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A WHITE PAPER

Recommendations to promote youth employment in Montenegro

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PREFACE

During the past few decades, growing challenges to youth employment throughout the world have led to the situation where the creation of decent jobs for youth became a priority at the global level. The International Labour Organization (ILO) faces growing demand from member countries to design integrated programmes, policies and recommendations for youth employment in the framework of these countries' specific contexts.

Youth employment is recognized as one of three priorities of Decent Work Country Programme for Montenegro for the period 2015-2017, taking into account the high unemployment rate of youth, their low labour participation rates and the high presence of youth in informal employment.

During 2016, in the framework of Joint UN Initiative in Montenegro, in close cooperation with the Ministry of Labour and Social Affairs and other relevant ministries and national institutions, as well as the social partners and UN agencies in Montenegro, ILO has implemented a project on „Strengthening of youth employability in Montenegro", which produced a document on „Recommendations for policy options to promote youth employment in Montenegro: A White Paper". This paper introduces comprehensive recommendations to national counterparts for implementation of policies aiming at encouraging the employability of young people in Montenegro and their faster integration into the labour market.

We believe that the recommendations and directions presented in this paper will find their way forward through national and sectoral action plans and serve as a guide for the national authorities for coordinating activities with the ultimate goal to help young people achieve their personal and professional ambitions for decent employment.

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TABLE OF CONTENT

LIST OF TABLES, FIGURES AND BOXES

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INTRODUCTION

Despite the progress in terms of economic transformation and poverty reduction achieved in the last decade, job creation in Montenegro remains sluggish. The country is particularly affected by high youth (15-29) unemployment rates (41.3 per cent in 2015) and informal employment (59.5 per cent among young workers aged 15 to 29). Although there is a general lack of decent work opportunities for youth, not all young people face the same risk of being excluded from the labour market. Young women, the low educated, youth living in rural areas and young people with limited social networks are more likely to be exposed to decent work deficits than other groups. Gender gaps in labour force participation, employment and wage levels persist, despite the higher educational attainment of young women compared to their male peers.

Youth employment is high on the policy agenda of the country. The commitment of the Government to address the employment situation of young people – because of their vulnerability and exposure to social exclusion – is recognized in the Employment and Social Reform Programme (2015-2020) and in the National Employment Strategy 2016–2020. These policy documents emphasize the importance of easing the transition to work of population groups at risk of long-term unemployment.

Against this backdrop, the International Labour Office (ILO) has been called to provide technical assistance to the Ministry of Labour and Social Welfare and the social partners in their effort to: i) improve employment outcomes of young people; ii) ensure a smooth school to work transition; and iii) create favourable conditions for the generation of decent jobs for youth. This assistance package includes the running of a School-To-Work-Transition Survey to expand the knowledge-base on youth employment; support to design a balanced mix of policy actions to address the main youth employment challenges the country is facing; and capability enhancement activities.

The paper that follows builds on the findings of the research Labour market transition of young women and men in Montenegro as well as on the discussions held during two technical workshops (Kolašin on 21-22 April and Podgorica on 18-19 July, 2016) organized for the members of the inter-institutional working group responsible to develop policies to promote youth employment. The objective of this White Paper is to provide a portfolio of policy options – based on the experience of European countries – geared to:

- Increase the relevance of educational outcomes and reduce skills mismatches;
- Enhance the quantity and quality of jobs for youth;
- Improve the effectiveness of youth employment services and programmes.

The paper is structured around four chapters. The first chapter provides an analytical review of the key findings of the School-To-Work-Transition Survey and of the main youth employment challenges identified in Montenegro. Chapter 2 explores the recommendations for policy options that may be considered to improve the relevance of educational outcomes and reduce skills mismatches. The third chapter reviews the factors hampering youth employment growth and examine the feasibility of a number of policy options geared to enhance the quantity and quality of jobs. The fourth chapter explores the policy actions that may be put forward to improve the effectiveness of employment services and programmes targeting youth.

