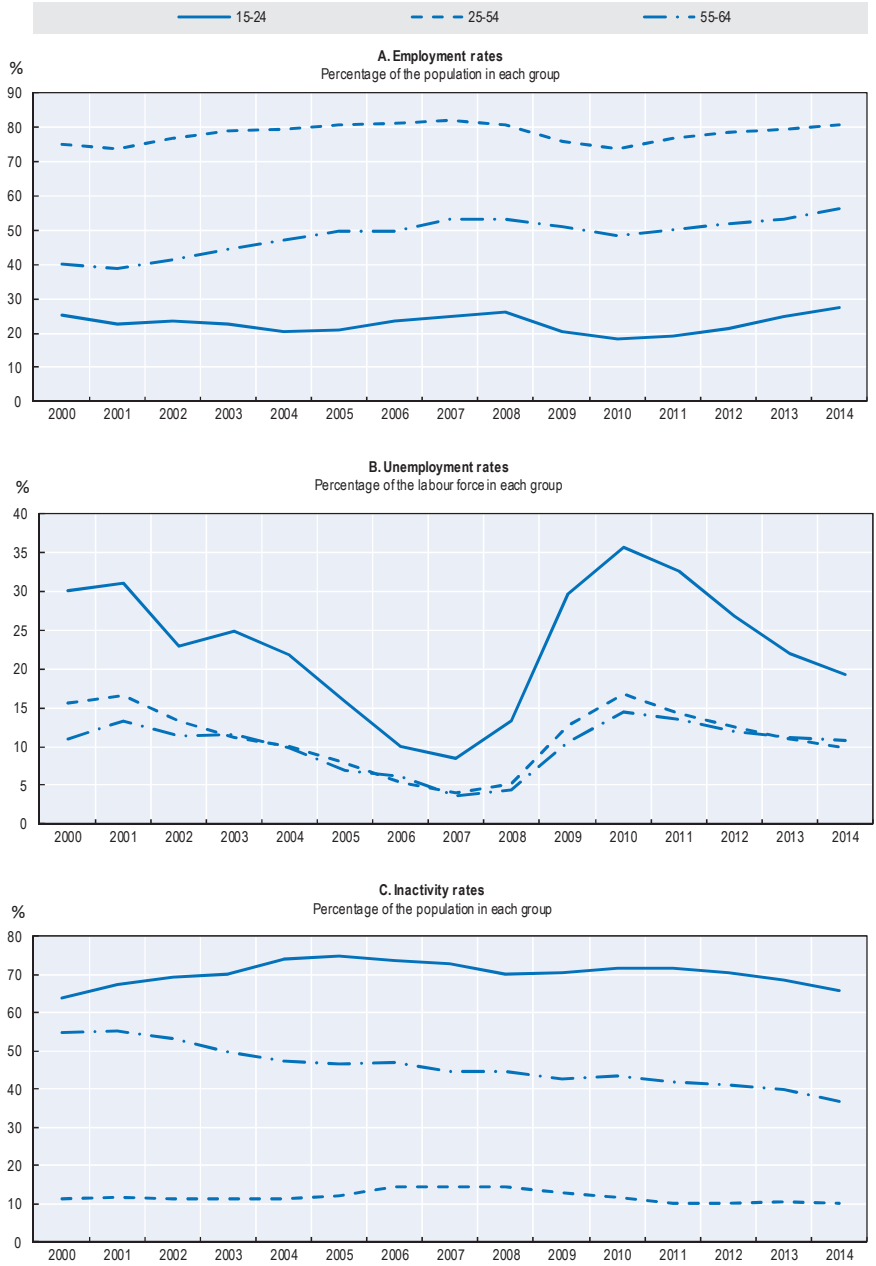
a) Medium-fertility assumption: total fertility is assumed to converge eventually toward a level of 1.85 children per woman.

Source: OECD calculations based on United Nations, Department of Economic and Social Affairs, Population Division (2013), *World Population Prospects: The 2012 Revision*.

The situation of Lithuanian youth in the labour market

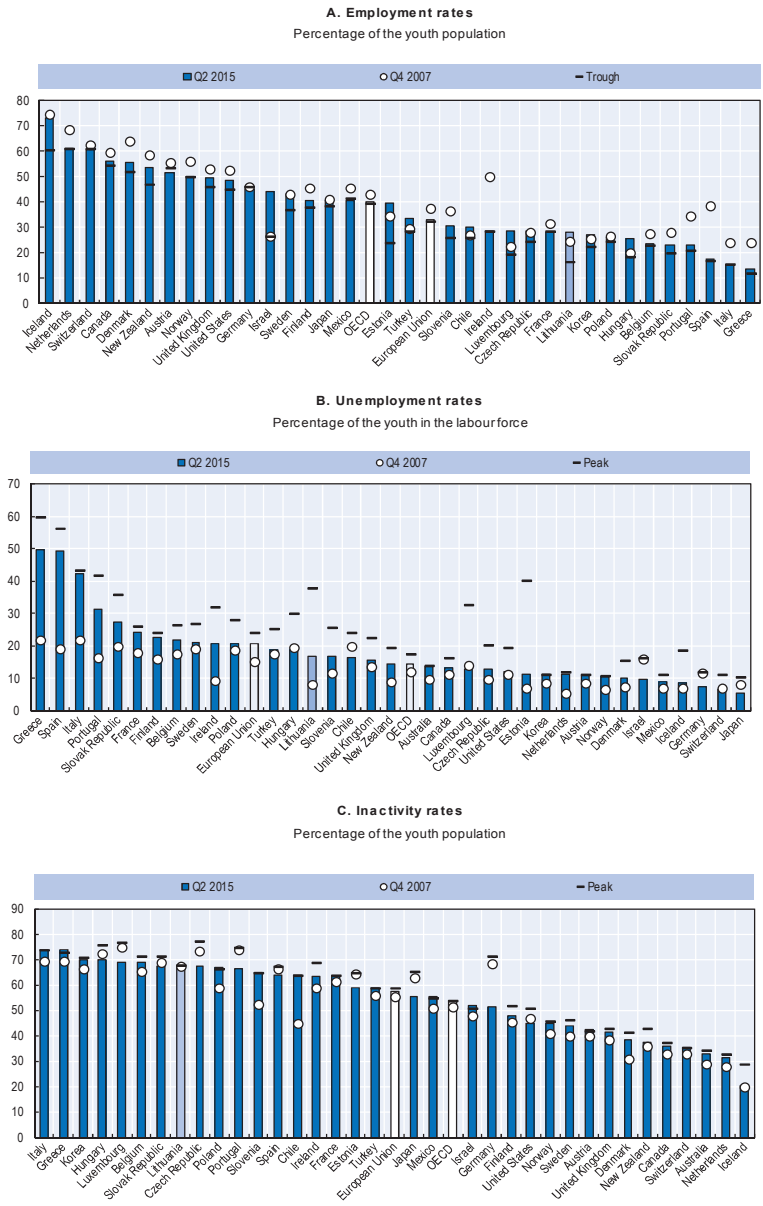
Lithuanian youth were hit hard by the global economic and financial crisis, with the unemployment rate increasing sharply and peaking to over 35% in 2010 (Figures 1.3 and 1.4). Although youth unemployment declined rapidly thereafter, at 16.7% (in Q2 2015) – which compares with an OECD average of 14.2% and an EU average of 20.7% – it remains higher than where it was at the beginning of the crisis (around 10%). Although unemployment rates of prime age and older workers also increased in the wake of the crisis, the overall impact was smaller.

Figure 1.3. Labour force indicators by age group, Lithuania, 2000-14



Source: Statistics Lithuania.

Figure 1.4. Labour force status of youth (15-24), Lithuania and OECD countries, Q4 2007-Q2 2015



Note: Q4 2007 data refers to Q2 2008 for Switzerland.

Source: OECD Labour Force Statistics Database, http://stats.oecd.org/ and Statistics Lithuania.

One key concern relates to the underrepresentation of the youth in the Lithuanian labour market. In the second quarter of 2015, only 27.9% of young Lithuanians were employed, compared to 40% across the OECD and 32.9% across the European Union (Figure 1.4). Moreover, Lithuanian youth face relatively high inactivity rates (67.2%, versus 53.4% across the OECD and 57.2% across the European Union).

Some youth fare worse than others

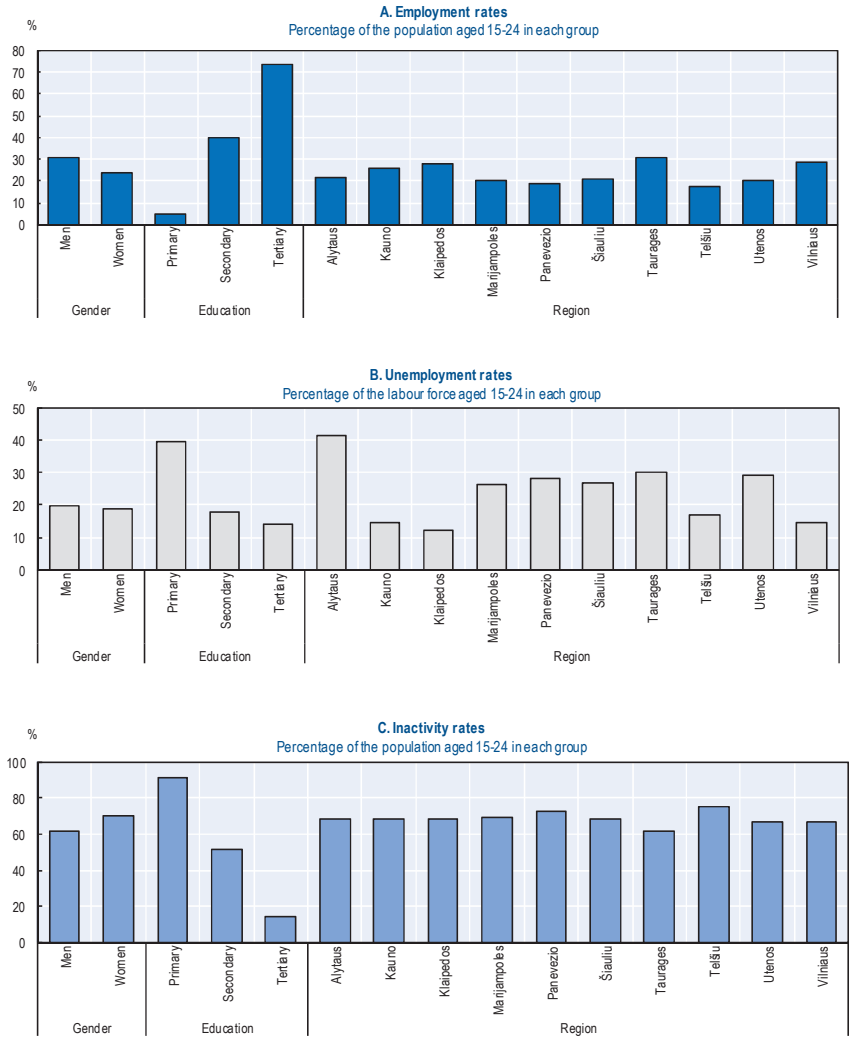
Labour market outcomes differ significantly across groups of Lithuanian youth (Figure 1.5). Similar to the OECD countries, they improve with educational attainment. In particular, youth with primary education face a much higher risk of unemployment or inactivity than their peers with higher educational attainments. Employment rates are also lower among youth with lower levels of education. Differences in labour market outcomes for youth are also substantial across Counties: unemployment rates are lowest in Klaipėda (12.3%) and highest in Alytaus (41.6%); employment rates are lowest in Telšiai (17.8%) and highest in Tauragė (30.7%); and inactivity rates are lowest in Tauragė (61.4%) and highest in Telšiai (75.5%). Furthermore, young women have lower employment rates (24.1% versus 31%), resulting primarily from higher inactivity rates (70.4% versus 61.4%), while their unemployment rates are somewhat lower (18.7% versus 19.6%).

A rising proportion of youth is neither in employment, nor in education or training (NEET)

A more comprehensive picture is provided by the NEET rate which shows the proportion of all youth who are neither in Employment, Education or Training. This picks up both unemployed and inactive youth who are not enrolled in education or training. Young NEETs are particular at risk of having their future careers permanently "scarred" by prolonged out-of-work spells, reflecting the lack of opportunities to acquire key social-skills, which are generally better learnt on the job than in classrooms, and to use and improve their job competencies. The young NEETs are often very-low skilled, come from low-income households or are otherwise disadvantaged youth, including migrants or children of migrants.

Although in Lithuania the share of young NEETs is relatively low by OECD standards, it is increasing rapidly. In 2014, 12.9% of young people (aged 15-29) were NEET, up from 10.7% in 2005 (Figure 1.6). By comparison, over the past years the NEET share across the OECD has remained broadly stable (15.5% in 2013, up from 14.9% in 2005).

Figure 1.5. Youth labour market outcomes by socio-demographic characteristics, Lithuania, 2014



Note:

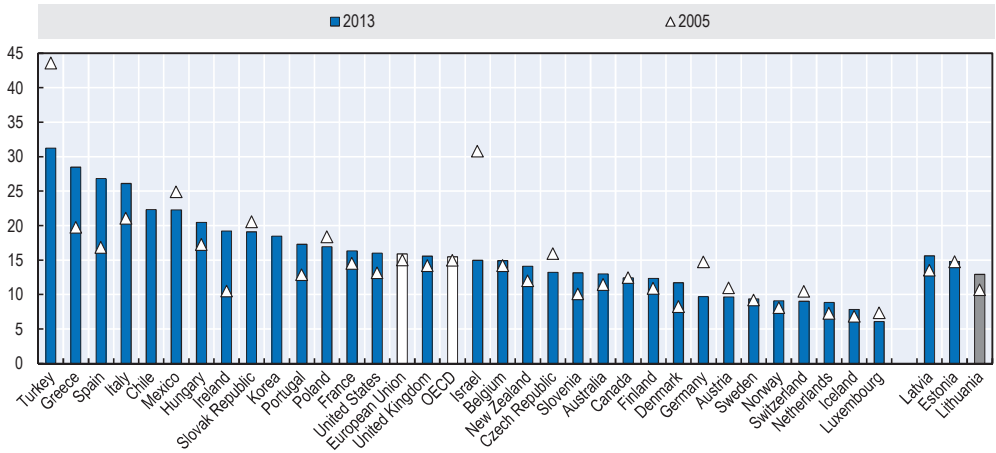
Primary education refers to "(pre)primary and lower secondary (ISCED 0-2)"; Secondary education refers to "upper and post-secondary (ISCED 3-4)"; Tertiary education refers to "high (ISCED 5-6)".

Inactivity and employment rates at the regional level refer to 2013.

Source: Statistics Lithuania; OECD calculations based the Lithuanian Labour Force Survey (2013) for regional employment and inactivity rates.

Figure 1.6. NEET rates, Lithuania, OECD and Baltic countries, 2013

Percentage of the population aged 15-29



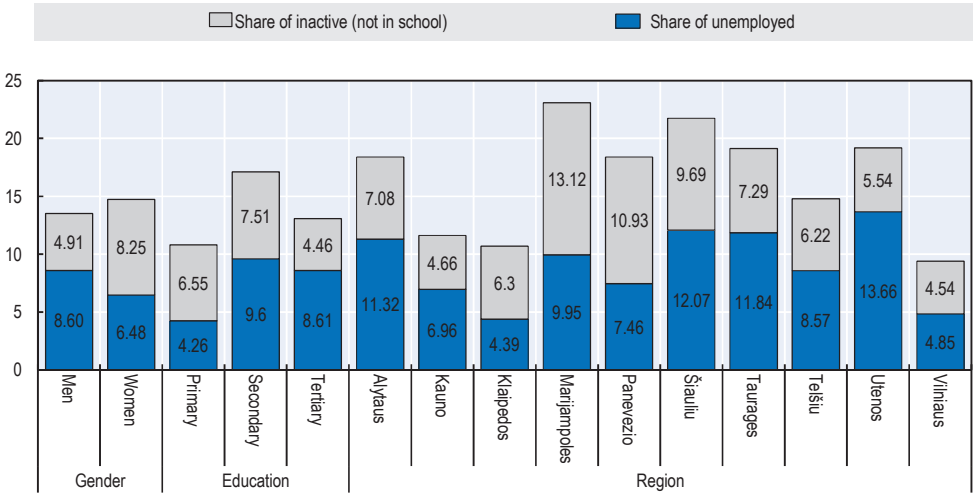
Note: 2013 data refers to 2011 for Chile, 2012 for Korea and 2014 for Lithuania.

Source: OECD Education and Skills Database, http://stats.oecd.org/, and Eurostat.

Youth NEET rate mask important differences across groups. Youth with secondary education are significantly more likely to be NEETs than youth with tertiary education, partly reflecting the fact that the latter have greater opportunities to continue studying (Figure 1.7). In addition, youth with primary and secondary education are more exposed to the risk of becoming inactive. Geographical differences are substantial, alongside gender differences. With regards to the latter, more specifically, while young women are slightly more likely to be NEET than young men (14.7% versus 13.5%), they are almost twice more likely than men to be inactive and out of school.

Figure 1.7. NEET rate by socio-demographic characteristics, Lithuania, 2013

Percentage of the population aged 15-29 in each group



Note: Primary education refers to "(pre)primary and lower secondary (ISCED 0-2)"; Secondary education refers to "upper and post-secondary (ISCED 3-4)"; Tertiary education refers to "high (ISCED 5-6)".

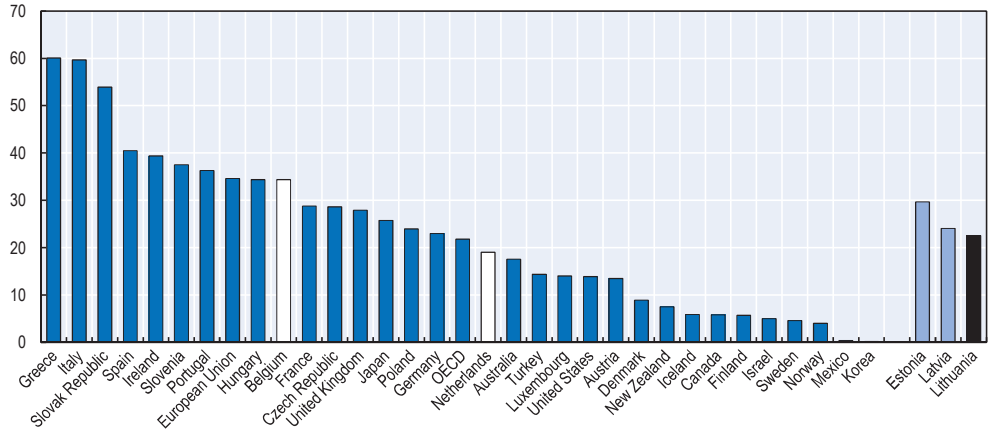
Source: OECD calculations based the Lithuanian Labour Force Survey (2013).

Around one in five unemployed youth have been unemployed for over a year

Long-term unemployment (one year or more) affects around one in five unemployed youth in Lithuania (Figure 1.8). This is slightly lower than OECD countries on average (21.8%) and significantly lower than what is observed in the European Union (34.6%) as well as in the neighbouring Baltic countries (29.7% in Estonia and 24.1% in Latvia). These figures may partly reflect the fact that in Lithuania long-term unemployed people, including youth, are more likely than elsewhere to look for job opportunities outside the country and emigrate. Evidence shows that in 2013, 83% of people emigrating from Lithuania were unemployed for more than a year (Ministry of Social Security and Labour, 2014).

Figure 1.8. Incidence of long-term unemployment, Lithuania, OECD and other selected countries, 2014

Percentage of youth (15-24) unemployed for one year and over



1. For Korea data refers to 2013.

Source: OECD Labour Force Statistics Database, http://stats.oecd.org/.

The quality of jobs for youth in Lithuania is poor

Labour market performance depends not only on the number, but also on the type of jobs that are created. Job quality is more difficult to measure, however, and encompasses a number of dimensions. The OECD Job Quality Framework (OECD, 2014) measures job quality along three key dimensions: earnings quality (the level and distribution of earnings); labour market security; and the quality of the work environment (see Box 1.1 for further details on the job quality framework).

Figure 1.9 presents the three main components of the job quality framework as outlined in Box 1.1. Lithuanian young workers fare much worse than the OECD average on the earnings quality and job insecurity indicators, while they fare similarly to the OECD on the job strain indicator. In particular, job quality of young Lithuanian workers is characterised by relatively low earnings and high income inequality; higher unemployment risk combined with low unemployment insurance; as well as insufficient resources at the workplace. At the same time physical conditions in the work place are better than the OECD average.

Box 1.1. The OECD Job Quality Framework

Job quality refers to multiple aspects of employment that contribute to the well-being of workers and, hence, represents an inherently multi-dimensional construct. The chapter "How good is your job? Measuring and assessing job quality" of the *2014 OECD Employment Outlook* (OECD, 2014) focuses on three key dimensions of job quality that have been shown to be particularly relevant for workers' well-being in the existing literature on economics, sociology and occupational health. These are earnings quality, labour market security, and the quality of the working environment.

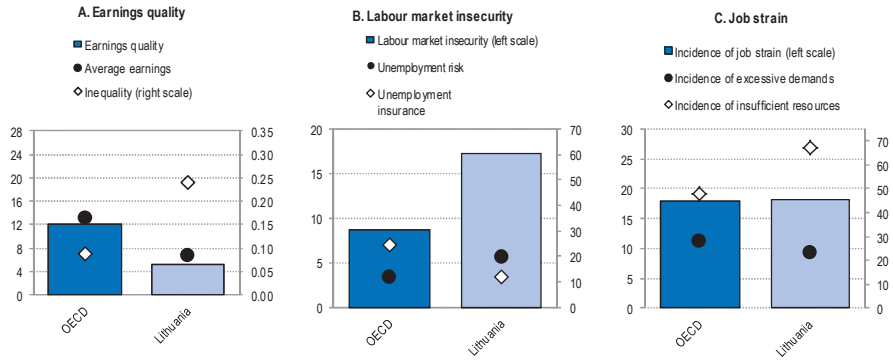
Earnings quality is characterised in terms of the level of earnings and its distribution. The need to take into account both aspects reflects their empirical importance for well-being. First, levels of earnings and subjective well-being, as measured by life satisfaction, are positively correlated across countries as well as between persons within countries. Second, for a given level of average earnings, overall well-being tends to be higher the more equal is its distribution. This reflects the evidence pointing to life satisfaction rising at a decreasing rate as earnings rise and that people tend to display an intrinsic dislike of high inequality in society (inequality aversion).

