

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:

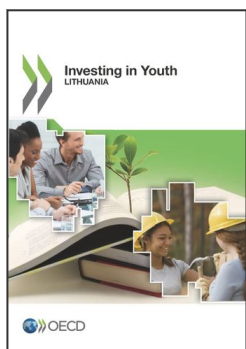
- Scale up ALMPs spending in a gradual manner and supported by the results of rigorous evaluations to ensure that scarce public resources are put to the highest value use.
- Consider implementing the Youth Guarantee following an approach in two phases, each with a distinct policy focus.
 - Phase 1 would 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.



From:
Investing in Youth: Lithuania

Access the complete publication at:
<https://doi.org/10.1787/9789264247611-en>

Please cite this chapter as:

OECD (2016), "Executive summary", in *Investing in Youth: Lithuania*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264247611-3-en>

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