The main goal of Recommendations to promote youth employment in Montenegro: A White paper is to indicate in a clear and concrete manner the options to boost employment of youth in Montenegro, through presentation of directions and recommendations for future activities of relevant authorities in this regard.

1 Djurić D., Labour market transition of young women and men in Montenegro, ILO; Geneva, 2015

1. REVIEW OF YOUTH EMPLOYMENT CHALLENGES IN MONTENEGRO

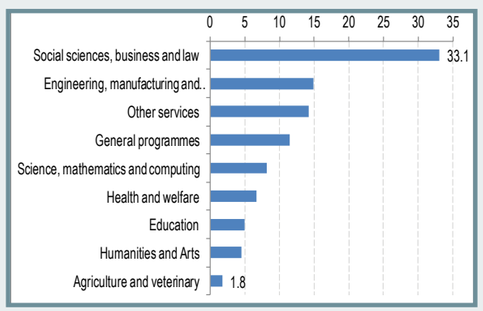
The main findings of the School-To-Work-Transition Survey revolve around: i) the strong and positive relation between educational attainment, labour market outcomes and poverty; ii) the low responsiveness of youth employment to economic growth; iii) the pervasive lack of decent work opportunities for youth; and iv) the importance of social connections for gaining a foothold in the labour market.

Young people (15-29) in Montenegro have a high level of educational attainment: in 2015, approximately 63 per cent of youth had attained secondary education and nearly 23 per cent were university-educated. Only 12.3 per cent of young people in the country are low skilled, well below the average recorded among at European Union countries (33.4 per cent). The data show that youth with a higher level of educational attainment are more likely to be employed, have higher wages and experience a faster transition to work and are less likely to fall into poverty and becoming inactive compared to youth with primary and secondary education only. Higher educational attainment, however, does not insure against the risk of unemployment, as the unemployment rate among young graduates is around 32 per cent. The coexistence of better employment outcomes for youth with higher educational attainment and high unemployment rates among graduates is primarily due to: i) the mismatch between the skills young people acquire at school and those demanded by employers; ii) the low job creation rate in the country, and iii) the structure of the economy, characterized by a limited capacity to absorb university graduates.

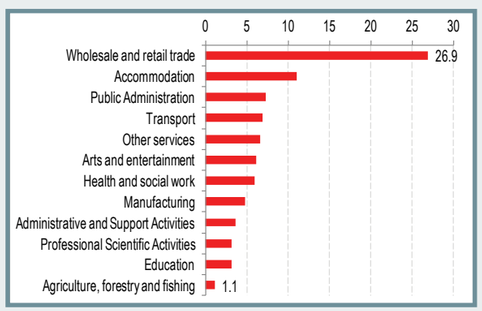
The share of young workers affected by skill mismatch (i.e. they are either over- or under-qualified for the job they do) represents 19.4 per cent of total youth employment (higher than the 13 per cent recorded among EU countries, but in line with neighbouring countries). However, a comparison between the field of study of youth currently enrolled in university and youth employment by economic sector (used as a proxy for labour demand) shows a strong misalignment (Figure 1.1.).

Figure 1.1. Comparison between university enrolment by subject and youth employment by economic sector

Youth enrolled in tertiary education, by subject, %, 2014-2015



Youth employment by economic sector, %, 2015



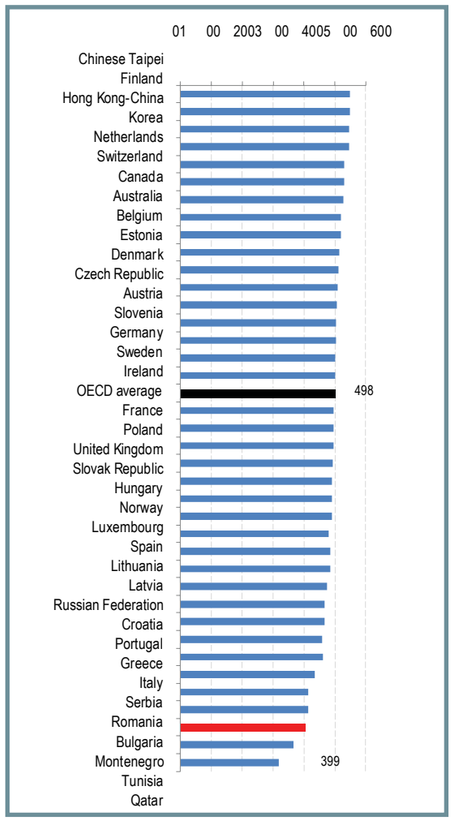
▶ Source: MONSTAT, Education statistics, 2014-2015; Djurić D., Labour market transition of young women and men in Montenegro, op.cit., 2015