Labour market security is defined in terms of unemployment risk and unemployment insurance. Unemployment risk encompasses both the probability of becoming unemployed and the average expected duration of unemployment spells. As such, it gives an indication of the expected amount of time an average person is likely to spend in unemployment in a given year. Insurance against the risk of unemployment is captured in terms of both unemployment benefit coverage and benefit generosity. New evidence suggests that both unemployment risk and insurance are important determinants of life satisfaction among the employed. Both the probability of becoming unemployed and the average expected duration of unemployment spells matter for life satisfaction, although the latter appears to dominate. Thus, workers are not just concerned about becoming unemployed but also, and possibly even more so, about not being able to find a new job when unemployed. Insurance mitigates the adverse effect of the risk of unemployment on life satisfaction of the employed by alleviating concerns about not being able to find a job once unemployed.

The quality of the working environment relates to the nature and intensity of work performed the organisation of work and the working atmosphere. The quality of the working environment is an important driver of individual well-being and depends crucially on whether workers have autonomy in their job, are given learning opportunities and well-defined work objectives, and also receive constructive feedback. Good relationships with colleagues are also important. When jobs and workplaces combine these factors, people are more apt to manage work pressure and difficult tasks, and they also tend to be healthier, more satisfied with their job and more productive.

Source: OECD (2014), *OECD Employment Outlook 2014*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2014-en.

Figure 1.9. Job quality outcomes for youth (15-29), Lithuania and OECD countries, 2010



Note: Country coverage: Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Slovenia, Slovak Republic, Spain, Sweden, Turkey and United Kingdom (24 countries, 23 countries excluding Iceland in Panel C).

Source: European Union Survey on Income and Living Conditions (EU-SILC); Eurofound (2012), Fifth European Working Conditions Survey, Publications Office of the European Union, Luxembourg.

The overall degree of earnings quality for youth is lower in Lithuanian than across the OECD on average (Figure 1.9, Panel A). In Lithuania youth on average are paid less than across the OECD countries: they receive a gross hourly wage equal to USD PPP 6.67 in Lithuania, compared to USD PPP 13.1 across the OECD. Lithuanian youth also face higher earnings inequality.

Lithuanian youth face a higher risk of unemployment than their OECD counterpart and have lower income protection in case of unemployment (Figure 1.9, Panel B). In particular, a young Lithuanian worker faces almost double unemployment risk in comparison to the OECD average. This may be partially explained by the relatively high spike in youth unemployment rate in Lithuania in the aftermath of the crisis (Figure 1.3, Panel B). In the event of unemployment, young workers are comparatively less insured. The data suggests that in the event of unemployment a young person in Lithuania may expect to recover only 11% of its gross earnings as opposed to 20% for the OECD.

The job of a young worker in Lithuania is relatively less demanding than their OECD counterpart but offers fewer possibilities for further career development in comparison to the OECD on average. In particular, fewer Lithuanian youth have jobs with excessive demands (23% versus 28% across the OECD). This suggests that young workers in Lithuania work less under time pressure or irregular working hours, their physical health is less

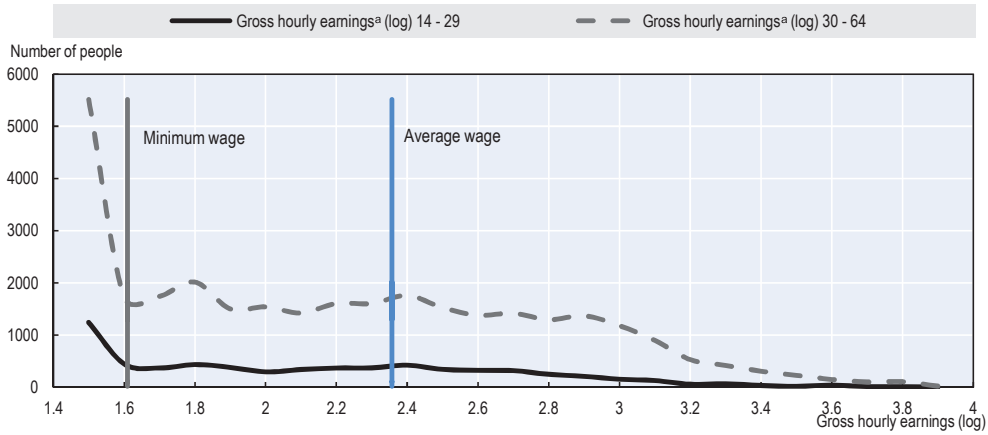
likely to be affected by their jobs and they are less often subject to work place intimidation. At the same time, around seven out of ten young workers in Lithuania report that they lack work autonomy and learning opportunities, and are unsatisfied with the management practices and work atmosphere in general. This compares to an OECD average of one in two.

Alongside the job quality framework discussed above, other indicators could be used to give an indication of the quality of jobs for young people in Lithuania. In the following paragraphs, levels and distributions of wages, temporary and part-time work, informality, as well as skills mismatches and education performance will be discussed.

The incidence of low pay is common among youth

Consistent with the evidence discussed above, the incidence of low-pay is widespread amongst Lithuanian youth. Approximately one fifth (19.4%) of young workers earn minimum or below minimum wages and 61.4% earn less than the median wage (Figure 1.10). While the low paid nature of many of the jobs that youth are able to find is a concern, it is noteworthy that low pay is not specific to young workers, but is common among all age groups. Indeed, the distribution of earnings of workers aged 30-64 presented in Figure 1.10 closely resembles that of younger counterparts.

Figure 1.10. Wage distribution by age categories, Lithuania, 2010



Note: Minimum wage is for 2010 (LTL 800). Minimum hourly wage is calculated under the assumption of 160 hours worked per month.

a) Wage data have been trimmed at the 1st and 99th centiles to eliminate outliers and are presented in logarithmic form.

Source: OECD calculations based on the Structure of Earnings Survey (2010).

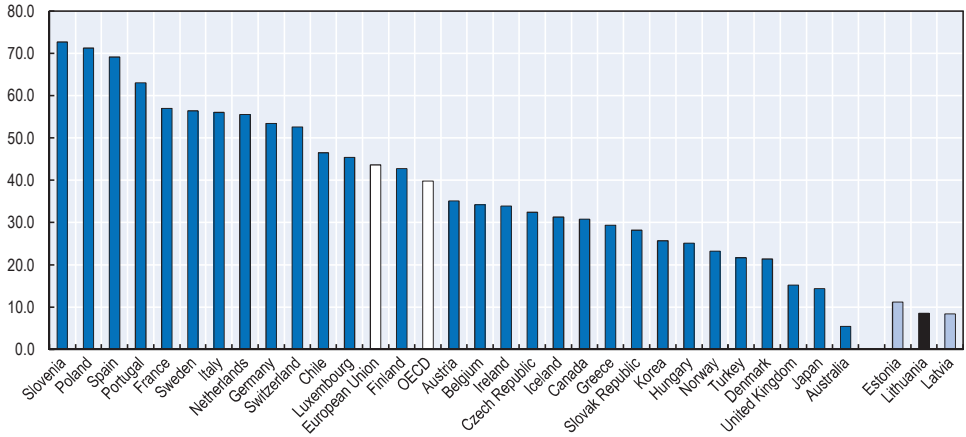
Lithuanian youth are usually employed under permanent and full-time contracts

Temporary contracts are often thought to be a stepping stone to more stable employment for those youth who have limited skills and experience, although the experience of many OECD countries points to the fact that often youth are more likely to get locked into such jobs than prime age workers. As far as Lithuania is concerned, temporary contracts are very uncommon for all workers, including youth. Only 8.5% of Lithuanian youth who work with a contract have a temporary one, compared to an OECD average of 39.8%, and a European Union average of 43.6% (Figure 1.11). Across OECD countries, only Australia has a lower share of temporary employment than Lithuania (5.5%). One of the reasons why temporary contracts are unpopular in Lithuania is that the Labour Code restricts their use, while at the same time generous guarantees are ensured to employees. For instance, employers are by law prohibited to hire workers under temporary contracts for positions that are of a permanent nature (for further information, see the section on employment protection legislation in Chapter 2).

Not only Lithuanian workers, including youth, are unlikely to be hired under temporary contracts, they are also unlikely to work part-time. This point is particularly important to explain the poor integration of young women into the labour market. Far less young people are hired under part-time employment in Lithuania than in OECD and European countries: 13.6% of youth in dependent employment work part-time in Lithuania, compared to an average of 28.9% and 28.4% across the OECD and the European Union respectively (Figure 1.12).

Figure 1.11. Share of temporary employment for youth, Lithuania, OECD and selected countries, 2014

Percentage of youth (aged 15-24) in dependent employment

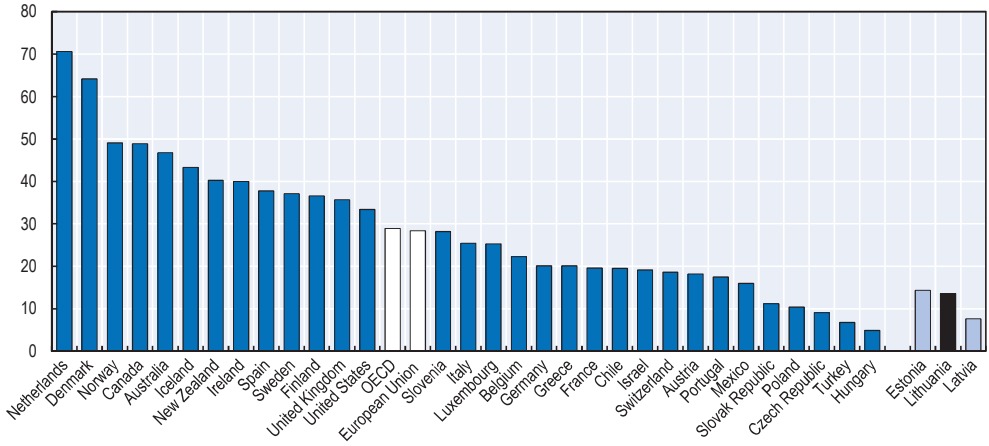


Note: Data refers to 2013 for Australia.

Source: OECD Labour Force Statistics Database, http://stats.oecd.org/.

Figure 1.12. Incidence of part-time employment for youth, Lithuania, OECD and selected countries, 2014

Percentage of youth (aged 15-24) in dependent employment



Source: OECD Labour Force Statistics Database, http://stats.oecd.org/.

Skills mismatches are an obstacle for the quality of employment

Skills mismatches arise when a worker's skills are not well matched with the job he/she performs, i.e. the worker either has skills to perform more demanding tasks than required (overskilled), or lacks the skills to perform well the required job tasks (underskilled). Measuring skills mismatch is not easy though, as it is difficult to find detailed information on the skills possessed by workers and those required by employers. Information is more easily accessible on qualifications mismatches, i.e. the discrepancy between the qualifications possessed by workers and those required by their jobs.

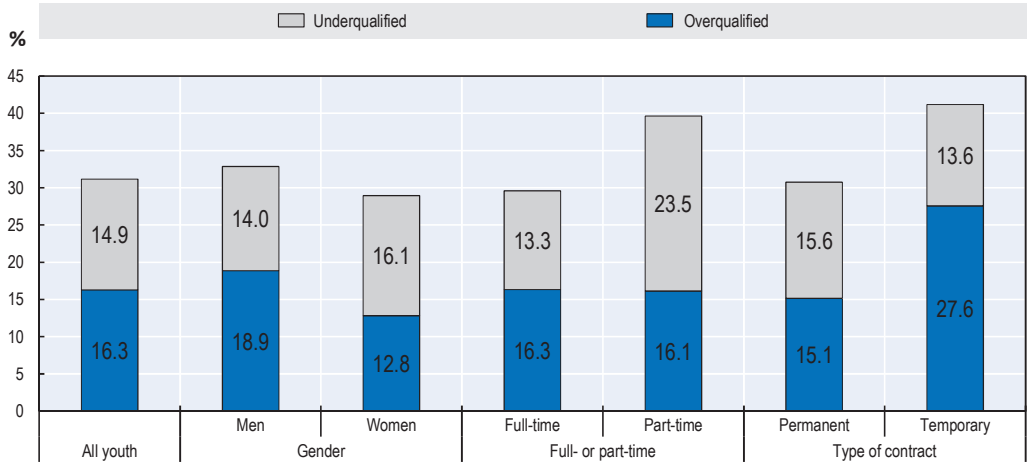
The analysis of the *EBRD-World Bank Business Environment and Enterprise Performance Survey 2013* suggests that a high proportion of firms in Lithuania cite an inadequately educated workforce as a significant obstacle to their operations. Furthermore, over 40% of businesses surveyed in the first half of 2015 for Lithuania's *Investor Confidence Index* pointed to an insufficient availability of qualified labour in the Lithuanian labour market (OECD, forthcoming).

The labour force survey 2013 provides an important source of information with respect to over- and under-qualification in Lithuania. OECD elaborations based on this survey show that skill mismatches affect over 30% of young people in Lithuania, with this percentage being fairly evenly split between over- and under-qualification. Young men, part-time young workers, and youth working under temporary contracts are the groups whose skills are particularly ill-suited to match the requirements of the jobs performed (Figure 1.13). For example, young people working under part-time contracts are more likely to be underqualified, while youth with a temporary contract are more likely to be overqualified for their jobs. However, skills mismatches among young workers on permanent contracts are also an issue. These results are corroborated by the results of ILO (2013), which show that in 2010, 13% of Lithuanian youth were under-educated, and 16.5% were over-educated for their jobs.

This context suggests that giving youth greater help and encouragement to acquire the skills that they need for successful labour market labour market outcomes may be an issue for priority in Lithuania. The Programme for International Student Assessment (PISA) 2012 survey shows that Lithuanian students perform systematically below the OECD average in mathematics, reading and science. In particular, over one in four (26%) Lithuanian 15-year-olds had a mathematics proficiency level below level 2 of the six PISA mathematics proficiency level (Figure 1.14), compared to 23% across the OECD on average, 10.5% in Estonia and 19.9% in Latvia.

Figure 1.13. Over- and under-qualification, Lithuania, 2013

Percentage of the employed youth (aged 15-24) in each group

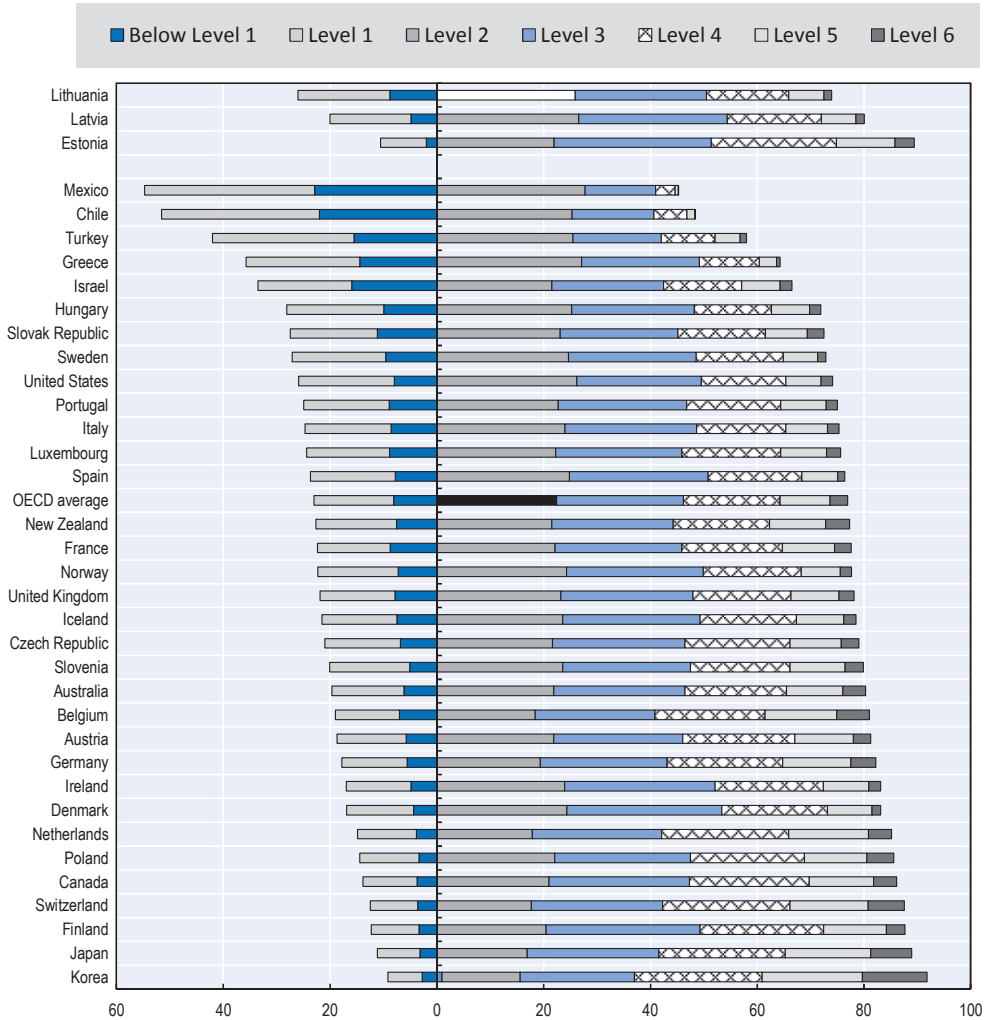


Note: Calculations are made based on the methodology used in Quintini, G. and S. Martin (2006), "Starting Well or Losing Their Way? The Position of Youth in the Labour Market in OECD Countries", *OECD Social, Employment and Migration Working Papers*, No. 39, OECD Publishing, Paris, http://dx.doi.org/10.1787/351848125721.

Source: OECD calculations based on the Lithuanian Labour Force Survey (2013).

Figure 1.14. Proficiency in mathematics, Lithuania, OECD and Baltic countries, 2012

Percentage of students at each level of mathematics proficiency



Note: Countries and economies are ranked in descending order of the percentage of students at Levels 2, 3, 4, 5 and 6.

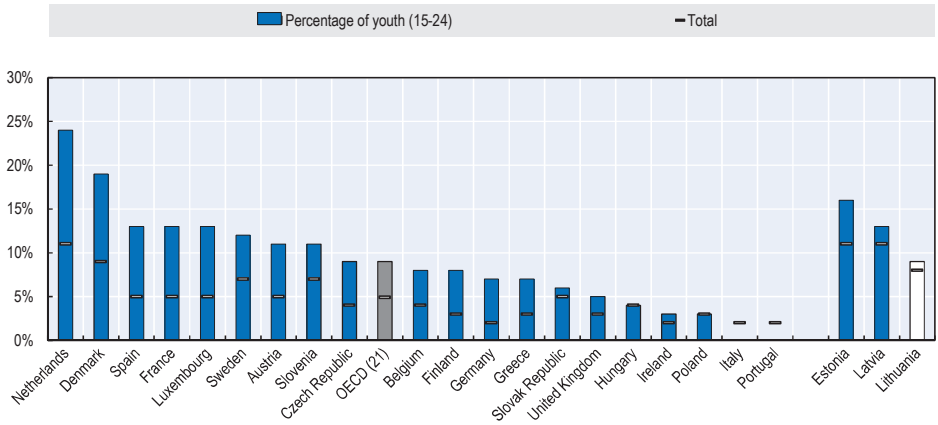
Source: *OECD PISA 2012 Database*, Table I.2.22, http://dx.doi.org/10.1787/888932935572.

Informality is pervasive among Lithuanian youth

There are indications that a large proportion of workers in Lithuania, including youth, is employed in informal jobs, or receive envelope wages (European Commission, 2014). Like elsewhere, in many OECD and Baltic countries, informal employment is especially widespread among young workers, who are typically less knowledgeable of labour markets and their functioning and therefore less protected (Okunevičiūtė Neverauskienė and Pocius, 2011) (Figures 1.15 and 1.16). Eurobarometer data shows that the size of the informal sector among Lithuanian youth is in line with a selection of OECD countries, and is lower than in the other Baltic countries (Figure 1.15). However, in Lithuania many youth working formally with a contract receive parts of their salary in the form of envelope payments (Okunevičiūtė Neverauskienė and Pocius, 2011). Figure 1.16 shows that the proportion of Lithuanian youth reporting to have received cash in hand in the 12 months preceding the survey was very high: at 16% it was more than double the OECD average of 7%. Envelope payments are also relatively more frequent in Lithuania compared to other Baltic countries.

Figure 1.15. Share of undeclared paid activities in the last 12 months, Lithuania, OECD and Baltic countries, 2013

Percentage of all people respondents



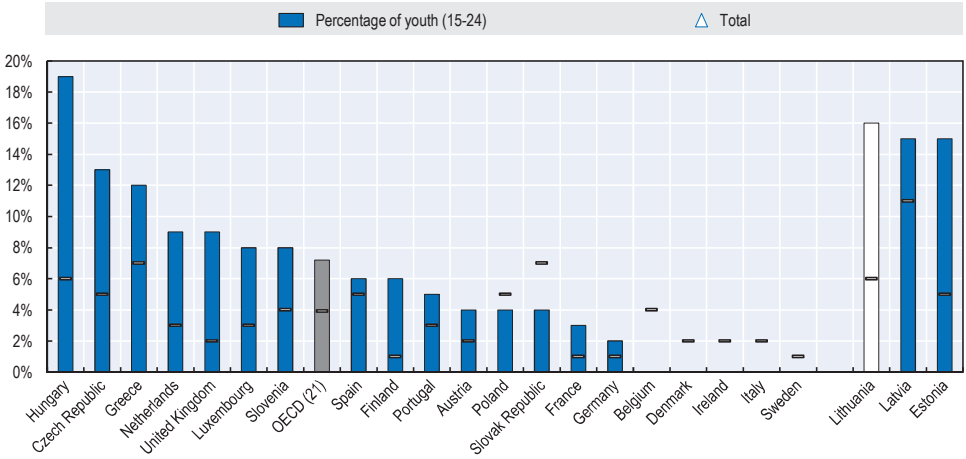
Note: Question asked: "Apart from a regular employment, have you yourself carried out any undeclared paid activities in the last 12 months?"

Share of undeclared paid activities among youth in Italy and Portugal is zero.

Source: European Commission (2014), *Special Eurobarometer 402*, Undeclared work in the European Union, European Commission.

Figure 1.16. Share of people who are paid cash in hand, 2013

Percentage of all respondents



Note: Question asked: "Sometimes employers prefer to pay all or part of the salary or the remuneration (for extra work, overtime hours or the part above a legal minimum) in cash and without declaring it to tax or social security authorities. Has your employer paid you any of your income in the last 12 months in this way?"

Source: European Commission (2014), *Special Eurobarometer 402*, Undeclared work in the European Union, European Commission.

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Database references

OECD Education and Skills Database, http://stats.oecd.org/.

OECD Labour Force Statistics Database, http://stats.oecd.org/.

OECD PISA 2012 Database, Table I.2.22, http://dx.doi.org/10.1787/888932935572.

