

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.

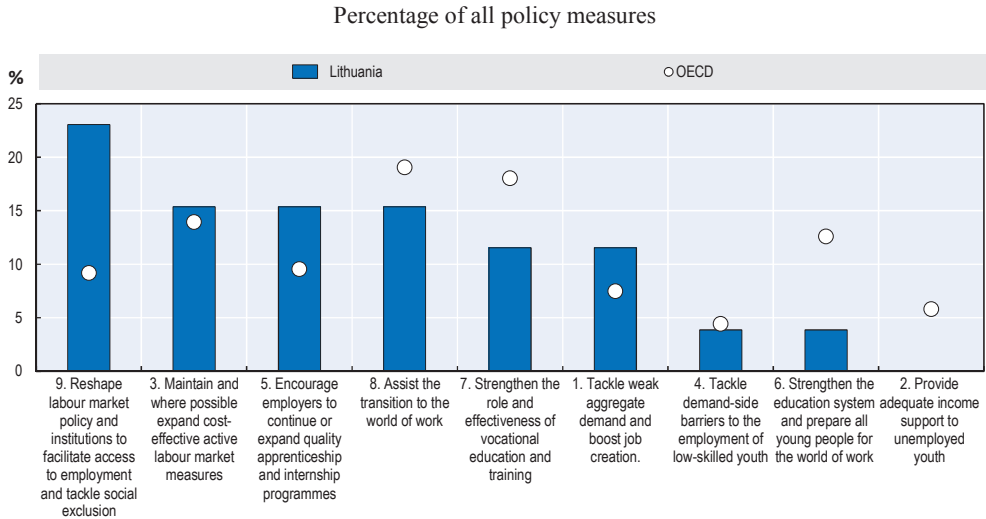
Box 0.1. The OECD Action Plan for Youth and its key elements (cont.)

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



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 advises 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:

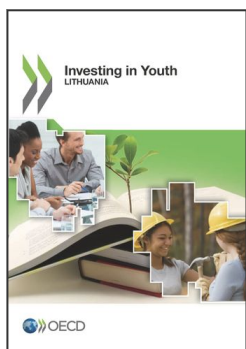
- Remuneration for publicly organised work opportunities should be set at an appropriate level. If wages are set too low the programme will likely

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.



From:
Investing in Youth: Lithuania

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

Please cite this chapter as:

OECD (2016), "Assessment and recommendations", in *Investing in Youth: Lithuania*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264247611-4-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.