2 See Table 4.13, Djurić D., Labour market transition of young women and men in Montenegro, ILO; Geneva, 2015 and ILO, Department of Statistics, Skills mismatch in Europe, ILO Department of Statistics, Geneva, 2014.

Aside the misalignment between youth expectations and employment realities, there is also evidence that inroads in improving the quality of education are lagging behind. The results of the Programme for International Student Assessment (PISA), in fact, show modest advancements compared to other OECD countries that reformed their education system (Figure 1.2).

Figure 1.2: PISA scores for math, Montenegro and selected countries, 2006-2012

Mathematic average scores, 2006



Mathematic average scores, 2012

▶ Source: OECD, PISA 2006, Paris, 2007 and OECD, PISA 2012 Results: What Students Know and Can Do: Student Performance in Reading, Mathematics and Science, Paris, 2013.

Finally, the data collected by the Employers' Survey of the Employment Agency of Montenegro (EAM) show that enterprises are able to create a limited number of jobs every year (less than 5,000 or one new job every ten unemployed individuals), mostly in trade, services, accommodation and related industries, as well as construction. In addition, employers lament the lack of work experience as well as poor cognitive (basic skills and ability to work independently) and non-cognitive skills (motivation, responsibility, reliability, diligence and honesty) of job applicants.

Aside the strength of economic growth and the management of macroeconomic policies, there are a number of additional factors that may hamper the demand for young workers, including low competitiveness of the economy, labour market rigidity, high labour costs and jobless growth patterns. Although these items are not fully explored in the School-To-Work-Transition Survey, they were the subject of extensive debate in inter-institutional working group meeting organized in Kolašin in April 2016.

First, the private sector in Montenegro is characterized by the prevalence of small enterprises (less than 49 workers), which represent 99 per cent of all firms registered in the country, generating 64.5 per cent of total value added. Over a third of all enterprises operate in wholesale and retail trade (34.5 per cent), 11.9 per cent in accommodation and food service industries, 10.4 in professional and scientific activities, 10.2 per cent in construction and 8 per cent in manufacturing[3]. In terms of gross value added (GVA), trade takes the lion's share (with 27.6 per cent of total GVA on an annual basis); followed by information and communication (10.3 per cent of total GVA) and manufacturing (9.1 per cent). The accommodation and food industry and the construction sectors account for only 5.9 and 6.5 per cent of GVA, respectively.

Table 1.1 below summarizes the key figures on the business structure of Montenegro and especially the low contribution of more dynamic service sectors (like information and communication) to youth employment.

Table 1.1. Enterprises by economic sector, GVA and contribution to youth employment