Chapter 2

Removing demand-side barriers to youth employment in Lithuania

This chapter analyses demand-side barriers to youth hiring in Lithuania, such as the cost of hiring (as determined by non-wage costs and minimum wages), and employment protection legislation. It also discusses policies currently in place to tackle such barriers (including hiring incentives) and offers a range of policy options to create more favourable conditions for employers to hire youth. The key challenges identified in this chapter include: high non-wages costs, particularly on low-wages earners; a flat minimum wage, which does not reflect the productivity of young workers; and overly strict employment protection legislation on both permanent and temporary contracts.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

Improving labour market outcomes for youth in Lithuania will partly depend upon the creation of a sufficient number of good quality jobs for youth. This will require the support of reform measures aimed at tackling demand-side barriers to youth employment, i.e. labour market barriers that affect the willingness and ability of employers to hire youth. These include policies that have an impact on the cost of hiring and employment protection legislation. High labour costs and/or overly strict employment protection legislation could prevent employers to hire (formally) youth and as a consequence hinder employment opportunities for youth. This chapter analyses demand-side barriers to youth employment, by focussing on the cost of hiring (including both wage and non-wage costs), and on the strictness of the employment protection legislation in Lithuania.

The main findings of the chapter are summarised below:

- ***The cost of hiring***: Employers' social security contributions are very high by OECD standards. They translate into high non-wage costs, ultimately acting as an important factor hindering the willingness of the business sector to hire youth. While existing hiring incentives in Lithuania may mitigate the impact of high labour costs, there is scope for improving their design. Although the minimum wage relative to the average wage is not particularly high, there is scope for considering the move towards a more differentiated wage structure for youth in Lithuania, notably to accommodate the fact that their productivity is generally lower.

- ***Employment protection legislation***: Lithuania has strict employment protection legislation on both permanent and temporary contracts. Strict employment protection legislation may undermine firms' ability to adjust to changing economic circumstances and therefore create a barrier to hiring, especially youth. Introducing more flexibility, while ensuring adequate social protection and assistance to displaced workers, is needed for enhancing employment prospects for youth. There is also a strong case for moving regulation on temporary and permanent contracts more in line with one another in Lithuania.

Addressing these challenges calls for a comprehensive strategy aimed at promoting more and better quality jobs, as well as at improving the distribution of the benefits of growth. Such a strategy should build on recent reforms as underpinned by the reform of the Labour Code, which is currently under elaboration by the Lithuanian Government.

Box 2.1. Key recommendations

There are important demand-side barriers to youth employment in Lithuania, both for what concerns the cost of labour and the strictness of employment protection legislation. As a consequence, the OECD suggests that:

- The cost of hiring young workers should be contained. In particular:
  - Reductions in employers' social security contributions should be introduced to complement existing hiring incentives. At the same time, foregone social security contributions should be shifted towards other forms of taxation (such as wealth and environmental taxation) to achieve revenue neutrality.
  - Existing hiring incentives should be re-designed in a way to minimise substitution effects, by imposing more effective conditions on employers. These may include obligations to reward only net employment gains in the company; provide training to subsidised workers; hire the worker beyond the subsidy period. There is also scope for improving the targeting of some programmes, such as the "Support for the First Job".
  - More robust and regular evaluation of hiring incentives should be conducted, not only on the effect of subsidies on participants, but also on the size of deadweight and substitution effects.
  - In addition, the Lithuanian Government could consider introducing a more differentiated structure of wages for youth. International experience suggests that two options are available to Lithuania, i.e., the introduction of sub-minima wages for youth, or training wages. Under the first option, in order to mitigate the impact of sub-minimum wages on youth's net incomes, the non-taxable income could be increased to the level of (sub-) minimum wages.
- Employers should be given more flexibility to adjust quickly to changing economic circumstances. In particular:
  - Employment protection legislation should be relaxed on permanent contracts. In particular, dismissal notice periods should be shortened and severance pay reduced at least for people with shorter job tenure.
  - Smaller firms in Lithuania should be regulated by more flexible employment protection legislation. The Labour Code should ease dismissal procedures for smaller firms, notably by shortening notice periods and reducing severance pay. However, a careful balancing is needed when exempting small firms from employment protection requirements, as too generous exemptions may impede firm growth.
  - Longer trial periods should be introduced in Lithuania. This would allow employers more time to test new workers and reduce the risk associated with taking on new unexperienced workers, such as youth.
  - Temporary contracts should be liberalised to a certain extent. However, liberalisation of temporary contracts should be carefully balanced so as to avoid the creation of a dual labour market characterised by too different regulations between fixed and permanent contracts.

Promoting labour cost policies that do not hamper employment prospects for Lithuanian youth

High labour costs can be a barrier to (formal) employment, especially for the low-skilled and those who lack work experience, including youth. They can result from high statutory minimum wages relative to average or median wages, and/or from high non-wage costs, such as employers' social security contributions and payroll taxes. Non-wage costs to employers (i.e., employers' social security contributions) are comparatively high in Lithuania, especially for low-wage and minimum wage earners, even though several hiring incentives are used to reduce the cost of hiring youth. At the same time, while the minimum relative to the median wage is only marginally higher than what is observed across OECD countries on average, it may still be above the expected productivity of young workers. In Lithuania, the combination of high non-wage costs and relatively high minimum wages may translate into disincentives for employers to hire formally the low-skilled and those with less work experience, such as youth.

Addressing high non-wage costs and the tax wedge should be a priority

This section discusses the impact of the tax wedge – i.e. the sum of personal income taxes, employee and employer social security contributions plus any payroll tax less cash transfers, expressed as a percentage of labour costs[1] – on employers' hiring behaviours, in the context of the comparison between Lithuania and the OECD countries. A detailed discussion of the different components of the tax wedge in Lithuania is provided in Box 2.2.

In Lithuania, employers' SSCs equal 30.8% of gross wages,[2] while employees' SSCs equal 9% of gross wages (Ministry of Social Security and Labour, 2014; OECD, 2015a). Personal income taxes are fixed at a flat rate of 15%, although some progressivity is allowed by the basic tax-exempt amount (BTEA). Figure 2.1 compares the decomposition of the tax wedge in Lithuania with the OECD average at different levels of income, notably low-income earners (those at 67% of average earnings), average-income earners (at 100% of average earnings), and high-income earners (at 167% of average earnings). The tax wedge is higher in Lithuania than across the OECD for all income groups, a situation that mainly reflects significantly higher employers' social security contributions (27.3% of labour cost at average earnings versus an OECD average of 14.3%). The World Bank's Doing Business data also come to similar conclusions: at 35.2% of company profits, labour tax and contributions in Lithuania are significantly higher than those typically observed in OECD countries (23%). Furthermore, a

singularity of the Lithuanian tax wedge is that it is largely income invariant. This is mainly due to flat personal income taxes, with only a small progressivity effect allowed by a progressive BTEA.

Box 2.2. Social security contributions and personal income taxes in Lithuania

Personal income taxes

Personal income taxes in Lithuania are a flat rate of 15%. Some progressivity is allowed by the basic tax-exempt amount (BTEA) – i.e. non-taxable income – which is highest at low-income levels. BTEA is equal to EUR 166 per month for individuals earning less than EUR 290 per month; it decreases progressively for individuals earning between EUR 290 and 939 per month[1] while there is no basic tax exempt amount for people earning more than EUR 939 per month (OECD, 2015a). Additional BTEA is granted to parents raising children up to 18 years of age or older if they are attending secondary education. BTEA is updated on a regular basis and was last increased in January 2015.

Social security contributions

Social security contributions are managed by the State Social Insurance Fund Board of the Republic of Lithuania under the Ministry of Social Security and Labor (SODRA). Table 2.1 provides information on the different components of employers and employees' social security contributions.

Table 2.1. Social security contributions in Lithuania, 2015

Percentage of the gross wage

	Pension	Sickness and maternity	Unemployment	Health	Total
Employers	23.30%	3.40%	1.10%	3%	30.80%
Employee	3%	–	–	6%	9%

Source: Ministry of Social Security and Labour (2014), *Social Insurance Contributions*, [online], available: http://www.socmin.lt/en/social-insurance-1975/social-insurance-contributions.html, accessed 16 April 2015.

1. For this income bracket, the BTEA equals to 166 – 0.26*(gross monthly earnings – 290) (PwC, 2015).

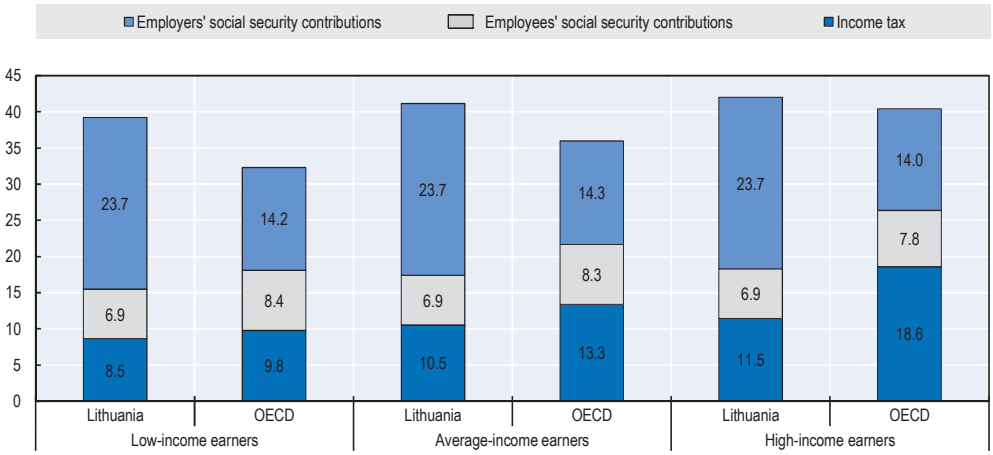
Source: Ministry of Social Security and Labour (2014), *Social Insurance Contributions* [online], available: http://www.socmin.lt/en/social-insurance-1975/social-insurance-contributions.html, accessed 16 April 2015; OECD (2015), "Benefits and Wages: Lithuania", Country chapter, http://www.oecd.org/els/social/workincentives, accessed 3 April 2015.

This evidence points to the fact that non-wage costs might exert a strong impediment to (formal) employment in Lithuania, especially the hiring of low-skilled workers and youth, who are likely to earn below-average wages. This is consistent with previous evidence, which identifies high tax wedges, especially on low-income earners, as one of the main causes of structural unemployment in Lithuania (European Commission, 2015; IMF, 2014; 2007; Ebeke and Everaert, 2014; World Bank, 2005). A similar point is

made by the Enterprise Surveys of the World Bank and IFC (2013), which concludes that tax rates are perceived by Lithuanian firms as the single most important barrier to the expansion of the business sector, especially small- and medium-size enterprises.

Figure 2.1. The decomposition of the tax wedge, Lithuania and OECD average, 2014

Percentage of labour costs



Note:

The tax wedge refers to single individual without children.

Labour costs are defined as the sum of gross earnings, employer social security contributions and payroll taxes, where applicable.

Low-income refers to 67% of the average wages; average-income refers to 100% of average wages; high-income refers to 167% of average wages.

In Lithuania, income taxes, employer and employee SSCs are estimated based on gross average wages of EUR 714.5 per month in Q4 2014.

Source: For Lithuania, OECD calculations based on OECD (2015), "Benefits and Wages: Lithuania", Country chapter, http://www.oecd.org/els/social/workincentives, accessed 3 April 2015; for OECD countries, *OECD Public Sector, Taxation, and Market Regulation Database*, http://stats.oecd.org/.

The OECD countries have put in place specific mechanisms to address high non-wage costs to employers hiring youth, such as reductions in employers' social security contributions targeted to youth (see Box 2.3). Reductions in social security contributions for all or most low-wage earners have been introduced recently, or expanded, in Belgium, France, Italy, the Netherlands and the United Kingdom, for example, with the aim to spur job creation for the low skilled (see also OECD, 2015b, for further details). While, of course, these measures do not aim to target any specific groups,

they are likely to primarily benefit youth people, whose entry wages are generally lower. In Lithuania, the reduction of the tax wedge for youth or low-income earners could be accompanied by a shift of the tax burden to other sources less detrimental to growth and employment – such as environmental and wealth taxation. This is also a recommendation of the European Commission Council in 2015 (European Commission, 2015b).

Box 2.3. Reductions in employers' social security contributions targeted to youth

Reductions in employers' social security contributions are a common strategy adopted by some OECD countries to reduce non-wage costs and encourage firms to hire at-risk population groups, such as youth. These programmes are generally adopted in countries where non-wage costs tend to be high and can have negative employment effects on some disadvantaged population groups.

As a mean to tackle the current economic crisis and improve labour market prospects for youth, some OECD countries, such as Greece, Poland, Slovenia, Sweden and Turkey for example, have recently introduced temporary measures to reduce employers' social security contributions for companies hiring young people.

In Greece the "Acquisition of Work Experience for New Entrants in the Labour Market" programme provides subsidies to enterprises hiring unemployed youth (ages 16-24) equaling 70–80 % of social security contributions (capped to minimum wage levels), with the possibility to expand the subsidy for a further 12 months if the work experience programme is transformed into a work contract (European Commission, 2014b).

Poland is introducing a range of new measures targeted at unemployed young people (aged under 30). These include reductions in social security contributions for six months for employers hiring young people, under condition that the employer retains the young person in employment for a minimum of six months after the subsidy period ends (OECD Questionnaire "Recent Policy Measures and Reforms to Improve Labour Market Outcomes for Youth", 2014).

In Slovenia, the "Emergency Measures in the Field of Labour Market and Parental Care Act" introduced a temporary measure by means of which an employer who hires on a permanent contract a young person (ages 30 or below) registered as unemployed for at least three months is exempted from paying employer's social security contributions for the first 24 months of employment (OECD Questionnaire "Recent Policy Measures and Reforms to Improve Labour Market Outcomes for Youth", 2014).

In Sweden the government has lowered employers' social security contributions for young people under the age of 26 from 31.42% to 15.49%. With the aim to facilitate a more rapid school-to-work transition, the government proposed a further reduction in the employers' SSCs rate to 10.21% for people under the age of 23, while reduced employers' SSCs are maintained at 15.49% for young people aged 23-25 (Swedish Ministry of Employment, 2014).

Box 2.3. Reductions in employers' social security contributions targeted to youth *(cont.)*

In Turkey, the employers' social security contributions for youth (aged 18-29) recruited between May 2008 and May 2010 has been covered for a period of five years by the Unemployment Insurance Fund (UIF). Starting at 100% the first year, the subsidy gradually decreases to 20% in the fifth. In order to benefit from the programme, the employer must have hired youth who were registered as unemployed for at least six months (OECD, 2011). In order to minimise substitution effects, the subsidy is provided as long as the additional worker represented an increase in the enterprise's workforce.

Source: Swedish Ministry of Employment (2014), "Youth Employment Policies in Sweden – The Swedish Response to the Council Recommendation on Establishing a Youth Guarantee"; OECD and ILO (2011), "G20 Country Policy Briefs: Turkey. Supporting Employment Through Reduced Social Security Contributions", on occasion of the Meeting of Labour and Employment Ministers, 26-27 September 2011, Paris.

Hiring incentives need to be made more effective

Hiring incentives are used in many OECD countries to reduce the cost of hiring and encourage firms to take on disadvantaged population groups. The international experience suggests that hiring incentives may be particularly useful to support the employability of youth people, since employers may be reluctant to hire young unexperienced workers if labour costs are set at a level above their expected productivity levels (OECD, 2015b). A period of subsidised employment can provide firms the opportunity to observe the motivations and competences of young workers and increase their productivity (both through work experience and on-the-job training) until it is commensurate with the unsubsidised wage paid. By reducing the cost of labour, hiring incentives can also encourage employers to declare their newly hired youth and therefore can help reducing informal employment. At the same time, it is important to ensure that hiring incentives are designed in a way that minimises the risk of deadweight losses (i.e. subsidising jobs that would have been created even in the absence of the subsidy) and substitution effects (i.e. crowding out non-subsidised workers to the advantage of subsidised workers).

Although hiring incentives in Lithuania play a role in improving employment prospects of targeted youth…

Different types of hiring incentives programmes are available to employers in Lithuania: these include wage subsidies for new hiring ["Support for the First Job" (*Parama pirmajam darbui*) and "Subsidised Employment" (*Įdarbinimas subsidijuojant*), "Job Rotation" (*Darbo rotacija*)], Public works[3] (*Viešieji darbai*), and up-skilling hiring subsidies ["Support for the Acquisition of Professional Skills" (*Darbo įgūdžių įgijimo rėmimas*)] (see Box 2.4). While most programmes are directly implemented by the Lithuanian Labour Exchange (the Lithuanian public employment service), some are provided and financed by other local bodies. For example public works are provided and financed by the municipalities jointly with the Lithuanian Labour Exchange. Other programmes, such as "Support for the First Job", are funded by the European Social Fund and are administered by an independent entity, the *Investicijų ir verslo garantijos* UAB (INVEGA). Some of these programmes have been recently scaled up following the implementation of the European Youth Guarantee (see Chapter 3 for a discussion of the implementation of the European Youth Guarantee in Lithuania).

A number of works are available to evaluate the effectiveness of hiring incentives in Lithuania (PPMI, 2015; Bartasevičius, n.d.; European Commission, 2014a). Thanks to these works it is possible to draw some conclusions about the impact of existing hiring incentives on the employment outcomes of participants. Broadly speaking, hiring incentives appear to have a positive impact on employment rates of participants, with the notable exception of public works which have a smaller and in some cases negative impact (see Chapter 3 for further a discussion of public works).

Box 2.4. Hiring incentives tackling Lithuanian youth

Support for the First Job

The measure "Support for the First Job" (*Investicijų ir verslo garantijos*, LTD), financed by the European Social Fund (ESF), was introduced in Lithuania in 2012 to promote youth employment. According to the measure, employers hiring youth (aged 16-29) with no previous work experience can receive a wage subsidy equal to 23.3% of the gross salary paid to the employee. Compensations are paid on a maximum wage of EUR 492.30 per month, and as a consequence the value of the compensation can in no case exceed EUR 114.70 per month.[1] The wage subsidy is paid for a maximum of 12 months (see, for more details, the webpage of *Investicijų ir verslo garantijos* UAB, INVEGA, the independent agency in charge with administering the programme). The overall budget for this measures is EUR 9 270 000, and it is estimated that around 20 000 youth in total will benefit from this measure (European Social Fund, 2014). Although the project is going to end in September 2015, a similar project funded by the European Union will be introduced and shall be operational until 2020.

Box 2.4. Hiring incentives tackling Lithuanian youth *(cont.)*

Subsidised employment

The measure "subsidised employment" is regulated by Article 24 of the Law on Support for Employment. Under this measure, employers hiring youth (ages 16-29) who are registered in the Lithuanian Labour Exchange can have 50% of the gross wage reimbursed for a period not exceeding six months. Priority is given to long-term unemployed youth, young parents of two children, and youth originating from families that have two or more family members registered in the Lithuanian Labour Exchange. The compensation equals 50% of the wage and cannot exceed two minimum wages per month (EUR 600 monthly or EUR 3.64 hourly). Employers who fire subsidised workers (within six months after the subsidy period) cannot receive subsidised employment for at least 12 months. In 2014, over 9 700 youth were hired under "subsidised employment" in Lithuania.

Job rotation

Job rotation programme is organised in cases when unemployed people are hired to temporary replace employees that are on leave (e.g. parental leave, educational and sabbatical leave). PES provides employer with a wage subsidy of up to 0.5 of the minimum wage for a maximum of 12 months. The programme attracts relatively few participants – 400 people in 2012, which suggests even fewer youth participated in the programme.

Support for the acquisition of professional skills

The measure "support for the acquisition of professional skills" is also regulated by Article 24 of the Law on Support for Employment. The measure provides partial wage subsidies to employers hiring youth (ages 16-29) who need to acquire new skills. These include: those who have been given a notice of dismissal; long-term unemployed; and those who start a job for the first time. The compensation equals 50% of the wage and cannot exceed two minimum wages per month (EUR 600 monthly or EUR 3.64 hourly). The duration of the subsidy is five months, while it is 12 months for youth starting a job with a newly acquired qualification. During 2014, over 2 000 youth participated in this programme.

Public works

Public works are provided and financed by the Lithuanian Labour Exchange and municipalities. The total duration of public works carried out by a job seeker can in no case exceed six months over a period of 12 months. An employer who hires a job seeker sent by the Lithuanian Labour Exchange to carry out public works is entitled to receive a wage subsidy for the hours worked by the employed person equalling the minimum hourly wage plus a compensation for social security contributions (Nekrošius and Petrylaitė, 2010).

1. Corresponding to LTL 1 700 and LTL 396.10 respectively.

Source: INVEGA (n.d.), *Support for the First Job* [online], http://www.invega.lt/en/services/support-for-the-first-job-invega.htm, accessed 31 March 2015; European Social Fund (2014), *Projects* [online], available: http://ec.europa.eu/esf/main.jsp?catId=46&langId=en&keywords=&theme=0&country=387&list=1, accessed 17 April 2015.

…their design can be improved

At the same time, other relevant dimensions need to be taken into account to assess the effectiveness of hiring incentives. The first is deadweight losses, i.e. it is important to ensure that the subsidies are not spent for jobs that would have been created even in the absence of the subsidy. The second is the need to control for possible substitution effects, i.e. the risk that hiring incentives crowd out non-subsidised workers to the advantage of subsidised workers. While neither of these difficulties is fully avoidable, effective hiring incentives should be managed in such a way to minimise these adverse effects. Effective targeting of the individuals who need most help in finding work, and the imposition of enforceable requirement conditions to employers can be particularly important to this end.

There are reasons to believe that risks of deadweight losses do not represent a major source for concerns in Lithuania, so long as the hiring subsidies that are directly administered by the Lithuanian PES are concerned. Indeed, these programmes are designed with a view to target, as a priority, registered unemployed youth who are most in need, notably the long-term unemployed and the low-skilled. On the other hand, the case for taking a closer look at deadweight losses may be important when it comes to the programme "Support for the First Job", which is not under the direct administration of the Lithuanian Labour Exchange and targets a broadly defined youth group with no previous work experience. Such a rather large group includes people facing different obstacles in entering the labour market. However, impact evaluation studies that are available in Lithuania have so far neglected to measure the existence and magnitude of such deadweight losses (see Box 2.5 for examples of evaluation studies across the OECD).

More could also be done in Lithuania to make sure that hiring subsidies do not generate substitution effects. Existing hiring subsidies in Lithuania typically impose lose conditions to employers, reflecting the fact that they simply define the generosity and length of the subsidy. One notable exception is "Subsidised Employment", which imposes some penalties to employers who dismiss subsidised workers (see Box 2.4 for further details). As a consequence of weak obligations imposed, there is a risk that employers in Lithuania substitute unsubsidised with subsidised workers, without engaging in long-term working relationships with their employees. As a result, youth may be used as a source of temporary subsidised labour. Again, impact evaluations in Lithuania have not assessed the existence and size of substitution effects, mainly due to data limitations (see Box 2.5).