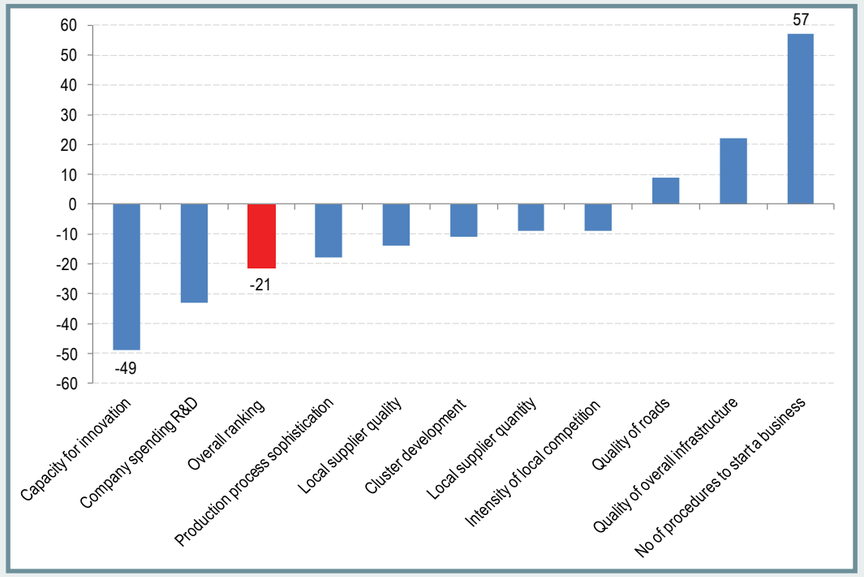
Economic sector	% of total enterprises	% Gross Value Added	% of youth employment
Manufacturing	8.0	9.1	4.8
Construction	10.2	6.5	3.5
Wholesale and retail trade	34.5	27.6	26.9
Accommodation, food	11.9	5.9	11.0
Information,	3.4	10.3	3.9

▶ Source: MONSTAT, Number and structure of business entities in Montenegro, Podgorica, 2015; MONSTAT, Enterprise operations, 2014; and Djurić D., Labour market transition of young women and men in Montenegro, op.cit., 2015

In terms of competitiveness, Montenegro has been losing ground in the last five years, with capacity for innovation, enterprise investment in research and development and sophistication of production processes actually worsening (Figure 1.3 below). The only inroads have been made in infrastructure (thanks to the large investment plan of the Government). In addition, the share of enterprises considering access to finance, government bureaucracy and corruption as a problem for business development has remained unchanged in the period 2010-2015[4].

3 Statistical Office of Montenegro (MONSTAT), Number and structure of business entities in Montenegro, Podgorica, 2015. Since 2011, the share of enterprises
4 engaged in the trade sector has decreased (from 42 per cent), while accommodation and food service industries, professional and scientific activities and information and communication have increased.

Figure 1.3 Changes in the competitiveness ranking, Montenegro, 2010-2015



▶ Source: World Economic Forum, The Global Competitiveness Report, Davos, World Economic Forum, 2010 and 2015.

The rigidity of Employment Protection Legislation (EPL) – i.e. labour law provisions governing the recruitment and dismissal of workers – is considered by many as a factor that hampers the capacity of enterprises to recruit young people. The EPL index, used as an indicator of labour market flexibility, shows that Montenegro (see Table 1.2) is line with the average found in other European countries (with an index of 2.88 compared to 2.45 in EU countries), but with higher flexibility for temporary work (2.08 and 2.28, respectively). EPL, therefore, cannot be considered a barrier to youth employment, since countries with similar indexes have a much higher job creation rate for youth compared to Montenegro. Rather, the flexibility granted to firms to issue temporary work contracts – with the proportion of workers employed on fixed term contracts increasing from 17.9 per cent of total employment in 2009 to 30.2 per cent in 2015 – combined with the high share of youth working in the informal economy (59.5 per cent) points to a pronounced duality in the labour market (formal vs. informal workers and permanent vs. fixed term employees). Since young workers are more likely to be employed informally compared to adults and to be working on fixed term contracts, they are more exposed to the detrimental effects of a segmented labour market (wage gaps, lower access to training and social security, poorer working conditions, limited tenure and low transitions to better jobs)[5].

5 Labour market segmentation also has macroeconomic implications, such as lower productivity and higher employment volatility. See Deakin, S., Addressing labour market segmentation: the role of labour law, ILO, Geneva, 2013.

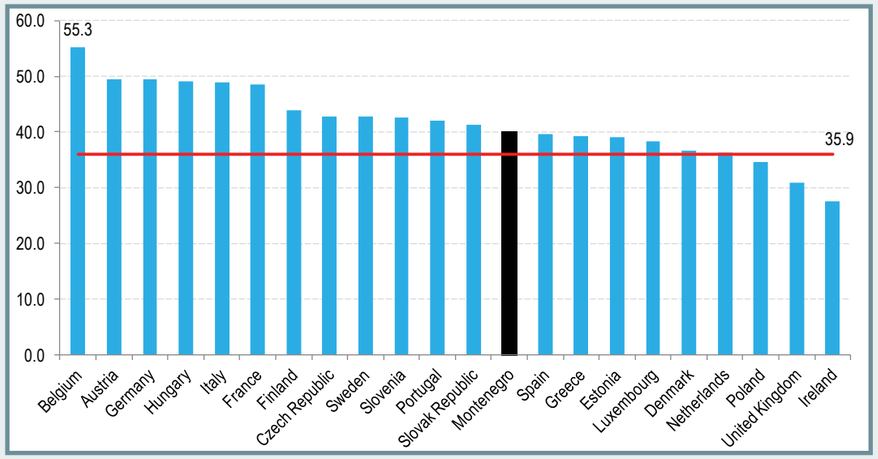
Table 1.2 Employment Protection Legislation (EPL) indexes in Montenegro, 2013

	EPL index	Permanent workers (individual dismissal)	Collective dismissal	Temporary forms of employment
Selected OECD countries				
Austria	2.44	2.12	3.25	2.17
Belgium	2.99	2.14	5.13	2.42
Czech Republic	2.66	2.87	2.13	2.13
Denmark	2.32	2.10	2.88	1.79
Estonia	2.07	1.74	2.88	3.04
Finland	2.17	2.38	1.63	1.88
France	2.82	2.60	3.38	3.75
Germany	2.84	2.53	3.63	1.75
Greece	2.41	2.07	3.25	2.92
Hungary	2.07	1.45	3.63	2.00
Ireland	2.07	1.50	3.50	1.21
Italy	2.89	2.55	3.75	2.71
Luxembourg	2.74	2.28	3.88	3.83
Netherlands	2.94	2.84	3.19	1.17
Norway	2.31	2.23	2.50	3.42
Poland	2.39	2.20	2.88	2.33
Portugal	2.69	3.01	1.88	2.33
Slovak Republic	2.26	1.81	3.38	2.42
Slovenia	2.39	1.99	3.38	2.13
Spain	2.36	1.95	3.38	3.17
Sweden	2.52	2.52	2.50	1.17
United Kingdom	1.59	1.18	2.63	0.54
Average	**2.45**	**2.18**	**3.12**	**2.28**
Other non-OECD countries				
Bosnia-Herzegovina	2.58	2.59	2.56	..
Croatia	2.30	2.32	2.25	2.88
FYR Macedonia	2.29	1.91	3.25	3.50
Montenegro	**2.88**	**2.58**	**3.63**	**2.08**
Serbia	2.23	1.67	3.63	..

- Source: OECD, Employment Protection Legislation database,
- http://www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm/

Payroll taxes and social security contributions probably play a more significant role than EPL in determining labour market outcomes and informality for youth. The tax wedge for a worker earning at the average gross wage (€734 in March 2016) was 40.1 per cent, above the average tax wedge reported in OECD countries in the same year (35.9 per cent, see Figure 1.4 below). Such situation is likely to push firms – especially those for which labour represents a large share of production costs - towards the informal economy.

Figure 1.4. Tax wedge, Montenegro and OECD countries, 2016



- Source: Calculation based on Ministry of Labour figures; OECD, Taxation database, 2016
- downloadable at http://www.oecd.org/ctp/tax-policy/taxing-wages-tax-burden-trends-latest-year.htm

One of the most characterizing factors of the labour market in Montenegro is the extent of decent work gaps for youth. Approximately 12.5 per cent of all young workers are in irregular jobs (fixed term and occasional jobs and 'survival' self-employment); nearly two third of all young workers (59.5 per cent) are in the informal economy; and over one third of them are employed as service and sales workers, despite their higher level of educational attainment.