The international experience suggests that substitution effects can be significantly reduced by imposing more effective conditions on employers (European Commission, 2014a; 2014b):

- One option implemented by many OECD countries is to provide hiring incentives only for additional positions. Turkey, for example, gives a hiring incentive, in the form of reduced social security contributions, to employers who hire unemployed youth who represent an increase in the enterprise's workforce (see Box 2.3). Similarly, Italy has recently introduced wage subsidies for firms hiring long-term unemployed and/or low-skilled youth (ages 18-29) provided that the new hiring represent an increase in the number of employees in the firm (Italian Ministry of Employment and Social Policies, 2015).
- As another option, access to hiring incentives could be made contingent upon the provision of some form of training. One example is the "Jobs for the Future" (*Emploi d'Avenir*) programme implemented in France, which requires employers to provide substantial training and counselling to subsidised young workers (French Ministry of Labour, 2015).
- Furthermore, some countries require employers to hire workers beyond the subsidy period. For example, Poland is introducing new subsidies to hiring youth, under condition that the employer retains the young person in employment for a minimum of six months after the subsidy expires (see Box 2.3). As another example, in Austria the "Come Back" employment integration subsidy provides "checks" to stop misuse, e.g. if none of the subsidised workers are hired after the subsidy period, this is considered to be misuse (European Commission, 2014a)[4].

One lesson from international practices for designing hiring incentives is that there is a balance to be found between conditions imposed on employers, on the one hand, and the perceived burden and attractiveness of the hiring incentive, on the other. A balanced approach is important to ultimately encourage actual take-ups (European Commission, 2014a; 2014b).

Box 2.5. Evaluating deadweight and substitution effects of hiring incentives across the OECD

Several different approaches are available to measure deadweight and substitution effects of hiring subsidies. Some works use questionnaires administered to firms where firms are asked if the subsidised jobs would exist even in the absence of the subsidy (deadweight), and/or if the firm would hire the same worker even in the absence of the subsidy (substitution). Although this approach allows a quick assessment of the possible deadweight and/or substitution effect, underreporting by employers may result in underestimation of the effect. An example of this type of evaluation was carried out in the Netherlands by Welters and Muysken (2006). Another common approach to measure deadweight effect is to use variation in eligibility to participate in the programme. The effects in this case are measured using difference-in-difference, regression discontinuity analysis or panel regressions. In Germany for example, Boockmann et al. (2012) evaluates the size of deadweight effect of hiring incentive for older workers (age above 50). To estimate deadweight effects the authors compare the number of estimated additional hirings to the number of subsidies distributed.

Available works also use firm level data to measure substitution effects by modelling employment levels of firms in the absence of the subsidy. The effect in this case is measured as a change in firm's total employment after receiving the subsidy. Such type of evaluation was conducted in Finland by Kangasharju (2007). Finally, some papers aiming to evaluate substitution effects of subsidised employment programmes use data at the regional level. In Sweden, for example, Dahlberg and Forslund (2005) explain changes in municipality employment level by changes in programme intensity.

Source: Welters, R. and J. Muysken (2006), "Employer Search and Employment Subsidies", *Applied Economics,* Vol. 38, No. 12, pp. 1435-1448; Boockmann B., T. Zwick, A. Ammermüller and M. Maier (2012), "Do Hiring Subsidies Reduce Unemployment Among Older Workers? Evidence from Two Natural Experiments", *Journal of the European Economic Association,* Vol. 10, No. 4, pp. 735-764; Kangasharju, A. (2007), "Do Wage Subsidies Increase Employment in Subsidized Forms?", *Economica*, pp. 51–67; Dahlberg, M. and A. Forslund (2005), "Direct Displacement Effects of Labour Market Programmes", *Scandinavian Journal of Economics*, Vol. 107, pp. 475-494.

Options for a youth minimum wage in Lithuania

Minimum wages can help ensure that fair wages are paid to workers, while at the same time increasing incentives to work especially for certain population groups, such as the low skilled and young people (OECD, 2014; 2010). However, the level of minimum wages must be set at an appropriate level. Too low a minimum wage may fail to address in-work poverty, thus leading to undesirable low wages (when not undermine work incentives altogether) for large numbers of workers, especially those without representation in the wage-setting process and others in a particularly weak bargaining position. Too high a level, especially if combined with high non-wage labour costs, may leave little room for rewarding employees in line with productivity, thus leading to job losses, informal work or reduced

working hours for the most disadvantaged groups, including the youth. Evidence analysis shows that job losses are more likely when minimum wage are high to start with, and when labour markets are already weak, e.g., after economic downturns (Broecke, Forti and Vandeweyer, forthcoming; OECD, 2015b). Instead, moderate minimum wage increases typically do not result in job losses overall and there is some evidence that they may contribute to support workers' productivity.

Lithuania has a statutory minimum wage since 1995. According to the Labour Code (Article 187), the government, upon the recommendation of the independent *Tripartite Council*, determines the level of the minimum wage. In its assessment the *Tripartite Council* accounts for the criteria set forth by the ILO Recommendations No. 135:1, such as the general level of wages in the country, the cost of living, as well as labour market conditions (Wageindicator, 2015). Throughout its history, the minimum wage has been subject to a series of freezes (such as during the global and financial crisis) and ad-hoc increases. The minimum wage is calculated on an hourly and monthly basis (40 working hours per week) (Labour Code, Article 144), with the current level being set at EUR 1.82 per hour, or EUR 300 per month. The legislation allows setting different minimum wages through the existence of sectors, categories, or regional wage agreements (Labour Code, Art. 187). However, in practice there is a single national minimum wage in Lithuania and no sub-minimum wages exist for youth (Wageindicator, 2015).

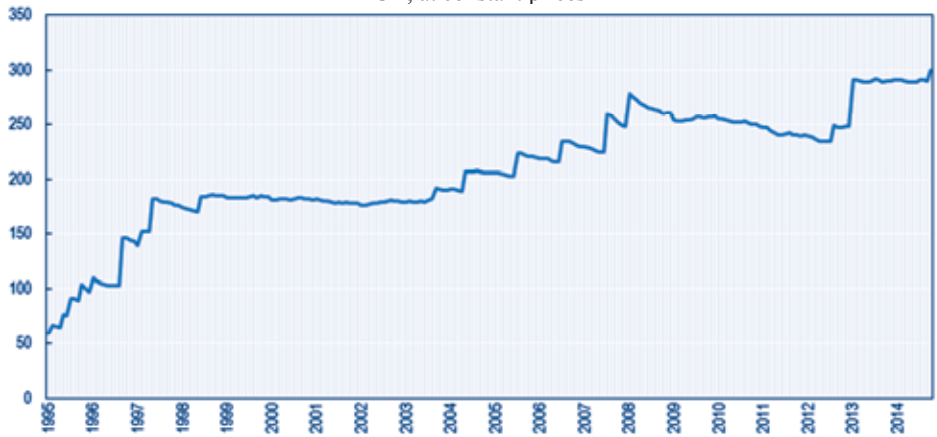
Analysis of the EU-SILC data (2010) suggests that in Lithuania around 18.4% of workers are paid at the hourly minimum wage or below. This is generally much higher than what is observed across OECD countries – where around 5% of the workforce is paid at the minimum wage or below (OECD, 2010) – and Baltic countries – where the figure is around 5% in Estonia and 15% in Latvia (OECD, 2015b). On the other hand, unlike most OECD countries youth are not overrepresented among minimum wage-earners in Lithuania. This feature is common among Baltic countries, more generally. Indeed, in Lithuania 19.3% of young people (ages 15-29) earn minimum wages or below, compared to 18.2% of Lithuanian adult workers (ages 30-64). This small gap points to the fact that earning potential remains low well beyond the early stages of people's careers, or that some of them may receive additional compensation on top of formal earnings (e.g. in the form of "envelope payments") (Chapter 1; see also OECD, 2015b for a comparative discussion).

The real value of the minimum wage in Lithuania today is over four times higher than what it was 20 years ago when it was introduced (Figure 2.2): it moved from EUR 58 per month in 1995 to EUR 300 in 2014. The real value of the minimum wage recorded sharp increases during the period from 1995

till mid-1997; it remained stable from mid-1997 until the end of 2003, and then peaked again until the beginning of the crisis (Q3 2007). From the crisis to the second half of 2012, workers experienced a five-year decline in the real minimum wage, reflecting no increases in its nominal value. After the second half of 2012 the value of minimum wage was increased again in October 2014 (up to the current monthly level of EUR 300).

Figure 2.2. Monthly minimum wage, Lithuania, 1995-2014

EUR, at constant prices[a]

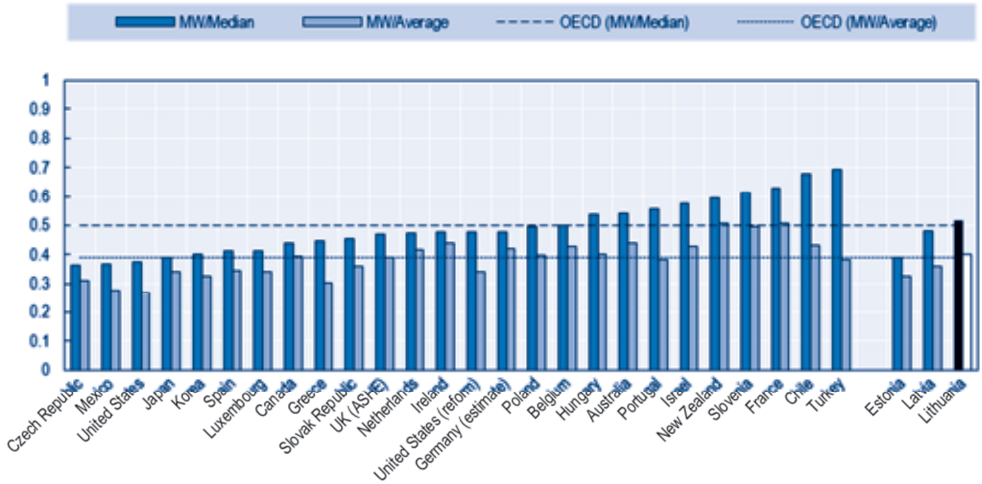


a) The deflator used is the consumer price index (CPI) (October 2014 prices).

Source: OECD calculations based on Statistics Lithuania and the *OECD Earnings Database*, http://stats.oecd.org/.

International perspective shows that in Lithuania the level of the gross minimum wage, expressed as a percentage of both the average and the median wages, is at present only marginally above the level observed for the average of the OECD countries which have a statutory minimum wage (Figure 2.3). Comparing Lithuania with the other Baltic countries shows that the minimum wage is higher in Lithuania: 52% of the median wage, as against 48% in Latvia and 39% in Estonia. It should be acknowledged, however, that the ratio for Lithuania has been driven by a low median wage (which has declined strongly during the crisis) rather than an increasing minimum wage. This points to the fact that further increases in the minimum wage would not hurt jobs opportunities if indexed on the median wage – as this latter could increase again as economic growth picks-up. At the same time, many OECD countries have introduced sub-minimum wages for youth (see discussion below) – which suggests that minimum wages for *youth* in Lithuania could be higher than in other countries.

Figure 2.3. Minimum wage (MW) relative to average and median wage of full-time workers, Lithuania, OECD and Baltic countries, 2013



Source: OECD (2015), *OECD Employment Outlook 2015*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2015-en.

Moving from the current uniform minimum wage structure to a more differentiated wage structure for youth could be an option worth considering in this context. By easing access to the labour market of the least skilled, it would reduce their likelihood of falling into long-term unemployment or becoming NEETs. Furthermore, introducing sub-minimum wages may encourage formal hiring. Indeed, informal employment is pervasive in Lithuania, especially across youth (see Chapter 1), suggesting that the current uniform structure of minimum wages may not be optimal, with potentially adverse employment effects on Lithuanian youth.

There is no-one fits all approach to address these issues. This report proposes two alternatives:

- The first more ambitious option would involve a move towards a reduced minimum wage level for younger workers, similar to the approach now in use by about half of the OECD countries (Table 2.2). The economic and employment rationale behind this approach is that a lower but well enforced minimum for youth can help maintain minimum pay standards, while compensating for specific barriers that young people face when entering the labour market. In some of the countries where sub-minimum wages for youth exist – notably Australia, Belgium, France, Israel, Luxembourg, the Netherlands, the Slovak Republic and the United Kingdom – they increase progressively

with age. Increasing minimum wages in several small steps avoids large jumps in labour costs from one year to the next, and helps to lower the risk that employers would base hiring and firing decisions primarily on age or seniority.

- If the Lithuania authorities believe that the prospect of a lower minimum wage for youth is not applicable to the country, *training wages* for youth people on apprenticeships provides an alternative option to that of sub-minimum wages. While lower, because of the need to account for the productivity differential, *training wages* could be designed in such a way to progressively increase, as learning advances. Some OECD countries already apply this form of lower wages for workers under training – such as people on apprenticeships. France, for example, uses minima that vary by age, seniority and employment contracts and applies specific lower rates (ranging between 55 and 85% of the standard rate) to youth on a training contract, workers on vocational training (any age, between 25 and 78% of the standard rate) and to youth under 18 years old and less than six months of employment (80-90%) (OECD, 2015b).Should this option be preferred, it will need to be implemented together with adequate provisions to ensure a high quality of the training provided. This is needed to prevent the risk that employers benefit from cheap labour without providing any qualitative training to young workers.

Table 2.2. Sub-minimum wages for young people in OECD and Baltic countries

Country	Exemptions/variations	
	Youth (% of minimum wages)	Others
	OECD countries	
Australia	15: 36% 16: 47% 17: 57% 18: 68% 19: 82% 20: 97%	There are currently three categories of minimum wage: 1) modern award minimum wages, which are occupation- and industry-specific; 2) the national minimum wage, which is used as a "safety net" and is of general application to all industries and occupations; 3) special national minimum wages, which apply to specified categories of vulnerable workers, like junior employees, trainees and employees with a disability.
Belgium	n.a.	n.a.
Canada	n.a.	Varies by region (province and territory), by industry in certain provinces (e.g. Ontario, Québec) and by occupation (e.g. some occupations for which workers receive tips, like bartenders and waitresses).
Chile	15-17: 74%	Varies by age. Lower rates for older workers (>65): 75%.
Czech Republic	n.a.	Varies by disability. Lower rates for people with disabilities (employees receiving invalidity pensions).
France	<17: 80% 17-18: 90% + lower rates for young people employed in a training contract (Contrat de professionnalisation)	Lower rates for childcare assistants (*assistants maternels*), certain carers (*assistants familiaux*), apprentices and disabled workers.
Germany	<18: no minimum wage	Exemptions for some branches allowed until 2017. Long-term unemployed exempted during the first six months of employment.
Greece	<25: 89%	Varies by occupation (higher rates for white collar workers).
Hungary	n.a.	There are two types of minimum wage in Hungary – the Guaranteed Minimum Wage (for professional workers in professional occupations) and the National Level Minimum Wage.
Ireland	<18: 70%	n.a.
Israel	16: 70% 17: 75% 18: 83%	n.a.
Japan	n.a.	There are two different categories of minimum wages: 1) regional minimum wages, which are to be decided across the board for each region nationwide; and 2) special
Korea	n.a.	Lower rate for apprentices who have been in the apprenticeship for less than three months: 90%.
Luxembourg	15-16: 75% 17: 80%	Varies by skill level (20% higher for those with a professional qualification).
Mexico	n.a.	Varies by region and occupation. There are three different general minimum wages (that vary by region) and 86 different occupational minimum wages fixed by the National Commission on Minimum Wages.
Netherlands	15: 30% 16: 34% 17: 39% 18: 45% 19: 52% 20: 61% 21: 72% 22: 85%	May vary by sector/firm. The government may decide to decrease the minimum wage for a certain enterprise or sector, in cases of severe adverse economic development
New Zealand	<20: 80% For some workers with less than six months job tenure	Varies by contract type (apprentices) and disability.

Table 2.2. Sub-minimum wages for young people in OECD and Baltic countries *(cont.)*

Country	Exemptions/variations	
	Youth (% of minimum wages)	Others
OECD countries		
Poland	n.a.	n.a.
Portugal	<18: 75%	Varies by region and contract type. Higher minimum wages for the Autonomous Region of Açores and for the Autonomous Region of Madeira. Lower rates (up to - 20%) for apprentices and interns, as well as disabled employees for a period that cannot exceed one year.
Slovak Republic	<18: 80% 18-21: 90%	The legislation determines one statutory level of the minimum wage, which is multiplied by coefficients depending on the difficulty of position. Lower rates are applied for employees receiving a disability pension.
Slovenia	n.a.	n.a.
Spain	n.a.	n.a.
Turkey	n.a.	n.a.
United Kingdom	15-17: 59% 18-20: 80%	Varies by training contract. Lower rates for employees in recognised apprenticeship schemes.
United States	<20: 58% during their first 90 consecutive calendar days of employment with an employer.	Varies by region, disability, as well as student status. Most states have either the same or a higher rate than the federal rate. Five states have no MW and two states have a lower MW and workers are entitled to the federal rate). Partial exemptions for workers with disabilities, full-time students, and student-learners employed pursuant to subminimum wage certificates.
Baltic countries		
Estonia	n.a.	n.a.
Latvia	Higher hourly rates for <18 (114%	Special hourly rates for youth and for those working under risky or dangerous circumstances who are allowed to work only 35 hours per week to reach the same weekly rate as normal workers
Lithuania	n.a.	Although the legislation specifies that specific wage rates may be set for different regions, sectors and categories of employees, only a uniform statutory minimum wage or national minimum wage is currently valid all over the country.

Source: OECD (2015), *OECD Employment Outlook 2015*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2015-en.

Many observers in Lithuania are concerned that the more ambitious approach of a lower minimum wage for youth could trigger an increase in the incidence of low-pay jobs among youth, whose wages are already relatively low. One policy option to mitigate this concern could be to combine the introduction of the lower minimum wage for youth with a new provision to increase the statutory level of the monthly non-taxable income (basic tax-exempt amount, BTEA[5]), which is currently set at EUR 166 per month (see Box 2.2). Coupled with the increase of the non-taxable income, the introduction of the sub-minimum wages for youth could provide for more decent living conditions for the youth, while at the same time strengthening the employers' incentives to hire youth workers through the formal channel. By increasing net take-home pay of individuals at bottom income levels, it would also allow for some redistributive effects and reduce income inequalities. The impact of this measure on overall tax revenues could be offset by increasing other forms of taxation such as wealth and environmental taxation (see also European Commission, 2015b).

From the governance perspective, under either option the *Tripartite Council* – which consists of government, trade unions and employer organisation and is already well placed to consider a wide range of economic and social factors – would be in an ideal position to establish the necessary links between the general minimum wage policy and the lower minimum wage, or *training wages*, for youth. Public consultations and a

requirement to publish recommendations promote minimum-wage adjustments that are transparent and predictable for both businesses and workers, including the youth.

Delivering a less strict employment protection legislation to strengthen youth hiring

Employment protection legislation (hereafter EPL) – the set of rules established either by law or collective bargaining applicable to the hiring and firing of permanent workers and to the use of temporary work contracts – aims to protect workers and increase job stability. However, if too rigid it can undermine firms' ability to adjust to changing economic circumstances and therefore create a barrier to hiring. And as new entrants in the labour market, youth would, more likely than adults, be affected by the consequences of strict EPL (OECD, 2004; 2010; Scarpetta, 2014; Muravyev, 2014). Indeed, although age is generally not mentioned explicitly in EPL, some factors such as not having a dependent family or having less seniority at the company, may translate into less job protection and fewer hiring opportunities for young workers (OECD 2004; 2010).

In Lithuania, regulation on hiring and firing of permanent and fixed-term contracts is set out as part of the Labour Code (last updated in January 2015) and the Law on Temporary Agency Work (last updated in January 2013).[6] Employment relations are almost entirely regulated by the law, while little room is left for negotiations between social partners (i.e. trade unions and employers' organisations). Indeed, collective agreements apply to only around 10% of employees (Vidovic, 2013; Bagdanskis and Usonis, 2011).[7]

Inherited from soviet labour law principles, Lithuanian EPL remains today characterised by overall strict employment protection legislation (Bagdanskis and Usonis, 2011; Gruzevskis and Blažienė, 2007). Since the early 2000s, Lithuania has undergone significant reforms to liberalise permanent contracts on the background of increased regulation of temporary contracts and collective dismissal (Muravyev, 2010). Going forward, Lithuania aims at introducing more flexible EPL on both permanent and temporary contracts, while also ensuring that workers who are displaced receive the necessary social protection and assistance to find new jobs – an approach which many observers in Lithuania refer to as the "new social model" based on "flexicurity".

Workers on permanent contracts benefit from relatively high levels of protection

Lithuanian workers under permanent contracts today benefit from a relatively high level of protection against individual dismissal. In case of justified/fair dismissal, notice periods are comparatively long measured against the benchmark of the OECD countries, while severance pay is relatively generous, especially for workers with short job tenure (including possibly the youth). Indeed, not only the employers need to provide two months written notice to the employee (regardless of job tenure) – which is relatively high by OECD standards; in addition, the length of the notice is much longer (four months) for some categories of workers, such as youth under 18. Furthermore, during the notice period workers are allowed to take at least 10% of the normal working time off to look for a new job (Gruzevskis and Blažienė, 2014), which further increases the cost of dismissing workers. Severance pay in Lithuania is also relatively high and spans from a minimum of one monthly wage (for tenure of less than 12 months), to a maximum of six monthly wages (for tenure of more than 20 years).

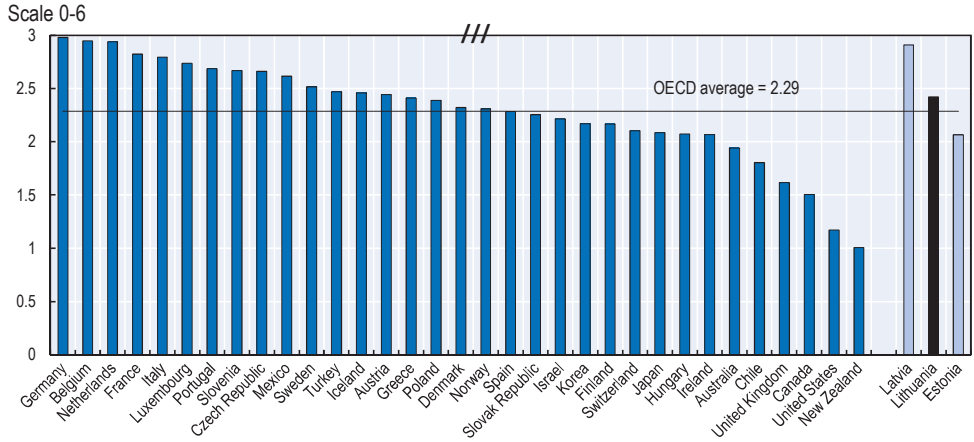
Similar to many OECD countries, provisions for collective dismissal in Lithuania require additional notification procedures. In general, employers need to notify third parties (typically workers' representatives and public employment services) and/or engage in negotiations with trade unions (OECD, 2013). In Lithuania, both additional provisions apply: employers dismissing a large number of workers at a time must notify the Local Labour Exchange office, after consultations with employees' representatives. By contrast, both additional provisions are found in only few OECD countries.[8]

The definition of unfair dismissal is broad in Lithuania, and reinstatement obligations following unfair dismissal are relatively restraining. If the case is taken to Court and dismissal is recognised as unfair, the judge can order that the worker be reinstated. In this case, the worker is entitled to wage arrears and social security contributions should be paid as if he/she had never been dismissed. In case the Court recognises dismissal as unfair but decides to terminate the employment contract, the employer also needs to pay the severance pay (on the top of the wage arrears and SSCs). While this is generally the case in most OECD countries (OECD, 2013), it may still represent a strong disincentive to hiring and firing. Having said that, in Lithuania workers have little time to bring the case to Court: the maximum time for lodging a claim is one month from the effective date of dismissal – whereas the median maximum time is two months across OECD countries (OECD, 2013).

The length of trial periods is another aspect of the EPL that is likely to affect the hiring of youth. During trial periods, the payment of severance pay does not apply and the employer can dismiss workers rapidly with no costs. However, trial periods in Lithuania are relatively short: they can last three months compared to an OECD average of five months (OECD, 2013). Furthermore, employers in Lithuania can use trial periods only in limited circumstances. For example, trial periods are not allowed when hiring people younger than 18, when transferring employees between employers, when recruiting through official tender or elections, or when hiring those who have passed the qualification examinations for the position (ILO, 2011).

All in all, assessing the above regulatory components from an international comparative perspective suggests that employment protection legislation on permanent contracts (for both individual and collective dismissal) is relatively strict by OECD standards in Lithuania (Figure 2.5).[9] On a scale that goes from 0 (least strict) to 6 (most strict), Lithuania scores 2.42, which is above the OECD average of 2.29. As shown in Figure 2.4, EPL on permanent contracts in Lithuania is stricter than two-thirds of OECD countries. Compared to the neighbouring Baltic countries, employment protection legislation on permanent contracts is much stricter in Lithuania than in Estonia (2.07), but more lax than in Latvia (2.91).

Figure 2.4. Employment protection legislation on regular employment (individual and collective dismissal), Lithuania, Baltic and OECD countries, 2013[a]



Note: Data for Lithuania refers to 2015.

Source: OECD Employment Protection Database, http://stats.oecd.org/.

It is noteworthy that although EPL on permanent contracts is relatively strict in Lithuania, there is evidence of weak enforcement (European Commission, 2015; Muravyev, 2010; Bagdanskis and Usonis, 2011; OECD, forthcoming). Many contracts are terminated by "agreement between the parties" (which does not entail the payment of severance pay), rather than on the initiative of the employer without any fault on the part of the employee (Gruzevskis and Blažienė, 2014). Indeed, between 2010 and 2013 only less than 10% of total dismissed workers received severance pay (European Commission, 2015).

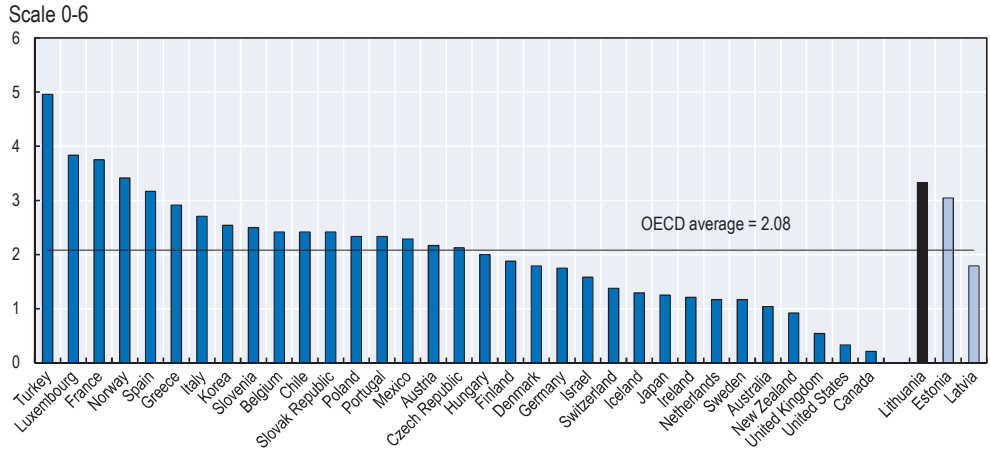
Employment protection legislation on temporary employment is very strict

Employment protection legislation on temporary employment is also very strict in Lithuania. First and foremost, firms can conclude temporary contracts only under limited circumstances (e.g. for seasonal and project work) and can in no case use fixed-term contracts for work that is of a permanent nature.[10] By contrast, in more than half of OECD countries, no justification is required to hire workers under fixed-term contracts, at least for the first contract (OECD, 2013).

Moreover, regulation on renewals and prolongations is rather strict in Lithuania. Even though there are no legal restrictions on the number of renewals – provided that the maximum cumulative duration of five years is respected – the legislation contains provisions that make it difficult to extend a fixed-term contract. For example, after the expiration of a temporary contract, the employment contract is automatically converted into a permanent one. Furthermore, if a temporary contract is terminated, but within one month from the day of its termination another fixed-term employment contract is concluded with the dismissed employee for the same work, such a contract shall be recognised as permanent.

Overall, employment protection legislation on temporary contracts in Lithuania is strict by international standards (Figure 2.5). Lithuania scores 3.33 on the OECD employment protection legislation indicator on temporary contracts, which is well above the OECD average of 2.08, and above the neighbouring Baltic countries (3.04 in Estonia and 1.79 in Latvia). Across the OECD, only few countries (notably France, Luxembourg, Norway and Turkey) have more rigid EPL on temporary contracts than Lithuania. Partly as a result of strict regulation on temporary contracts, temporary work is very uncommon in Lithuania. As shown in Chapter 1, temporary employment affects only around 8.5% of all employed youth – compared to an OECD average of 39.8% and 43.6% in the European Union – and is virtually inexistent among the low-skilled and adults (OECD, 2014).

Figure 2.5. Employment protection legislation on temporary contracts, Lithuania, Baltic and OECD countries, 2013[a]



Note: Data for Lithuania refers to 2015.

Source: OECD Employment Protection Database, http://stats.oecd.org/.

Moving regulation on temporary and permanent contracts more in line with one another

As in other countries, the combination between high costs related to individual and collective dismissal, relatively short trial periods, and excessively strict employment protection legislation on temporary contracts is likely to act as a burden to Lithuanian firms and possibly a barrier to the employment of youth workers. According to the *Global Competitiveness Report 2014-2015*, restrictive labour regulation is considered to be the second most problematic factor for doing business in Lithuania (Schwab and Sala-i-Martín, 2014).

The ongoing reform of the Labour Code is an important step aiming to tackle these challenges. The main aim of the new draft is to ease employment protection legislation by introducing more flexible contract arrangements, easing hiring and dismissing procedures, and making working time arrangements more flexible. The draft is currently under discussion and awaiting approval.

Concerning open-ended contracts, the draft proposes to shorten notice periods for dismissals and reduce severance pay considerably. Notice periods would be shortened from two months to two weeks for workers with job tenure of less than a year, and one month for workers who have worked for more than a year. However, the length of the notice period would be

doubled for employees who would reach retirement age in less than five years, and tripled for those who would reach retirement age in less than two years. Severance pay is also reduced to half average monthly wage for employment relations of less than one year, and one average monthly wage for employment relations of one year or more.

Many features of the reform of the Labour Code concerning permanent contracts are in line with international practices. Indeed, in the past decade, and particularly since the onset of the crisis, many OECD countries have introduced more flexibility in the EPL around permanent contracts. Since 2008, more than one-third of OECD countries undertook some relaxation of regulations on either individual or collective dismissals. Overall, the main areas where a loosening of employment protection took place were the limitation of the possibility of reinstatement in the case of unfair dismissal; the extension of the duration of the trial period; the reduction of the length of the notice period; and the reduction in severance pay (OECD, 2013).

Strict EPL can be particularly burdensome in Lithuania where there are mainly small businesses,[11] for which the costs associated with overly strict labour regulation may be particularly high. In fact, small firms are less likely to have specialised human resources departments to deal with the complex process of complying with regulation. Furthermore, the fixed cost of dismissing a worker (incorporating severance pay and possibly compensation and legal costs if the dismissal is disputed) is relatively more pronounced for smaller than larger firms as it accounts for a higher share of the wage bill. Small firms also have less scope for internal redeployment of workers than larger firms.

In this context, the new draft Labour Code aims to reduce the strictness of employment protection legislation for smaller firms. For example, small firms, with less than ten employees, would be entitled to set a longer trial period (six months instead of three). In addition, they would benefit from shorter dismissal period, be entitled to pay lower wages (up to 30% lower per-diem rate), and allowed to refuse to grant part-time contracts to workers or provide paid education leave. Firms with less than five employees would be entitled to even shorter dismissal periods and reduced severance pay, and exempted from paying annual leave to workers with job tenure shorter than a year.

Similarly, many OECD countries also exempt small firms from some or all employment protection requirements (Venn, 2009). Most commonly, small firms are exempt from additional notification or procedural requirements when undertaking collective dismissals. In addition, several countries reduce or remove severance payments, notice periods or the risk of

being accused of unfair dismissal for small firms. However, the international experience suggests that a careful balancing is needed when exempting small firms from employment protection requirements. Indeed, too lax a regulation for small firms compared to larger firms could provide an incentive for companies to stay small; hire non-standard workers; shift higher dismissal costs into employees' wages; or split operations in order to remain below the threshold (Venn, 2009).

Although traditionally temporary contracts were (and still are) treated as worsening employees' rights in Lithuania (Bagdanskis and Usonis, 2011), the international evidence suggests that the use of temporary contracts can provide opportunities for both firms and workers (OECD, 2010; 2014). From the employers side, firms may use temporary contracts to possibly reduce labour costs or as a screening device for future hiring. Temporary jobs can also provide a useful buffer of adjustment and flexibility for firms in the case of uncertain or fixed-term activity (OECD, 2014). From the workers perspective, temporary jobs may reflect a voluntary choice or may provide an opportunity to those with limited work experience, such as youth, to get a foothold in the labour market. Indeed, for many youth temporary contracts are more often a stepping stone to a permanent contract than a dead end (OECD, 2010; 2014).

The new draft of the Labour Code in Lithuania allows for more flexible legislation of temporary contracts. Particularly, employers would be allowed to conclude temporary contracts also for work positions that have a permanent nature. Furthermore, the new Labour Code would introduce a whole set of new types of more flexible contracts, such as training and apprenticeship contracts, while also providing more flexible regulation of part-time work.

However, the liberalisation of temporary contracts must be carefully balanced to avoid abuses from employers and prevent the creation of a dual labour market. In the past decades, and particularly during the 1990s, many OECD countries have heavily liberalised fixed-term contracts while maintaining legislation around permanent contracts unchanged, thereby increasing labour market segmentation (OECD, 2014). Large disparities of job quality across contract types risk to create a system for which outsiders tend to move from one temporary contract to another while insiders enjoy higher protection and greater job stability. At a macroeconomic level, dual labour markets induce large adjustments in employment levels during recessions, increasing the volatility of labour markets and public budgets (e.g. Cahuc and Zylberberg, 2008). The evidence analysis also suggests that countries that have relaxed regulations on temporary contracts while maintaining stringent restrictions on regular contracts, have indeed

experienced slower productivity growth (Boeri and Garibaldi, 2007; Bassanini, Nunziata and Venn, 2009; Dolado, Ortigueira and Stucchi, 2012).

The experience of some OECD countries suggests that if Lithuania indeed decides to increase the flexibility on temporary contracts it should pursue this in a co-ordinated manner. As a priority, this will require recourse to complementary, accompanying measures to avoid abuses and prevent the creation of a dual labour market. One way to do so would be to consider introducing a *unified contract* and apply similar termination costs to all contract types. A welcome step in Lithuania is that the new draft of the Labour Code proposes to introduce similar termination costs to different contract types. According to the new draft, the new regulation on severance pay – entailing the payment of one average monthly wage – would apply indistinctly to all employment relations of one year or more, including employees on fixed-term contract.

While the move toward regulations on temporary and permanent contracts that are more in line with one another is likely to encourage firms to hire more, including more youth, it will be important to ensure that the reform of the Labour Code includes measures to strengthen the evaluation framework to assess progress and to identify possible areas for further improvements. As in other countries, this could involve the creation by the Ministry of Social Security and Labour of an independent evaluation structure supported by the research and expert community. This is a key to both identify which measures should be expanded, adapted or ended, and which intervention might work best if employed as a package in combination with other measures.

Notes

1. The labour cost is defined as the sum of gross wage earnings, employers' social security contributions and payroll taxes.
2. For the calculation of the tax wedge, the OECD uses the rate of 31.1% as specified in OECD (2015a). This takes into account occupational injuries and occupational disease social insurance contributions.
3. Public works in Lithuania have an atypical nature when compared to "regular" public works as generally referred to by OECD standards: they are a form of wage subsidy paid to private or public employers, but at the same time they have the same temporary nature and serve the same scope of alleviating poverty as "regular" public work programmes.
4. These hiring incentives are targeted at many disadvantaged groups, including youth.
5. BTEA is the part of income that is exempted from personal income taxes. See Box 2.2 for further information.
6. Temporary work agency (TWA) employment was first regulated in Lithuania in 2011 with the Law on Temporary Agency Work. TWA employment contract can be either fixed-term or open-ended. The rules regulating TWA employment closely resemble those regulating open-ended and fixed-term contracts in the Labour Code. Before the adoption of the Law on Temporary Agency Work in 2011, this form of employment was particularly unpopular because it was not regulated and lacked effective monitoring mechanisms (Bagdanskis, 2011).
7. Across OECD countries, collective bargaining can be much more widespread and covers from less than 20% of the workforce in Japan, Korea and the United States, to 90% or more in Austria, Belgium, Finland, France, Slovenia and Sweden (Venn, 2009).
8. Notably Australia, Belgium, Hungary, Iceland, Ireland, Japan, Mexico, Sweden, Switzerland and the United States (OECD, 2013).
9. The OECD Employment Protection Legislation indicator is used to measure the strictness of employment protection legislation for OECD countries and other emerging economies. This is a synthetic indicator that

quantifies the costs and procedures involved in hiring and dismissing workers on permanent contracts as well as fixed-term and temporary contracts. There are other policies and institutions besides employment protection legislation that affect labour market flexibility, including regulations on working hours and part-time contracts, as well as policies affecting wage settings that are not captured in the OECD indicator.

10. However, it should be noted that starting from 1 August 2010, there were a few temporary anti-crisis changes introduced into the Lithuanian labour law. One of them allows concluding fixed-term employment contracts for newly established positions if work is of permanent nature (Zabarauskaite and Blažienė, 2013; Bagdanskis and Macijauskienė, 2012). In particular: fixed-term employment contracts are allowed only for new jobs, i.e. those established after 1 August 2010; the number of fixed-term employment contracts cannot exceed 50% of all positions in the company; fixed-term employment contracts cannot be made with former employees dismissed by mutual employment termination agreement or on the employer's initiative without employee fault; fixed-term employment contracts for newly established positions may be concluded for a maximum period of two years ending no later than on 31 July 2015.

11. Micro enterprises represent around 90% of all firms in Lithuania (European Commission, 2013; OECD, Forthcoming).

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Chapter 3

Improving the employability of Lithuanian youth through welfare policies and activation programmes

This chapter discusses the role of labour market and social policies in supporting the employability of youth in Lithuania. In particular, the chapter reviews the unemployment and social assistance benefits available to provide adequate income support to youth; the public employment services to assist youth (re-)enter the labour market; the vocational education and training (VET) systems to help young people obtain the skills needed in the labour market. The chapter finds that although generosity of unemployment and social assistance benefits is relatively low and should not distort work incentives, more efforts are needed in providing youth with tailored support in finding employment. Public employment services lack the capacity to provide personalised support. Furthermore, there is room for more generous and effective spending on active labour market policies (ALMPs) and continuing the efforts to modernise the Lithuanian VET system.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

Following from Chapter 2, which discussed potential demand-side barriers to youth employment in Lithuania, including the cost of hiring and employment protection legislation, this Chapter asks how the functioning of public employment services, activation policies and social welfare programmes can be improved in Lithuania with a view to strengthen the employability of most vulnerable youth. The first section analyses the role of the public employment service (PES) and of active labour market policies (ALMPs) in Lithuania. It also includes a discussion of the Lithuanian Youth Guarantee, along with the policies aimed at improving the performance of the vocational education and training system. The chapter then goes on discussing the social welfare protection schemes to support the youth, notably unemployment and social assistance benefits, available to disadvantaged Lithuanian youth.

The main findings of the chapter are summarised below:

- ***PES and other employment services***: The PES in Lithuania is very successful in reaching out to vulnerable youth. It provides access to a range of (unemployment and social assistance) benefits, along with public health insurance. Despite the success in reaching out to youth, the scope for strengthening the role played by the PES further remains considerable if it is to be able to provide employment services effectively. For example, despite participation of youth in ALMPs has increased, international comparison suggests that activation of youth jobseekers remains significantly less frequent in Lithuania than in most other OECD countries. In this context, the comparison with the other countries suggests that the Lithuanian PES system is under-staffed. The difficulty in reaching out to less advantaged youth is exacerbated by the fact that Lithuania is a country that spends very little on ALMPs.

- ***Lithuanian Youth Guarantee***. The recently-launched EU Youth Guarantee, which calls on countries to offer youth an education, training or work experience intervention within four months of leaving education or entering unemployment is a highly relevant but challenging initiative for Lithuania to implement. Implementation requires a conducive strategic framework, including the involvement of the third sector, which can play a role in providing valuable (and cost-effective) options for working with hard-to-reach groups and in offering dedicated adviser services.

- ***Vocational education and apprenticeships***. In Lithuania the vocational education system suffers from both a bad reputation and a lack of

attractiveness. The perceived lack of attractiveness of VET in Lithuania has a counterpart in the VET's enrolment rates, which are very low. Therefore, Lithuanian authorities prioritise VET system reform to make the system more attractive. For this purpose a 2014-16 action plan for VET development has been approved by the Ministry of Education and Science and agreed with other ministries. The action plan foresees a variety of measures and related national level projects. The objective to significantly raise the proportion of work-based learning in higher education, as well as the proportion of in-company training /apprenticeships that the VET institutions are able to provide, may prove difficult in the absence of complementary measures to boost participation in apprenticeship programmes of the business sector, particularly the smaller firms.

- ***Income support to vulnerable youth***. To be effective, active labour market policies for youth need to be embedded in adequate income support for the poorest. However, qualifying for unemployment benefits is subject to strict conditions in Lithuania and many youths are not contributing to the unemployment insurance and therefore are not benefiting from such protection. For those who qualify (at any age, youth and senior workers combined), the international comparison suggests that in Lithuania the generosity of unemployment benefits is relatively low by OECD standards. Furthermore, Lithuania stands out in the international comparison in that it combines one of the shortest maximum benefit duration with one of the longest minimum contribution period for youth receiving the benefit.

- ***The need for tailoring social assistance more effectively to youth***. Similarly to unemployment benefits, social assistance benefits are not very generous in Lithuania compared with the average of the OECD countries. In this context, implementing the option of a job-seeking allowance could be expected to strengthen the motivation to search for a job of young unemployed people who are still missing out on unemployment benefits due to a lack of necessary contributions or sufficiently long employment history to qualify. Public work programmes already play an important safety net role in Lithuania. However, Lithuania shares in common with many other countries a problem of poor employment outcomes for participants in such programmes. There is scope for improving the overall capacity of the benefit framework to encourage job search and limit the risk of dependency.

Box 3.1. Key recommendations

The PES in Lithuania is very successful in reaching out to vulnerable youth. Although participation of youth in ALMPs has increased, international comparison suggests that activation of youth jobseekers remains significantly less frequent in Lithuania than in most other OECD countries. Therefore, the OECD suggests that:

- Scale up ALMPs spending in a gradual manner and supported by the results of rigorous evaluations to ensure that scarce public resources are put to the highest value use.
- Consider implementing the Youth Guarantee following an approach in two phases, each with a distinct policy focus.
  - Phase 1 would involve a low cost intervention aimed primarily at enhancing human capital and rapid job entry.
  - Phase 2 would involve three main programme elements: training with considerable workplace based experience; a work experience programme with a strong focus on the quality of the experience delivered; and Intermediate Labour Market (ILM) positions.
- The recent steps to improve the image and attractiveness of the Lithuania vocational education system go in the right direction but need to be complemented by a scaling up of the financial incentives to firms hiring apprentices.

Lithuania has a modern system of unemployment and social assistance benefits provision. However, there is still scope to fine-tune their design. In this respect, the OECD suggests that:

- If the new draft of the Labour Code is indeed approved and severance pay actually decreased as planned in the near future, the impact of this change should be offset by increasing the generosity of unemployment benefits, along with implementing concomitant measures to strengthen the role played by activation policies.
- In the case of youth (who are less likely to be covered by traditional unemployment insurance systems due to a lack of necessary contributions or sufficiently long employment history), special financial support to assist them in the job-seeking process (a jobseeker's allowance) could be introduced.
- Public works programmes (or even employment guarantees) could be used to provide an essential insurance function to the unemployed, while also providing work experience and training.
- Job-search and job availability should be made mandatory during participation in supported employment programmes, in order to facilitate the transition towards employment and minimise lock-in effects.
- Conditions of accepting job referrals may be strengthened for unemployed with relatively long unemployment duration.
- Sanctions applied to benefit recipients should be adjusted to encourage active job-search.

Delivering employment services that work for youth

Public employment service (PES) can play a central role in matching the supply of labour to demand through the provision of information, placement and active support services. They are usually the primary government institution responsible for implementing active labour market programmes. *Lithuanian Labour Exchange* (the country's public employment service, hereafter PES) plays an important role in helping young jobseekers to (re-)enter the labour market. Similarly to OECD countries, the PES provides job-search assistance and an array of active labour market programmes (ALMPs) to unemployed youth. Importantly, being registered with the PES is a precondition for accessing unemployment or social assistance benefits as well as public health insurance coverage.