A screening of the overall number of young people that are affected by poor labour market outcomes – with a view also to identify the groups that should be the target of policy actions – reveals that: i) young unemployed with at most secondary education are five times the number of unemployed graduates (18,519 young unemployed with secondary education or less compared to 3,835 unemployed graduates); and ii) the number of young workers exposed to decent work deficits is higher than the number of young workers with a permanent, stable job (18,935 youth face decent work gaps compared to 15,295 young workers that have a permanent job). Hence, the policy priority given to graduate unemployment appears unwarranted compared to other challenges (overall youth unemployment, duration of unemployment spells and conditions of work).

The information provided by the School-To-Work-Transition Survey point to the importance of social connections to ease the transition from school to work. Those who can count on strong social connections are more likely to transit directly from education to work. Those less connected are more likely to experience long (up to 20 months) and uncertain transition pathways. The scarring effects of long transition periods from school to work are well documented in terms of loss of income, skills depreciation and future employment and wage prospects[6]. For Montenegro, a simple calculation on the stock of youth more likely to face a long transition showed an overall loss of personal income of €36.6 million (or € 6,900 per young person)[7]. Since approximately 73.8 per cent of all young (15-24) unemployed in Montenegro – contrary to what occurs in other countries – are registered with the Employment Agency, the persistence of long transitions from school to work and long-term unemployment (55 per cent of total registered unemployed) points to the need to adjust the timing and sequence of employment services (especially individualized job search assistance) as well as the design of programmes targeting youth. The effectiveness of these actions, however, will in large part depend on the strength of labour demand and the job creation capacity of enterprises.

6 See Fondeville N., Ward T., Scarring effects of the crisis, European Commission Research note 06/2014, for a short summary and literature review of the scarring effects of unemployment.
7 This figure is derived by multiplying the total number of youth exposed to long transition periods (around 5,000 youth) by the average youth wage as determined by the STWS (€345) and by the length of transition (20 months).

2. RECOMMENDATIONS TO ENHANCE THE RELEVANCE OF EDUCATIONAL OUTCOMES AND REDUCE SKILLS MISMATCHES

The importance of education and training to ease the transition of youth to decent work opportunities is widely acknowledged and grounded on an extensive evidence base. In European countries policies are currently centred on: i) improving the relevance of educational outcomes; ii) minimizing skills mismatches; and iii) introducing early intervention strategies to avoid school failures. Since early school leaving at present does not appear to be a problem in Montenegro (only 3.5 per cent of youth leave school before completing upper secondary education), the paragraphs that follow explore policy options to minimize skills mismatches and improve the relevance of the education and training system.

Recommendations to reduce skills mismatches

Country experiences show that skills mismatches have predominantly been addressed through education system reforms (discussed in paragraph 2.2 below) and the introduction of skills anticipation/forecasting approaches to inform curriculum and programme design, career education and guidance as well as to shape enrolment strategies (for example in Brazil and United Kingdom). Most European countries are also re-shaping their education information system to operate as early warning mechanism and track students' trajectories in the labour market (for example Estonia, Latvia and Portugal).

The policy options that are most relevant to promote youth employment in Montenegro in the medium term revolve around: i) the establishment of a Labour Market Information System (LMIS) to help shape education, training and employment policies as well as individual choices; ii) the availability of career education and guidance services; iii) the expansion of second chance and adult learning programmes to remedy skills mismatches.

8 See for example Hanushek E.A., Wößmann L. The role of education quality in economic growth, World Bank Policy Research Working Paper 4122, World Bank, Washington D.C., 2007; Wilson R. A., Briscoe G., The impact of human capital on economic growth: A review, CEDEFOP 2004; Coulombe S. Tremblay J. F., Education, productivity and economic growth: A selective review of the evidence, International Productivity Monitor, No 18, 2009; OECD, Employment outlook, OECD, Paris, 2004.

Recommendation 1.1: Develop a Labour Market Information System (LMIS) which will inform career choices and the design of education, training and employment services and programmes

Labour market information (LMI) includes information on economic sectors, occupations that are in demand, enterprises creating jobs, geographical areas where labour demand is higher, education streams to attend to gain the skills required by an occupation (labour demand) and information on the individual characteristics and qualifications of jobseekers (labour supply).