While the Lithuanian PES system is able to reach out to many youth…

One key characteristic of the Lithuanian PES lies in the capacity to reach out to a large number of youth. At around 80%, the share of unemployed youth registered with the PES is very high by international standards (Figure 3.1) – much higher than the average of the European OECD countries (67%), as well as than in Estonia (46%) and Latvia (41%). A combination of three reasons explains the capacity of the PES to attract unemployed youth in Lithuania:

- First of all and as mentioned above, youth register with the PES because this qualifies them to receive unemployment or social assistance benefits, along with benefits from the public health insurance coverage;

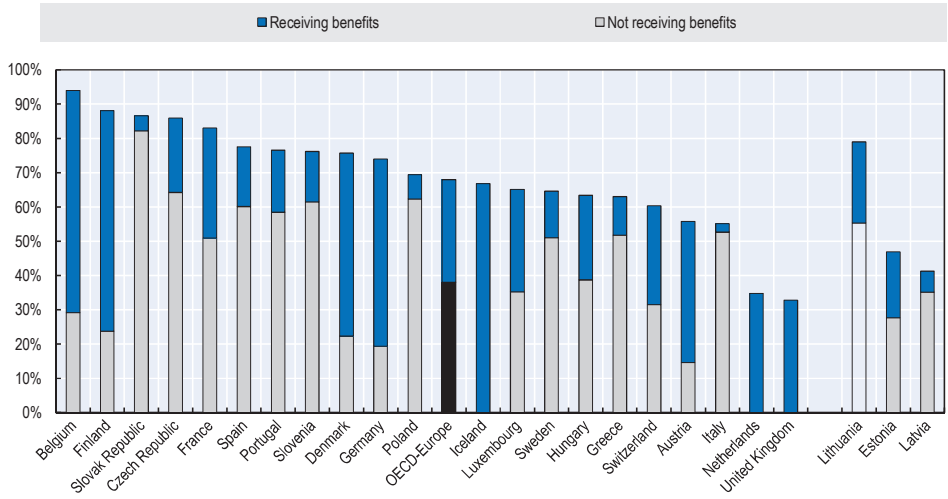
- Second, Lithuanian PES allows access to a comprehensive "vacancy bank", which is regularly updated and covers the majority of job openings. As of January 1, 2014, 68 500 employers were submitting their job-postings to the "vacancy bank" of the Lithuanian Labour Exchange. This corresponded to 76% of all hiring employers at the moment (Ministry of Social Security and Labour, 2014a), making for a relatively high number. For example, in Germany around 50% of all vacancies are reported to PES and 44% in Sweden (OECD, 2015a).

- Third, *prima facie* the Lithuanian PES is empowered with a wide range of employment services to enable young job-seekers stay in contact with the labour market and potentially gain some professional experience.

Taken together, these factors help explaining the fairly strong attractiveness of the Lithuanian PES. As a counterpart to this, the role played by the PES in employment services remains considerably more important than that of private providers. The evidence available shows that most unemployed people, including youth, actively use the Lithuanian PES to look for a job. According to recent survey analyses, over 80% of unemployed youth (aged 15-29) report registering in the PES with the primary aim to find a job (Gataulinas and Zabarauskaitė, 2014; Labour force survey 2013). Survey results by the Lithuanian Labour Exchange also show a fairly high level of satisfaction with the services provided by both the employers and the employees, suggesting a good capacity of the system to match existing job vacancies with job search.

Figure 3.1 Registration with public employment service of unemployed youth, with and without benefit, 2012

Percentages of unemployed youth aged 15-24



Source: European Union Labour Force Survey (EU-LFS).

…it is unable to provide adequate support to the youth facing the highest risks of exclusion

Despite the success in reaching out to youth, the scope for strengthening the role played by the PES further remains considerable if it is to be able to provide employment services effectively. A number of active labour market programmes (ALMPs) are available for youth in Lithuania, which provide four categories of services: Supported employment (i.e. subsidised employment; support for the acquisition of professional skills; job rotation; hiring incentives for work of public interest); "Socially useful activities"; vocational training (voucher system; apprenticeships); and support for local mobility commuting.[1] These programmes are generally administered by the Lithuanian PES or the municipalities, with a description being provided in Box 3.2.

Box 3.2. Active labour market programmes in Lithuania

Supported employment consists of wage subsidies paid to employers hiring youth (under the age of 29) registered in the Lithuanian Labour Exchange. All registered unemployed youth are eligible for these programmes, although most disadvantaged youth (e.g. long-term unemployed youth) are given preferential access. Supported employment measures include "Subsidised employment", "Support for the Acquisition of Professional Skills", "Public Works" and "Job Rotation" programmes. A detailed description of Supported Employment measures is provided in Box 2.4, Chapter 2.

Socially useful activities is a typical workfare programme organised and managed by the municipalities independently from Lithuanian Labour Exchange. The programme targets social assistance benefit recipients who have been unemployed for more than six months. Usual duration of the programme is 40 hours per month. Participants do not receive wage but work in return for receiving the benefits.

Vocational education and training programmes are another form of ALMPs provided by the Lithuanian Labour Exchange. The only programmes currently in place are a voucher system, introduced in 2012, and an apprenticeship programme, introduced in 2013.

The *voucher system* was introduced to fund training for unemployed. PES issues a voucher to registered unemployed persons or persons who received a notice of dismissal who can redeem the voucher at vocational education and training (VET) providers approved by PES. A training contract is signed between PES, the employer and the participant. The trainee may receive an education grant (50% to 60% of minimum wage for the actual hours spend in training) and may request additional funding to cover costs of accommodation and travel to a study site. Typically the employer provides guarantee that the participant will be reemployed for at least six months after completion of the training (CEDEFOP, 2013).

Box 3.2. Active labour market programmes in Lithuania *(cont.)*

The *apprenticeship* programme was introduced in 2013 as a pilot project and was administered by the Lithuanian Labour Exchange. The programme targeted young registered unemployed with no previous VET certification. Employment training centres (*darbo rinkos mokymo centrai*) of the Lithuanian Labour Exchange provided theoretical training. By contrast, firms provided practical training, which comprises up to 80% of total training time. Training costs at the employment training centres were covered by the Lithuanian Labour Exchange, while wages to apprentices were paid by firms. The programme offered training for occupations in different sectors, including construction; construction mechanics; transport; and services. The duration of theoretical training ranges from 150 hours for initial basic training of truck drivers to over 1 000 hours for cook and waiter professions. Successful completion of the programme yield state recognised certificate of acquired qualification. During the pilot stage (2013-2015) of the programme 1 136 people and 311 companies participated in the programme. The funding of the programme comes from the Lithuanian Government and the European Social Fund, and amounts to EUR 727 200 (APPRENTSOD, 2014).

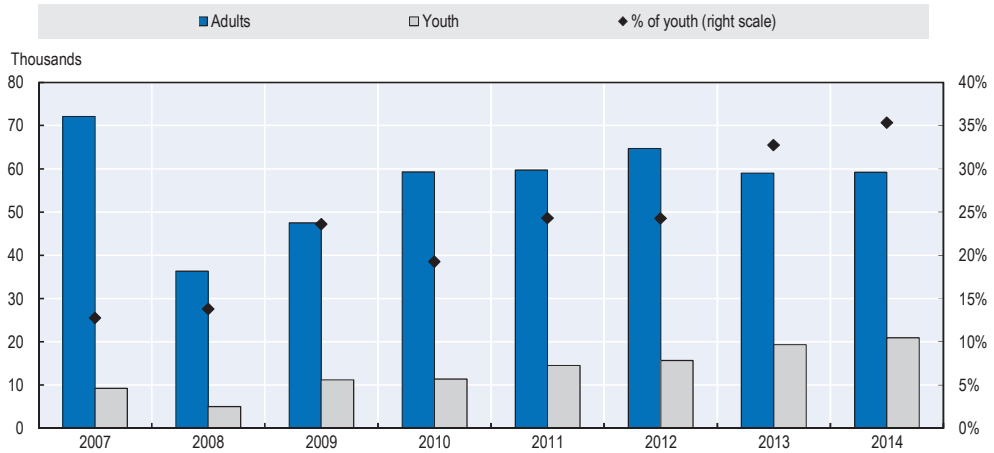
Support for local mobility commuting is provided to the registered unemployed people who found a job in geographical areas other than their current place of residence. Expenses on accommodation and travel costs are covered up to a celling of one minimum wage. Support is provided for a period of up to three months. In 2011, the compensation was awarded to 645 persons. Total amount of compensation exceeded EUR 160 000 and was mainly financed by the European Social Fund (Ministry of Social Security and Labour, 2014a).

Source: CEDEFOP (2013), *Vocational Education and Training in Lithuania* [online], available: http://www.cedefop.europa.eu/node/11936, accessed 6 May 2015; APPRENTSOD (2014), *Case Study of Good Practice of Vocational Integration of Disadvantaged Youth in Lithuania* [online], available: http://www.sodapprent.eu/wp-content/uploads/2014/01/APPRENTSOD-WP3-CaseLT-13102014.pdf, accessed 5 May 2015; Ministry of Social Security and Labour (2014), *The Social Report 2013-2014* [online], available: http://www.socmin.lt/en/social-report.html, accessed 11 May 2015.

The overall number of youth participating in in these programmes has increased steadily on the wake of the global financial and economic crisis (Figure 3.2). Notably, it has more than doubled since 2007, passing from 9 200 to 20 900 in 2014. Furthermore, insofar as this pattern has taken place in parallel with a tendency of the number of participating adults to level off, the share of youth taken as a percentage of the overall number of clients has also increased. Today around one in three people participating in ALMPs in Lithuania are youth.

Figure 3.2. Participation in ALMPs in Lithuania, 2007-14

Number of participants and share of youth (under 29)



Note: In this graph, youth is defined as people aged 29 and below.

Source: Lithuanian Labour Exchange.

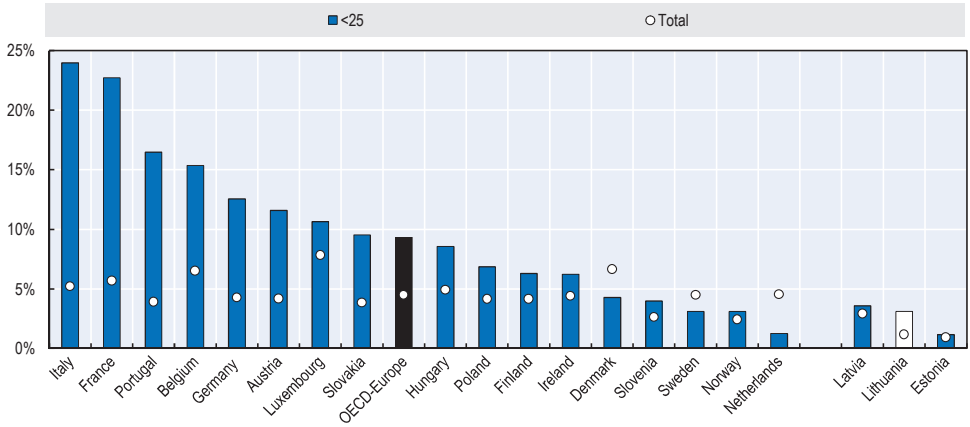
Nevertheless, although participation of youth in ALMPs has increased, international comparison suggests that activation of youth jobseekers remains significantly less frequent in Lithuania than in most other OECD countries. Taken as a percentage of the youth labour force, the proportion of young participants in ALMPs (aged 25 or below) was 3% in 2010, which compares to an OECD average of 9% for youth (Figure 3.3). One issue of particular concern relates to the fact that many youth in the NEET group remain inactive (46%). These youth do not look for a job and as a rule do not register with the PES because they are not eligible for benefits.

Unsurprisingly in this context, the comparison with the other countries suggests that the Lithuanian PES system is under-staffed. Caseloads of counsellors working at the Lithuanian PES are high, which limits the capacity to follow up on the most disadvantaged youth and to enforce the conditionality of income support to programme participation. The number of registered jobseekers per employee, directly dealing with jobseekers, has increased from 141 in 2008 to 363 in 2010 (PES to PES Dialogue 2014). Although the recovery of the labour market situation of youth has led to a decline in the number of clients per councillor more recently (some 300 in 2013), the overall rise since the inception of the global economic crisis has for the main been countered through a significant expansion of e-services –

itself supported by the increase in computer literacy of Lithuanian youth. While this approach has helped the individuals with sufficient IT skills to effectively and successfully use the Lithuanian PES e-services, it may have jeopardised their capacity to respond to the specific needs of the more disadvantaged youth, whose IT competences are relatively limited.

Figure 3.3. Participants of ALMPs by age group, Lithuania, OECD and Baltic countries, 2010

Percentage of the labour force by age group



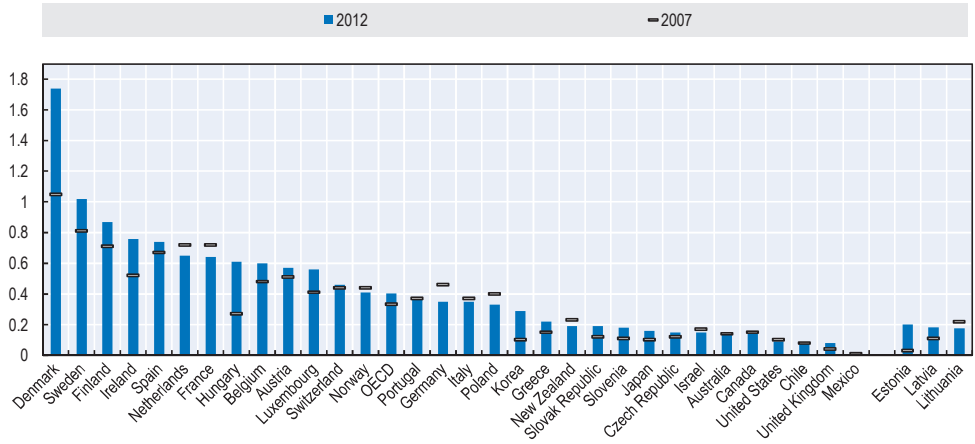
Note: Eurostat data for ALMPs participants; OECD data for the size of the labour force.

Source: *OECD Labour Market Programmes Database*, http://stats.oecd.org/, and Eurostat.

Reaching out to the NEETs will require investing more and better in capacity

The difficulties to reach out to the less advantaged youth are exacerbated by the fact that Lithuania is a country that spends very little on ALMPs. Public spending on ALMPs was 0.18% of GDP in 2012 in Lithuania. This is significantly below the OECD average (0.43%), though similar to other Baltic countries (0.2% in Estonia and 0.18% in Latvia) (Figure 3.4). Not only public spending devoted to these programmes is comparatively low; in contrast with what can be observed in both many OECD countries and the other Baltic countries, it has also undergone a significant reduction relative to pre-crisis levels. In absolute terms, the Lithuanian PES budget on ALMPs decreased from EUR 97.8 million in 2008 to EUR 84.9 million in 2013.

Figure 3.4. Public expenditure on ALMP as a percentage of GDP, Lithuania, OECD and selected countries, 2012[a]



a) ALMP measures: training; employment incentives; sheltered and supported employment and rehabilitation; direct job creation; start-up incentives. Data refers to 2011 for Australia, Ireland, Israel, Spain, Luxembourg and Poland. Data is not available for Greece and United Kingdom. Data refers to 2008 instead of 2007 for Chile.

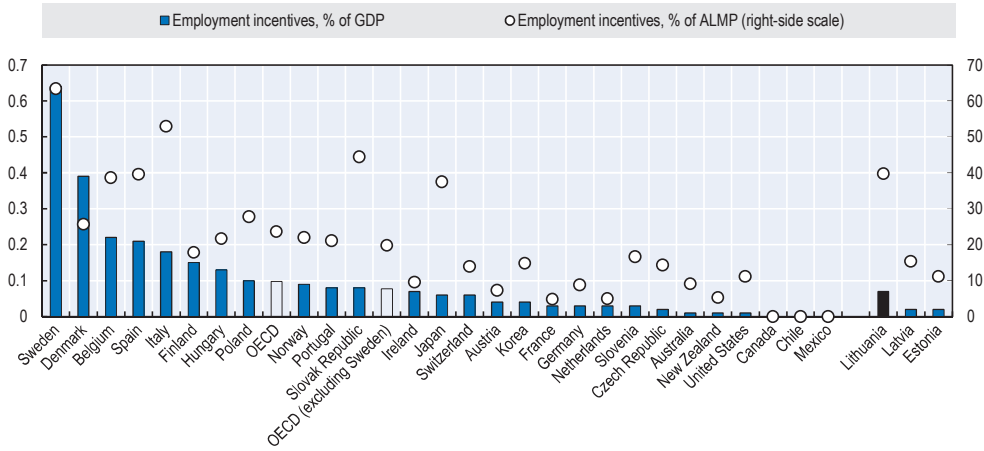
Source: *OECD Labour Market Programmes Database*, http://stats.oecd.org/, and Eurostat data for Latvia and Lithuania.

Greater investments will need to be made, particularly with the aim to strengthen the capacity to provide cost-effective services of Local Labour Exchanges to clients from the rural areas. Existing resources could also be used more efficiently. For instance, the Kaunas Local Labour Exchange has delegated administrative tasks away from counsellors to less qualified staff to create "Mobile groups".[2] These latter consist of specialists working in the most remote areas with different measures to identify the reasons of unemployment; to involve clients into the active labour market programmes; and to promote their regional mobility. The Kaunas Local Labour Exchange has also reinforced the attention devoted to the individual needs of jobseekers and to identify personalised programmes that take into consideration their readiness for the labour market (assessment of qualification and competencies; assessment of job experience; and assessment of motivation). Following a three-days working seminar and a psychological counselling the youth with some computer literacy may be followed from a distance through Skype, Facebook profiling and an informative website (accessible at www.ldb.lt). A special computing game (*I choose*) is also provided, which participants can use to better assess their

own competences; develop communication skills; and choose the professional preferences according their personal competencies.

There is a scope to allocate resources more effectively across different ALMPs. The evidence available suggests that for Lithuania the level of spending of hiring subsidies (as a form of ALMP), measured as a percentage of GDP, is comparable to the average for the OECD countries, even though Lithuania spends much more than both Latvia and Estonia (Figure 3.5). On the other hand, measuring the same spending as a percentage of total spending for active labour market policies (ALMPs) shows Lithuania as a comparatively high spending country. This can be taken as a crude indicator of an excessively skewed structure of existing programmes to employment incentives. In this context, it would seem that Lithuania should re-direct part of the resources destined to the incentives into other areas where new investment is required (for example, the training component of ALMPs).

Figure 3.5. Expenditures on employment incentives, OECD, Lithuania and Baltic countries, 2012



Note: Information is missing for Greece, Israel and United Kingdom. Luxembourg is excluded. Public expenditure on ALMPs include expenditures on training; employment incentives; sheltered and supported employment and rehabilitation; direct job creation and start-up incentives.

Source: OECD Labour Market Programmes Database, http://stats.oecd.org/, and Eurostat for Lithuania.

Options for a Lithuanian Youth Guarantee

In this context, the recently-launched EU Youth Guarantee, which calls on countries to offer youth an education, training or work experience intervention within four months of leaving education or entering unemployment is a highly relevant but challenging initiative for Lithuania to implement. As set out in the 2014 Lithuanian Youth Guarantee Implementation Plan, the Youth Guarantee has two main objectives. The first one focusses on early intervention and activation of youth, including for example, through the creation of better systems for the identification of inactive youth, early prevention and services for both inactive and motivated youth. The second aim emphasises the need to ensure the efficient application of active labour market policy measures, capable of meeting individual youth needs, while at the same time reinforcing the co-operation between key stakeholders (the state, the local government institutions, non-governmental organisations and business entities) to provide youth with more opportunities and better adapted skills to respond to labour market needs.

Targeting within a phased delivery approach

The implementation of effective youth guarantees faces several challenges:

- First, youth must be identified and reached early, and the offer must be adapted to the individual needs and aspirations of youth.

- Second, a number of barriers to programme participation, such as housing issues, a lack of mobility, and health problems must often be solved before the young person can enter the programme.

- Third, programme participation must be monitored strictly, as many youth need continuous support to maintain motivation and keep attending programmes; programme participation must be mandatory for those receiving cash benefits.

Successful approaches have been developed by several European countries to address these challenges, including in Northern Europe:

- In Finland, for example, the *Youth Guarantee* scheme (*Nuorten Yhteiskuntatakuu*) was introduced in 2005 and revised in 2010. It obliges the employment services, within the three months following registration as jobseeker under 25 years, to develop a personal development plan, to carry out a needs-assessment and to make a concrete programme offer. In 2011, 83.5% of young job seekers

received a successful offer within three months of registering as unemployed (Eurofound, 2012).

- The same principles apply in Sweden and Denmark: In Sweden, the new *job guarantee for young people* (*Jobbgaranti för ungdommar*) introduced in 2007 allows all youth below the age of 25 years registered with the public employment service to take part in the "job guarantee". This comprises guidance and coaching, combined with work internships, apprenticeships and other work experience placements. In 2008, 24-year-olds participating in the scheme managed to find a job more quickly than older young people registered with the public employment services (Eurofound, 2012).

- The provision of youth guarantees importantly requires the availability of a sufficient number of trained caseworkers to establish a close relationship with the young clients. Good counselling and orientation is a success factor for this type of comprehensive programmes. For instance, the *New Deal for Young People* (NDYP) was introduced in the United Kingdom in 1998 and was in effect until 2011. It was targeted at the 18-24 year-olds, and comprised a first, four-month "Gateway" phase, which included intensive counselling and at least weekly interviews with a personal advisor, and small basic skill courses. The Gateway was then followed by a whole range of options if the young person was still unemployed. The NDYP was first implemented in pilot areas, which allowed evaluating its effectiveness. Blundell et al. (2004) showed that it significantly improved participants' exits into employment – by 5 percentage points – which corresponds to a rise in the probability of getting a job by about 20% compared to similar nonparticipants in non-pilot areas. They do not find any displacement effect in form of reducing job-finding rates for other youth the same pilot areas.

While providing guidance to countries in their efforts to set out comprehensive Youth Guarantee frameworks for giving youth a strong start as they move into the labour market, these experiences also reveal the importance to take into account national and local circumstances, as well institutional arrangements. This also reflects the fact that national Youth Guarantees typically imply different degrees of co-ordination between many service providers and stakeholders (health, social and employment, local authorities, career guidance providers, education and training institutions, local employers and social partners, etc.).

In this context, one option for Lithuania could be to consider an approach in two phases, each with a distinct policy focus (OECD, 2014a). Phase 1 would involve a low cost intervention aimed primarily at enhancing human capital and rapid job entry. Priority would be given to new entrants in the labour market (i.e., with an unemployment duration of four months or less) and within this group to those who are most at risk of falling into long term unemployment. The aim of such a first phase is to seek to maximise the potential to move young people into work opportunities ahead of a more substantive, intensive and hence more expensive second phase. It is expected that Phase 1 would start at about four months into a benefit claim.

Phase 2, the more intensive and expensive intervention, would start at around nine months, although there could be fast tracking for groups with lower expected chances of finding a job. In Phase 2, three main programme elements are likely to be needed to deliver a guarantee: training with considerable workplace based experience; a work experience programme with a strong focus on the quality of the experience delivered; and Intermediate Labour Market (ILM) positions (along lines similar to what are called Transitional Jobs in the United States). A third even more intensive phase for the very long-term unemployed and those with serious additional issues such as health problems could be developed at a later stage.

An escalator-style approach, starting with low-intensity supports in the first phase then moving to more focused interventions at longer durations, has several underpinnings (OECD, 2014a). For example, starting as early as four months with an intensive re-training/work experience programme would incur significant costs and a lot of deadweight (i.e. unnecessary spending) as many unemployed youth can be reasonably expected to find work without such intensive supports. Moreover, an escalator model offers a progression from one phase to the next if the early phase(s) are not successful. This is in contrast to programmes with only one main treatment phase, where those who do not find work are likely to face repeating the same programme multiple times.

Supporting policies: Enhancing the role played by prevention and early intervention

Ensuring that the third sector plays a role in providing valuable (and cost-effective) options for working with hard-to-reach groups and in offering dedicated adviser services is also a key policy priority for Lithuania. For instance, the programme *Trust Yourself* partners the PES and some 30 NGOs from 15 municipalities with the aim to rehabilitate and (re)integrate inactive and vulnerable NEETs into the labour market or the educational systems. Furthermore, Lithuania has increased its attention on early intervention and on prevention, more recently. To this end, it has established a network of Youth

Job Centres that are part of the local PES whose aim is to facilitate successful integration of youth into the labour market by providing them information on employment opportunities, and counselling on both professional and further education opportunities available to youth. Building on these experiences would be easier in the context of an escalator-type approach to the implementation of the Youth Guarantee.

A number of useful lessons can be drawn from the practice of other countries that have a longer experience with programmes to prevent early school leaving. For example, the UK Local Authorities typically identify at risk youth via a mix of local knowledge (teacher and youth workers) and a set of Risk of NEET Indicators (so-called RONIs – see Box 3.3 for an example of how these are identified in Wales). These risk factors include children in care, evidence of truanting/expulsion and poor attainment and deprivation markers. The identified youth receive more intensive engagement around careers guidance and educational progression at critical junctures from around age 14. A similar programme is being implemented in Belgium (see Box 3.4).

Box 3.3. Criteria for the identification of youth who are potentially NEET: Keeping in touch project, Wales

As part of their Keeping in Touch strategy, the counties of Wrexham and Swansea have developed a data-led approach to identify youth at risk of becoming NEET. These have been used and refined across North Wales over a number of years and are listed below:

- looked-after status
- carer
- statement of Special Education Needs (SEN)
- participation in School Action (SA) – i.e. the involvement of extra teachers and may also require the use of different learning materials, special equipment or a different teaching strategy – or School Action Plus (SA+) – used where SA has not been able to help the child make adequate progress; at SA+ the school will seek external advice
- poor literacy and numeracy skills
- likely to achieve low/no qualifications at end of Year 11
- history of poor attendance or that of older siblings; history of repeated fixed-term exclusions; or persistent truancy
- history of offending behaviour; likely to become involved in antisocial behavior
- fixed-term exclusion
- drug/alcohol issues/family with history of drug /alcohol issues
- receives support over and above usual entitlement: e.g. sustained input from services

Box 3.3. Criteria for the identification of youth who are potentially NEET: Keeping in touch project, Wales *(cont.)*

- pregnant, a history of pregnancy or have a dependent child
- from a family with low economic activity /joblessness (based on knowledge of practitioners involved in the identification process – teachers, career advisers, youth workers)
- low aspiration or from a family with low aspirations (based on knowledge of practitioners involved in the identification process – teachers, career advisers, youth workers).

Other factors are also considered alongside the above – youth supported by social services, living in a ward with high economic inactivity and ethnic minority background indicators – and these are used by Careers Wales staff (careers advisers and personal advisers), senior school managers and inclusion co-ordinators, youth workers in education and learning.

Source: OECD (2014), *OECD Youth Action Plan: Options for an Irish Youth Guarantee* [online], available: www.oecd.org/ireland/YouthActionPlan-IrishYouthGuarantee.pdf, accessed 13 May 2015., based on Arad Research (2011), "Efficiency and Innovation Board: New Models of Service Delivery: A Study of Approaches to Increase the Proportion of Young People in Education, Employment or Training, with a Focus on Potential and Actual Efficiency Savings", unpublished manuscript.

Box 3.4. Early intervention: PES-school partnerships to prevent disengagement (Ghent, Flanders, Belgium)

Within the OECD, local PES offices are increasingly involved in preventive approaches to facilitate the school-to-work transition. In Ghent (Flanders), the VDAB (the Flemish PES) has developed an intensive co-operation with secondary schools running special information sessions to prepare pupils for the labour market. The Ghent labour office has put together a special toolkit with two hours of teaching material for use in the classroom. The assumption is that teachers do not have the sufficient knowledge about how to prepare CVs and job applications and this free toolkit helps them do just that. VDAB advisers intervene in the schools to train groups of teachers so that they can prepare for those kinds of lessons and obtain answers to all the specific questions they may have. This partnership is actively sought by the Ghent labour office with regular visits from PES staff in the local schools. Equally, the PES organises special information sessions about recruitment and apprenticeships which teachers attend with their pupils. The Ghent labour office plans to further intensify this partnership in the future.

Source: OECD (2014), *OECD Youth Action Plan: Options for an Irish Youth Guarantee* [online], available: www.oecd.org/ireland/YouthActionPlan-IrishYouthGuarantee.pdf, accessed 13 May 2015; OECD (2014), "Local Implementation of Youth Guarantee: How to Make It Work?", *OECD Local Economic and Employment Development (LEED) Working Papers*, OECD Publishing, Paris, forthcoming.

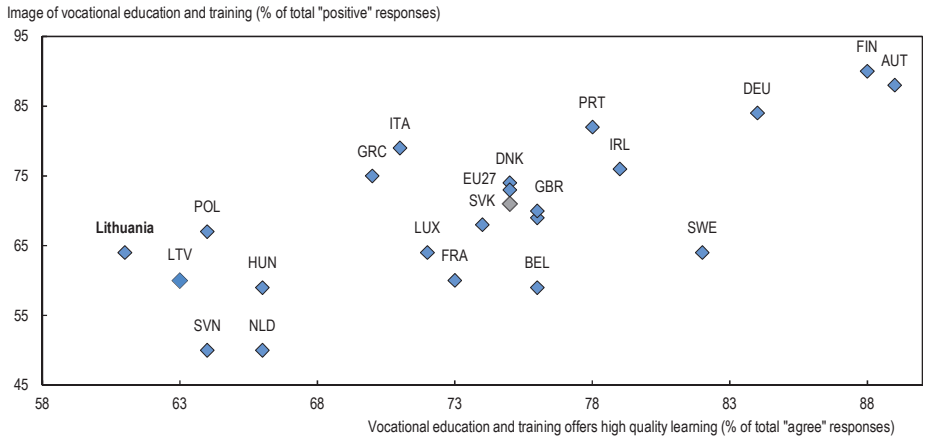
These approaches have had some evidence of success in reducing NEET rates among the under 19 years old and may provide some valuable insights for reducing school leaving. There may be some potential for developing a map of destinations of participants in various courses and for assessing which people, courses and institutions are associated with high drop-out rates and develop a response. Financial incentives to institutions to address high drop-out rates could also be considered. Tracking data to facilitate destination assessment has proven important for prevention work in this area in the United Kingdom. In Finland, the Youth Guarantee is accompanied by an education guarantee, whereby youth leaving basic are guaranteed a place in upper secondary school, apprenticeship, vocational education and training or some other remedial education programme.

Making vocational education and apprenticeship more valuable to youth

The combination between classroom learning and practical training plays an essential role in preparing young people for work and responding to the skill-needs of the labour market. Particularly, vocational education and training (VET), including apprenticeship, provides a strong learning environment and improves transition from school to work by allowing employers and potential employees to get to know each other. It contributes to the output of the training firm, and it links training provision to a direct expression of employer needs. To reap these benefits, the placement has to be of quality, and this is not always the case. In the absence of quality control, workplace training opportunities for young people can degenerate into cheap labour, or involve very narrow and firm-specific skills (OECD, 2014c).

In Lithuania the vocational education system suffers from both a bad reputation and a lack of attractiveness. According to results from the 2011 Eurobarometer Survey, only 64% of respondents in Lithuania perceived VET to have a positive image (Figure 3.5). This is among the lowest value observed across the 27 EU countries (the average value observed in the EU27 is 71%). Specific reasons mentioned were that fewer respondents than in other countries felt that VET enables good career opportunities (43%, lowest value) or jobs that are well paid (47%, fifth-lowest) and are highly demanded in the labour market (66%, fifth-lowest value).[3] Importantly, as in other countries displaying a relatively negative image of the VET – such as Latvia and Slovenia, for example – the overall negative perception of VET goes hand-in-hand with the opinion that it is easier to find a job for higher education graduates. This may reflect the widespread view in the public opinion that the quality of learning provided by the VET is comparatively lower. Only 61% of the respondents to the Survey perceived VET to provide "high-quality learning", the lowest value among EU27 countries (Figure 3.6).

Figure 3.6 Perceived vocational education and training image and quality



Source: European Commission (2011), "Attitudes Towards Vocational Education and Training", *Special Eurobarometer 369*.

The perceived lack of attractiveness of VET in Lithuania has a counterpart in the VET's enrolment rates, which are very low. Only 26.7% of basic school graduates choose to continue their studies in vocational secondary education. At the same time, only 28.7% of students in upper secondary education (2013) are enrolled in vocationally oriented programmes, which compares with an EU average of 50.4%. Moreover, just 9.4% of upper secondary education graduates move to VET, and 66% of upper secondary education graduates move to higher education directly after graduation. All in all, this evidence reveals a strong preference among Lithuanian youth in favour of both enrolling in general education and pursuing it without any vocational education. However, some positive changes in VET participation should be noted. Due to decreasing population, number of participants in general education and higher education is decreasing each year. This trend is not so evident in VET, for example in 2014 number of graduates from upper secondary education that have chosen VET directly after their graduation has increased by 7.5%, whereas number of entrants to higher education has slightly decreased.

A range of measures are under implementation at present with the aim to strengthen the labour market relevance of VET, while at the same time improving their status (CEDEFOP, 2014):

- In 2014, a new career education programme for general education schools and VET schools was approved and will be introduced in all relevant institutions. It aims to define a clear set of career competences

that students should acquire at school and the key principles that need to be implemented in order to achieve them.

- New programmes for VET teacher training within companies have been implemented in co-operation with employers since 2013. Teachers can update their qualifications through accessing traineeships programmes in the most innovative companies. Furthermore, new VET teacher training initiatives are foreseen as part of the national action plan for VET development, foreseen to be implemented during the 2014-16 period. One key objective will be to attract more highly-skilled and experienced employees to work as VET teachers.

- Other policy measures aim at raising the attractiveness and the management of VET institutions through strengthening the capacity of training programmes to anticipate foreseen development prospects at the regional and local level. This will likely result in improved responsiveness of the VET network through better identification of labour market opportunities and adaptability to changing skills needs.

- Reform of VET curricula is underway since 2011. Content of most VET programmes are being updated in close co-operation with social partners and transformed into modular structure. For the purpose of guiding curricula development, sectoral qualifications standards are being developed for particular sectors of the economy (ten at the moment) by describing the most important sectoral qualifications at different levels of the Lithuanian qualifications framework.

- A major overhaul of the qualification framework is underway since 2012, which includes mechanisms to facilitate the recognition of non-formally acquired work-based qualifications.

- In recent years large investments were targeted for creating a network of sectoral practical training centres. A sectoral practical training centre is a type of VET institution equipped with modern facilities from one or several fields. The main aim of these centres is to assure that learners, using the latest technologies and equipment, gain practical skills that match labour market needs. These centres are open to learners from VET, higher education, employees in enterprises, vocational teachers, and so on. By the end of 2015, more than 40 centres will be opened.

- Last but not least, the legal basis for apprenticeship is being revamped with the aim to strengthen the offer of work-based learning. Apprenticeship pilot projects are introduced in the form of pilot projects to support student mobility, training of trainers for apprenticeship, and the establishment of practical training centres. This government priority will be supported by European Structural Funds in 2014-20.

The stated objective of these welcome steps is to double the proportion of work-based learning in higher education from 15 to 30% by 2020 (Ministry of Education and Science, 2015), while at the same time doubling from close to 30 to 60% the proportion of in-company training /apprenticeships that the VET institutions are able to provide. Nevertheless, achieving these ambitious objectives may prove difficult in the absence of complementary measures to boost participation in apprenticeship programmes of the business sector, particularly the smaller firms. In many OECD countries, financial incentives are often available to firms both during the apprenticeship (through lower taxes or social security contributions or a direct subsidy to the firm or the apprentice) and at completion, if the apprentice is hired. For example, in Spain, employers can count on a reduction in social security contributions if trainees are hired on permanent contracts. Moreover, since there is a tendency for employers to hire skilled youth, differentiation of the subsidies to encourage take up of low-skilled apprentices may also be important. Box 3.5 compares different country experiences with the implementation of financial incentives to hire apprentices).

Vulnerable youth need more income support

To be effective active labour market policies for youth need to be embedded in an adequate framework of income support for the poorest. Ensuring that all citizens are provided with a minimum acceptable livelihood and protection against risk is a necessary precondition to support social justice and equity. However, the framework needs to be shaped in such a way to complement and reinforce the dynamism and inclusiveness of the labour market, which requires that all individuals feel empowered and encouraged to look for new work opportunities when they arise.

Fuelled by rising jobless rates on the wake of the global economic and social crisis and the ensuing deep knock-on effects on people's job prospects, the share of unemployed youth receiving unemployment and/or insurance benefits has more than tripled since pre-crisis levels in Lithuania, passing from 7% in 2007 to 24% in 2012. This pattern contrasts with the decrease undergone during the same period by the average of the European OECD countries (Figure 3.7). As a result, the level of the combined take-up of unemployment and/or social assistance benefits for Lithuania is in line with the average of the European members of the OECD. That being said, the aggregate figures hide the fact that high unemployment and informality rates in Lithuania mean that many youths are not contributing to the unemployment insurance and therefore are not benefiting from such a protection. Moreover, even youth who are covered by the social insurance and registered with the PES are unlikely to receive unemployment benefits in the case of job loss, as eligibility criteria for this scheme are very strict and therefore very few youth are entitled (see below).

Box 3.5. Providing financial incentives to hire apprentices in selected countries

In **Canada**, the Apprenticeship Training Tax Credit is a refundable tax credit for companies and businesses employing apprentices in certain skilled trades during the first three years of an apprenticeship programme. The employer can claim up to CAD 5 000 each year to a total of CAD 15 000 per apprentice. There are also Apprenticeship Scholarships and Employer Signing Bonuses. Ontario offers CAD 1 000 scholarships to young people (16-24 years of age) who have dropped out from school but returned to complete upgrading in order to become registered as an apprentice. A CAD 2 000 support per apprentice signing bonus is also available for the employer who supports at-risk youth and provide training.

Different incentives for employers to hire apprentices exist in **France**. There are permanent public subsidies, generally taking the form of various exemptions from employer and employee social security contributions. Since 2005, employers hiring apprentices also benefit from a tax credit, which amounts to EUR 1 600 to 2 200 per apprentice (on a full-year equivalent basis). The higher amount is received when the employer hires a young disabled person or a disadvantaged youth. In order to sustain the demand for apprentices during the crisis, additional grants were introduced in March 2011 (ended June 2012), covering for a period of six months to one year any additional social security and pension contributions due by employers. Finally, the Regional Councils also pay a fixed compensatory allowance for hiring an apprentice, whose level and conditions vary across regions.

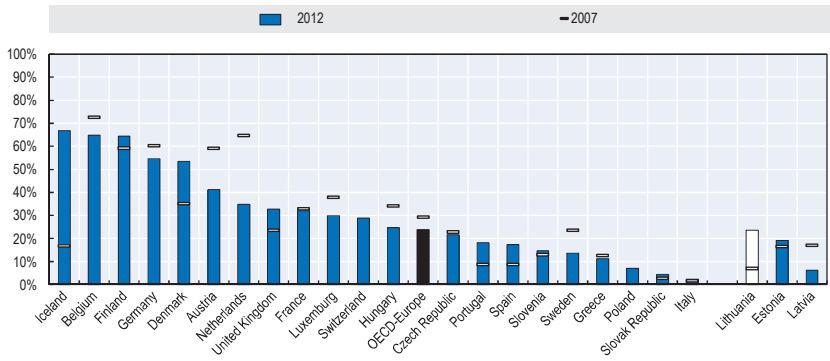
In **Germany** a vocational training bonus was introduced in July 2008 (ended in 2010) for companies creating an additional training place for apprentices whose training contract was prematurely terminated on account of the insolvency or closure of the training company. By February 2010, a total of 30 966 bonuses had been granted (including 2 696 insolvency cases). Expenditure increased from EUR 10.5 million in 2008 to EUR 34.3 million in 2009.

In the **Russian Federation**, employers offering apprenticeships are entitled to partial reimbursement of the labour costs associated with both the trainees and the trainer, i.e. the senior employee who is responsible for providing training to the apprentice.

Source: OECD (2015), "Building Stronger Pathways to Work: The Role of Quality Apprenticeships", G20-OECD Conference on Promoting Quality Apprenticeship, Antalya, 25 February 2015.

Figure 3.7. Coverage of unemployed youth with benefits, Lithuania, OECD and Baltic countries, 2007-12[a]

Percentage of unemployed youth (15-29)



a) The coverage of unemployed with unemployment and/or social assistance benefits refers to the survey reference week.

Source: European Union Labour Force Survey.

The system of unemployment benefits poses challenges

Unemployment benefits support household's own capacity to cope with adversity and overcome liquidity constraints, while at the same time providing the time they need to find a new job, which is also suited to match their skills. The role that unemployment benefits play in smoothing consumption is even more important in countries characterised by high levels of income inequality, such as the case in Lithuania.[4] At the same time, fine-tuning of targeting is necessary, in order to avoid creating incentives that deter people from finding new works.

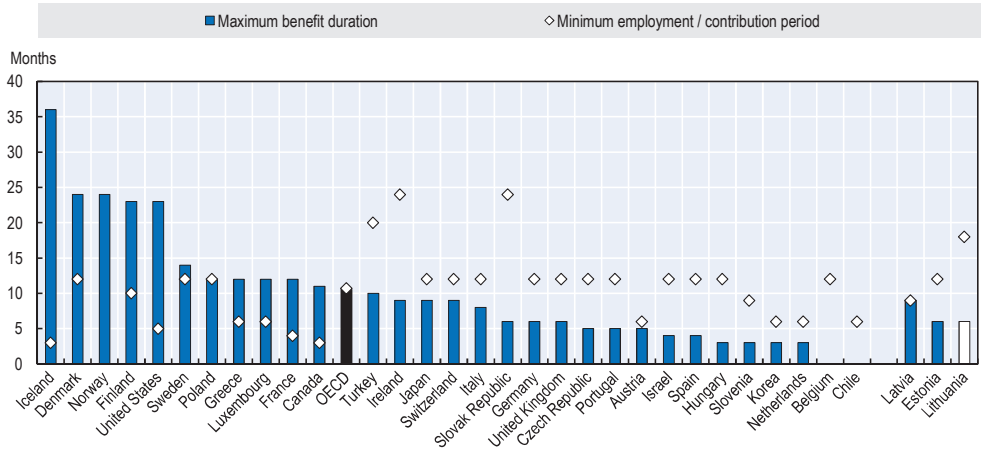
Only few Lithuanian youth qualify for unemployment benefits…

The unemployment benefits system was introduced in Lithuania in 1991. A worker must have contributed to the unemployment insurance fund for at least 18 months during the 36 months preceding the benefits' claim in order to qualify. In addition, the duration of the entitlement widens with the length of the unemployment insurance record. It can last a maximum of six months, for job tenure of up to 25 years; seven months for job tenure of 25-30 years; eight months for job tenure of 30-35 years; and nine months for job tenure of more than 35 years (Nekrošius and Petrylaitė, 2014). The full amount of benefit is paid during the first three months of unemployment. For the remaining months the variable component is reduced by 50%.

From the comparative perspective, Lithuania stands out in that it combines one of the shortest maximum benefit duration with one of the

longest minimum contribution period for youth receiving the benefit (Figure 3.8). Indeed, virtually all Lithuanian youth who are able to qualify receive the unemployment benefits for a maximum duration of six months.[5] Such a maximum duration of benefits for young people is generally much higher across OECD countries than in Lithuania: it is equal to an average of ten months across OECD countries, ranging from a low three months in the Netherlands, Korea, Slovenia and Hungary, to high 36 months in Iceland. Only Belgium does provide benefits for an unlimited duration (Figure 3.8). At the same time, minimum contribution period is very long in Lithuania (18 months), which compares to an OECD average of ten months, ranging from a high of 24 months in Ireland and the Slovak Republic to a low of three months in Canada and Iceland.

Figure 3.8. Maximum duration of unemployment insurance benefit receipt and minimum employment/contribution period, Lithuania, OECD and Baltic countries, 2012



Note : Data refers to a 20-year-old with one year of previous employment living alone without children. For the United States: State of Michigan. There are no unemployment benefits in Australia and New Zealand. Chile operates a system of individual unemployment accounts, and the maximum duration depends on the account balance.

Source: OECD Tax-Benefit Models (http://www.oecd.org/els/social/workincentives); Carcillo, S. et al. (2015), "NEET Youth in the Aftermath of the Crisis: Challenges and Policies", *OECD Social, Employment and Migration Working Papers*, No. 164, OECD Publishing, Paris, http://dx.doi.org/10.1787/5js6363503f6-en.

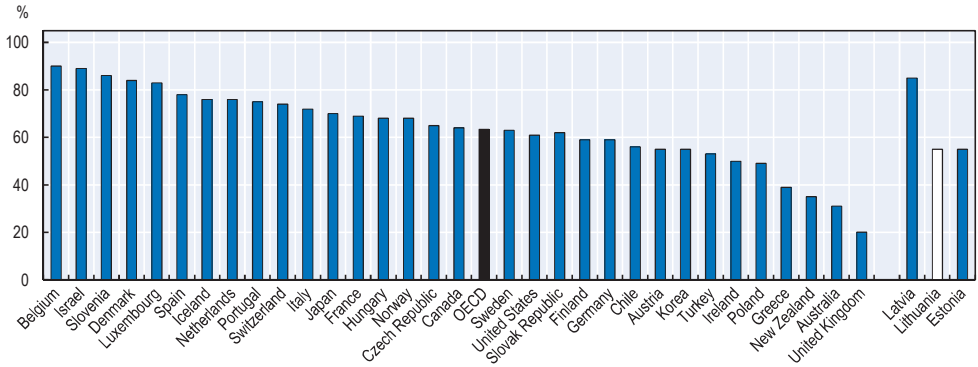
The scheme of relatively strict eligibility criteria to unemployment benefits implies that very few youth are entitled to receive such a benefit. Although it is difficult to have international comparable data on unemployment and social assistance benefit separately, information from the Lithuanian PES suggests that in 2012 only around 10% of young registered

unemployed received unemployment benefits. Some 23% of these young unemployment benefits recipients qualified for only the fixed part of the unemployment benefit.

…moreover, unemployment benefits are not very generous for youth

The unemployment benefit consists of two parts, one fixed and the other variable. The fixed part equals the amount of the monthly State Supported Income[6] (EUR 101). The variable part depends upon the previous wage, although this is up to a ceiling. The current level of unemployment benefit can span from a minimum of EUR 101 to a maximum of EUR 301 per month, which is not very high when related to the country's cost of living. For those who qualify (all workers combined irrespective of their age), the international comparison suggests that Lithuania has a much less generous system of unemployment benefits than the average of the OECD countries. The net replacement rate (NRR) measured for the low-paid earners[7] – itself a class that encompasses most entitled youth workers – equals 55%, i.e., well below the OECD average of 63%. Comparing Lithuania with its neighbours, suggests that the country provides significantly less generous unemployment benefits than Latvia (85%), albeit it scores at par with Estonia (Figure 3.9). At the same time, the unemployment trap for single persons at 50% of average earnings and no children, is higher than the OECD average (77% in Lithuania versus 70% across the OECD), indicating potential disincentives to move into work for those at the bottom of the income distribution.

Figure 3.9. Net replacement rates (NRRs), Lithuania, OECD and Baltic countries, 2013[a]



a) The figures refer to the average net replacement rates faced by single persons without children with pre-unemployment earnings of 67% of the average production wage. They refer to initial phase of unemployment but following any waiting period. No social assistance "top-ups" are assumed to be available in either the in-work or out-of-work situation. Any income taxes payable on unemployment benefits are determined in relation to annualised benefit values even if the maximum benefit duration is shorter than 12 months.

Source: OECD Tax Benefit Models (http://www.oecd.org/els/social/workincentives).

The system of unemployment benefits should be reassessed to account for the reform of the labour code

Looking forward, the overall low generosity of the Lithuania unemployment insurance system should be seen from a broader angle, which includes the key components of the labour market regulatory framework. Particularly, one key complementarity that requires careful evaluation is the interaction between the generosity of unemployment benefit and that of severance pay. As shown in Chapter 2, severance pay is comparatively generous in Lithuania (especially for workers with short job tenure, such as the youth), which is understandable given the present situation of relatively low unemployment benefits.[8] In perspective, however, the draft Labour Code which is currently under discussion for approval (see Chapter 2) proposes to significantly reduce severance pay. While this has the potential to strengthen the demand for labour by the business sector, particularly of youth workers, it could result in less overall protection for dismissed workers if the unemployment benefit system is not adjusted consequently. Youth in particular would find it even less attractive to work in the formal sector, which in turn would lead them to face an even stronger risk of being trapped into jobs of low quality, with no career perspectives. Taken together, these considerations suggest that Lithuania should aim to

accompany the reduction of the generosity of severance pay with other measures aimed at increasing the coverage and generosity of unemployment benefits, along with further actions to strengthen the role played by activation policies.

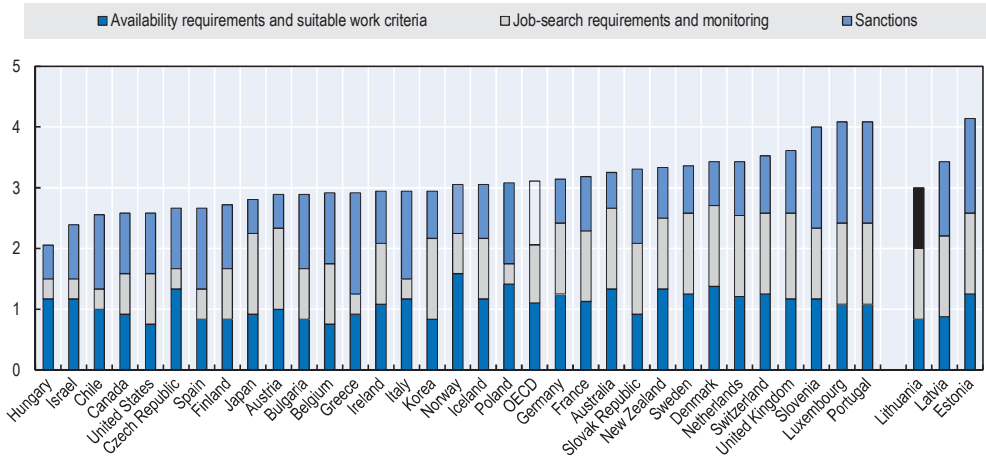
Options for improving the structure of incentives

While income support protects youth from suffering excessive income losses, the benefit system must be able to provide enough incentives to those receiving the benefits to search for new job opportunities and take them up. As a consequence, the provision of income support should ideally follow a "mutual obligations" principle, where recipients are required to participate in an active job search or ALMPs in exchange for targeted actions to help them find a job (OECD, 2015b).

To gauge the overall capacity of the benefit framework to encourage job search and limit the risk of dependency, the OECD uses an indicators that takes into account three key components: availability requirements and suitable work criteria, job-search requirements and monitoring, and sanctions for non-compliance with these rules (Langenbucher, 2015). On a scale which goes from 0 (least strict) to 5 (most strict), the overall strictness of eligibility criteria for benefits in Lithuania is in line with OECD standards (3.0 versus 3.1) (Figure 3.10). Most strict eligibility criteria are found in Portugal and Estonia (4.1), while Hungary (2.1) and Israel (2.4), for example, place themselves at the bottom of the distribution.

The indicator should be used with some cautious insofar as it focusses on the strictness of rules as outlined in the legislation, rather than capturing how they are enforced. This caveat withstanding, it is useful to portray some of the specific characteristics of the Lithuanian system. In Lithuania a relatively lax regulation on availability and suitable work criteria are found alongside relatively strict job-search requirements and monitoring. On the other hand, sanctions are overall in line with OECD levels. Box 3.7 discusses each of the key components of the indicator in more details.

Figure 3.10. Overall strictness of eligibility criteria for benefits, Lithuania and OECD countries, 2014



Note:

The composite indicator of the strictness of eligibility criteria is based on information on availability requirements during ALMPs and suitable work criteria, job-search requirements and monitoring, and sanctions for voluntary unemployment and refusing or repeated refusing a job offer or ALMP placement.

Responses relate to eligibility criteria for the most commonly-received type of unemployment benefit in each country. In a number of countries there is more than one unemployment benefit, as countries have unemployment insurance and unemployment assistance. In countries where both types of benefits exist, the report relates to unemployment insurance, even though this may not cover the majority of claimants (e.g. in Germany and the United Kingdom, the number of unemployment assistance claimants is higher than that for unemployment insurance). Other countries do not have unemployment assistance benefits, but social assistance may play a similar role and the distinction between unemployment assistance and social assistance is not precise. Australia and New Zealand do not have unemployment insurance benefits and unemployment benefits are generally non-contributory.

Countries are allocated a score for each item from zero (least strict) to five (most strict) and these data are used to compile the composite indicator.

For most items, data reflect eligibility criteria in place in 2014.

Source: Langenbucher, K. (2015), "How Demanding are Eligibility Criteria for Unemployment Benefits? Quantitative Indicators for OECD and EU Countries", *OECD Social, Employment and Migration Working Papers*, No. 166, OECD Publishing, Paris, http://dx.doi.org/10.1787/5jrxtk1zw8f2-en.

Box 3.6. Summary for eligibility criteria for unemployment benefits in Lithuania

***Availability requirements**:* Lithuania participants in any type of ALMPs are not required to look for a job or be ready to work.

***Suitable work criteria**:* Unemployment benefit recipients can refuse a job offer indefinitely if it is in another occupation to their previous job or training. Moreover unemployment benefit recipients may refuse a job offer if it takes them more than three hours (using public transports) to reach the work place or two hours if he or she has a child aged under 8 years.

Job-search requirements: Unemployed should follow their duties as outlined in the action plan.

***Monitoring**:* Usually unemployed person report on the outcomes of the job-search activity every month.

Sanctions: In case an unemployed person rejects "suitable work" or ALMPs, unemployment benefits are suspended and registration with PES may be terminated for a period of six months**.** While there are no sanctions for voluntary unemployment, the unemployed persons who are dismissed due to the fault of their own shall be granted the benefit three calendar months after the date of registration at the PES.

Source: Langenbucher, K. (2015), "How Demanding are Eligibility Criteria for Unemployment Benefits? Quantitative Indicators for OECD and EU Countries", *OECD Social, Employment and Migration Working Papers*, No. 166, OECD Publishing, Paris, http://dx.doi.org/10.1787/5jrxtk1zw8f2-en.

Against the backdrop of this evidence, one policy option to further align Lithuania with international standards would be to make job search requirements and/or availability for work mandatory during participation in supported employment programmes. A requirement to search for job and be available to take up employment during participation in these programmes, may reduce lock-in effect and improve outcomes of participants. Such requirement is introduced in the vast majority of OECD countries (Langenbucher, 2015). A second option would be to strengthen the definition of "suitable work" with respect to occupational mobility. The majority of OECD countries impose stricter conditions of "suitable work" requiring unemployed people to accept any job offer at the start of unemployment spell or strengthening conditions progressively as the duration of unemployment lengthens.

In Lithuania the sanctions for refusing a "suitable work" entail the suspension of benefits and temporary deregistration from PES. This is rather strict by international standards. Indeed, most OECD countries benefits are either reduced or suspended for a short period of time, and in some cases only after repeated refusals, while typically do not entail deregistration from PES (Langenbucher, 2015). It would also seem that sanctions are applied

quite often in Lithuania: in 2014, according to the information of Lithuanian PES, 18.9% (49 089) of total number of registered unemployed received a sanction that led to loosing unemployment benefits and registration as unemployed with PES. Introducing less strict sanctions in Lithuania – for example a reduction in unemployment benefits without losing the right to remain registered with PES – may be a fruitful policy option, also given that unemployment benefits are not particularly generous. There is evidence showing that even mild sanctions can increase willingness to search for a job. Evidence for young unemployed welfare recipients in Germany suggests that part of the sanction effects is due to the fear of intensified monitoring after the sanction is imposed rather than to the size of the sanction itself (Uhlendorff et al., 2014).

Reinforcing other forms of support for vulnerable youth

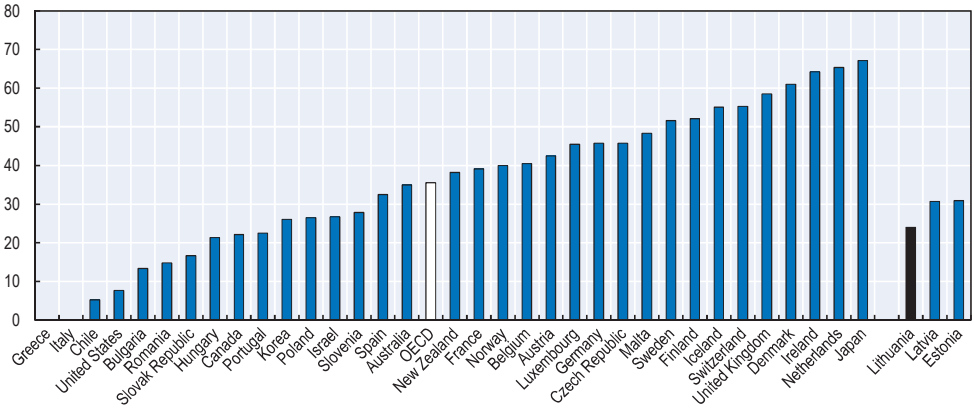
Like elsewhere, in Lithuania the many youth who fall between the cracks of the contributory schemes (such as unemployment benefits) can access other forms of assistance, which could take the form of direct benefit assistance or in-work assistance. Social assistance benefits is mainly intended for the families in Lithuania, with eligibility being predominantly contingent upon the level of the household income and the value of the assets it owns, rather than own work history. In addition, public works programmes do also play a useful role of safety net for the young.

Tailoring social assistance more directly to vulnerable youth

Similarly to unemployment benefits, social assistance benefits are not very generous in Lithuania when measured against the benchmark of OECD countries. The net value of benefits measured as a percentage of median household incomes is 24% compared to an OECD average of 36% (Figure 3.11). This suggests that inactive people, including youth, should at least in theory have strong incentives to move into work when receiving social assistance benefits.[9]

Figure 3.11. Income levels provided by cash minimum-income benefits

Net income value in percentage of median household incomes, 2013

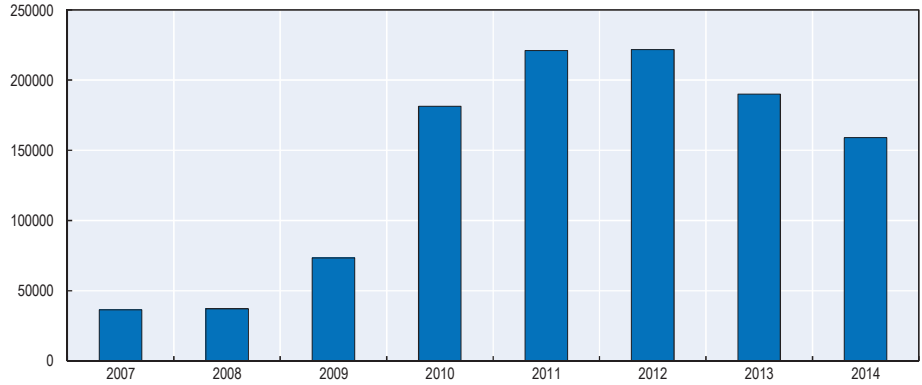


Note: Minimum income benefits account for all relevant cash benefits (social assistance, family benefits, housing-related cash support). Where benefit rules are not determined on a national level but vary by region or municipality, results refer to a "typical" case (e.g. Michigan in the United States, the capital in some other countries).

Source: OECD Tax-Benefit Models (www.oecd.org/els/social/workincentives).

The number of people receiving social assistance benefits has increased considerably since the onset of the crisis in 2007, from around 40 000 in 2007 to over 200 000 in 2012, before decreasing to around 160 000 in 2014 (Figure 3.12).[10] While partly the result of cyclical developments, the recent decline also reflects regulatory changes introduced by the Lithuanian Government to end certain adverse incentives intrinsic in the system for long-term recipients to stay dependent and to encourage municipalities to monitor and activate recipients better (see Box 3.7 for further information on these reforms).While these reforms were driven by the alarming increase in the number of social assistance benefits recipients, another particular issue for concerns was that many people were receiving benefits while working in the informal sector (Gataulinas and Zabarauskaitė, 2014).

Figure 3.12. Number of social assistance benefit recipients in Lithuania, 2007-14[a]



a) data for 2014 refers to the first nine months.

Source: European Commission (2014), *European Minimum Income Network. Country Report Lithuania* [online], available: https://eminnetwork.files.wordpress.com/2013/04/emin-lithuania-2014-en.pdf, accessed: 10.04.2015.

Box 3.7. Recent reforms aimed at reducing reliance on social assistance benefits in Lithuania

The Lithuanian Government implemented comprehensive reforms aiming to provide incentives for long-term recipients to end benefit dependence and encourage municipalities to monitor and activate recipients. First, in 2012 the generosity of social assistance benefits was modified considerably, by allowing for a deterioration of the benefit with time (see description of social assistance benefits above for further information). The reform was applied retrospectively to the recipients commencing the benefit claim prior to 2012.

Together with this reform, the government introduced measures to encourage social assistance benefit recipients to move into (formal) employment. In this respect, the government introduced in-work benefits for long-term unemployed (over 12 months) social assistance benefit recipients that move into work that pays up to 200% of minimum wage. The amount of in-work benefit is set at 50% of the full social assistance benefit and is paid for a period of six months.

Another reform was introduced in January 2014, with the aim to provide incentives to municipalities to monitor social assistance benefit recipients. Prior to the reform, government provided targeted subsidies to municipalities and their administrations were responsible for benefit payments. After the reform municipalities have the right to dilute unused social assistance funds to other type of social support. Following the reform, municipalities set special commissions to assess the right of applicants to receive social assistance benefits. These commissions act as an additional filter to qualify to receive social assistance benefits.

Source: European Commission (2014), *European Minimum Income Network. Country Report Lithuania* [online], available: https://eminnetwork.files.wordpress.com/2013/04/emin-lithuania-2014-en.pdf, accessed: 10 April 2015.

Despite these changes, in the case of Lithuanian youth providing some special financial support to assist their job-seeking process could be a right move to undertake. In Australia, for example, Youth Allowance supports young people with financial assistance if they are 16-21 year-old and looking for full-time work or undertaking approved activities and, in the United Kingdom, there is a special Jobseeker's Allowance for 16-24 year-olds. Lithuania does not have Job Seeker Allowance that covers transport costs (and sometimes accommodation) to allow jobseekers to travel to another locality for an interview. Implementing this option could be expected to strengthen the motivation to search for a job of young unemployed people who are still missing out on unemployment benefits due to a lack of necessary contributions or sufficiently long employment history to qualify.

The case for improving the framework for public works

Public work programmes play an important safety net role in Lithuania (see above, Box 2.4, Chapter 2). Like elsewhere, the main attraction of such programmes in Lithuania is twofold: a targeted mechanism that helps direct support to those who need it most; a mechanism to enhance the building of socially useful infrastructure or services. In Lithuania, 22% of all young participants in ALMPs are involved to this type of programmes. This is significantly higher than VET programmes, for example, which attract around 14.1% of all young ALMPs participants.

One problem that Lithuania has in common with many other countries stems from the poor employment outcomes for participants in public works programmes. Specifically, evidence analysis for Lithuania points to the presence of strong lock-in effect, a lack of after-programme job prospects and adverse opportunities for wage progressions (Table 3.1). Thus public works programmes may not improve the long-term employment chances of participants, implying that the long-term employment effect is not necessarily central.

Table 3.1. Summary of evaluation results of Lithuanian ALMPs

Programme	Period	Sample size (Treated/Controls)		Results
Supporting acquisition of job skills	12.08 – 05.11	215	77 469	**Wage:** Positive large positive effects after the end of the programme (EUR 1 348). **Employment probability:** Positive large effects after the end of the programme (36 percentage points). **Number of days spent in employment:** Positive large effects after the end of the programme (118 days per year).
Job rotation		256		**Wage:** Positive effect one year after the end of the programme (EUR 285). **Employment probability:** Positive small effect after the end of the programme (6 percentage points). **Number of days spent in employment:** Positive effect after the end of the programme (17 days per year).
Vocational training		1 953		**Wage:** Positive large effect after the end of the programme (EUR 458). **Employment probability:** Strong lock-in effect during participation. Positive strong effect after participation (17 percentage points). **Number of days spent in employment:** Positive large effect after the end of the programme (38 days per year).
Subsidised employment		2 930		**Wage:** Small negative effect one year after the end of the programme (EUR 44). **Employment probability:** Positive small effect after the end of the programme (5 percentage points). **Number of days spent in employment:** Positive small effect after the end of the programme (four days per year).
Public works	01.09 – 12.09	3 067		**Wage:** Negative effect for two years after the end of the programme. Positive small effect in the third year after the end of the programme (EUR 100). **Employment probability:** Strong lock-in effect during participation. Negative strong effect after the programme ends (18 percentage points). **Number of days spent in employment:** Negative effect after the programme ends (approximately 24 days per year).

Source: Bartasevičius, V. (n.d.), "Counterfactual Impact Evaluation of the Active Labour Market Policies in Lithuania", presentation, available at http://palyazat.gov.hu/download/52300/08_Vainius_Bartasevicius_Counterfactual%20impact%20evaluation%20of%20active%20labour%20market%20policies%20in%20Lithuania.pdf, accessed 20 May 2015.

Notwithstanding these complexities, significant steps have been undertaken during the past decade by many OECD and emerging countries with the objective to strengthen the longer-term employment and earnings outcomes of public works. Several lessons can be drawn from these experiences, some of which potentially interesting to a country such as Lithuania:

- Remuneration for publicly organised work opportunities should be set at an appropriate level. This typically requires a careful balancing act: if wages are too low the programme may fail to provide adequate social protection to the participants. However, if wages are set above the

market wages of low skilled workers, some participants will attempt to recycle themselves in the programme instead of moving into work (Calmfors, 1994; Subbarao et al., 2010). Clearly defined and well enforced bounds in participation rights are essential in order to properly address this issue.

- In addition, experiences also underline the importance to wisely allocate the funds destined to the programmes. This requires taking into due account local poverty statistics with a view to ensuring that the most needy population groups participate.
- Several countries have strengthened the longer-term employment and earnings outcomes of their programmes by linking them to training or other active measures. For example, the *Jefes* programme implemented in Argentina following the 2001 financial crisis, required beneficiaries to also participate in complementary activities, such as adult education, training or participation in community services projects, for up to 20 hours per week. In South Africa, the government launched a nationwide programme, the *Expanded Public Works Programme* in 2004 as part of a broad strategy to reduce poverty and unemployment, notably among the large number of jobless people who have never worked. Work placements in government and state-owned enterprises were accompanied by training.

Notes

1. ALMPs in Lithuania also include support for job creation measures, such as subsidies for job creation; support for self-employment; and projects of local initiatives for employment. Given that self-employment goes beyond the scope of this report, these programmes are not discussed in this chapter.
2. The Kaunas region's total number of jobseekers equals 30 431 individuals, most of whom are low skilled men in long-term unemployment.
3. On the other hand, the latest figures suggest that the returns to education for some VET students may have started to increase during the recent past, reaching levels even higher than for university graduates, in some cases. Moreover, the share of VET graduates registered in the public employment services a year after graduation fell from 21% in 2013 to 10.3% in 2014 (the Ministry of Science and Education). However, it should be observed that the number of students who decide to undergo a VET programme in combination with a university degree has also been rising more recently, implying that the above new earnings and employment developments for VET graduates may be a prerogative of this particular group of students.
4. According to the data of Eurostat for 2013 the ratio of total income received by the 20 % of the population with the highest income (top quintile) to that received by the 20 % of the population with the lowest income (lowest quintile) was 6.1 in Lithuania vs 5.0 in the European Union (27 countries).
5. This refers to a job tenure of up to 25 years.
6. The State Supported Income (SSI) is the income threshold defined by the government that is used as criteria for qualifying to receive social assistance benefits and in setting up the initial level of unemployment benefits. The level of the SSI today is 101 EUR per month.
7. Single persons earning either 67% or 100% of the average production wage.
8. As shown in Chapter 2, however, in practice employers pay severance pay to workers only very rarely.

9. The analysis of Navicke and Lazukta (2015) reveals high disincentives to work at the bottom of the Lithuanian income distribution, dominated by the effect of cash social benefits compared to taxes or social insurance contributions. However, these results apply to people earning 33% of average wages (which is below minimum wage levels) and therefore do not contradict the findings of this report.

10. No data is available for youth.

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(81 2015 29 1 P) ISBN 978-92-64-24760-4 – 2016

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