Today, most OECD countries rely on skills anticipation (forecasting) systems for producing reliable labour market information (Box 2.1). Skills anticipation systems can help fill information deficits and prevent future labour market imbalances; inform individuals, education and training providers on future labour market needs; and support employment, social protection and lifelong learning policy-making. Skills anticipation allows determining the sectors in which employment will be growing, which occupations and qualifications will be in demand and what potential labour market imbalances may occur[9]. There are four main approaches to anticipate skills needs: i) quantitative methods, including econometric models with behavioural content; ii) employer and occupational skills surveys; iii) qualitative approaches, including focus groups, Delphi studies, and scenario development; and iv) sectoral studies, regional and labour market observatories, which often use a combination of both qualitative and quantitative methods.

Box 2.1: Skills anticipation approaches and establishment surveys

In Brazil, the National Industrial Learning Service (Serviço Nacional de Aprendizagem Industrial – SENAI) has developed a prospection model to anticipate the demand for professional competencies based on six different types of analysis. First, the technological and organizational prospection identifies the evolution of technology and changes in the organizational structure of economic sectors in a 5-10 year time horizon. Second, the analysis of emerging occupations explores sectoral occupational changes. Third, the analysis of occupational impact evaluates, with representatives of businesses, universities and other organizations, the professional profile changes arising from the introduction of emerging technologies and organizational changes. Fourth, the analysis of occupational trends, based on the economy's input-output model, estimates changes in the number of jobs in different sectors of the economy. Fifth, the analysis of educational gaps compares students' skill levels and the profiles demanded in different scenarios. Finally, a thematic antenna offers a space where all the results obtained are discussed and vocational training policies are formulated.

The United Kingdom introduced at the end of 1990s regular skills surveys to examine the nature, extent, causes and implications of skills deficits in the various parts of the country (England, Wales, Scotland and Northern Ireland). In 2011, these surveys were combined into a national one to explore the skills challenges that employers faced both within their existing workforces and in terms of recruiting new skilled personnel, the levels and nature of training investment, recruitment of young people and education leavers and the relationship between skills challenges, training activity and business strategies. One of the key findings of the latest survey is that half of UK employers (48 per cent) report skills under-use, and 4.3 million workers (16 per cent of the total UK workforce) are reported as being over-qualified.

In emerging and transition countries, rapid structural change, the extent of informal employment and weak labour market attachment makes long-term skills anticipation difficult. In these contexts, short-term sectoral skills forecasts based on employers' surveys may be more useful for providing up-to-date information about current labour demand to school leavers, labour market actors and training providers. Establishment surveys on employment and earnings provide data to measure trends and short-term changes in industry employment, average earnings and hours of work. Establishment surveys also provide information on the type of jobs that employers require and are available to working age individuals. If the establishment survey also collects data on individual employees, the analysis of new hiring patterns may be extended to the characteristics of workers (e.g. sex, age, educational attainment, occupation, hours of work and wages). Establishment data is often used also for the analysis of education and training curricula; the development of vocational counselling and guidance programmes; the study of occupations with a high concentration of young workers; the preparation of occupational projections; and the evaluation of demand for skills.

▶ Source: ILO/CINTERFOR, Skills anticipation. The Transfer of the SENAI Prospective Model, Montevideo: ILO/Cinterfor, 2013; UK Commission for Employment and Skills, Employer Skills Survey 2013: UK Results, London, 2014; European Training Foundation (ETF), Skills anticipation and matching systems in transition and developing countries. Conditions and challenges, ETF, Turin, 2012; ILO, Data requirements for youth labour market analysis, ILO, Geneva, 2013

9 CEDEFOP, Systems for anticipation of skill needs in the EU member states, CEDEFOP, Thessaloniki, 2008.

In Montenegro, the range of data necessary to build a reliable skills forecasting system is not available yet. Therefore, the initial step towards this end is the establishment of a labour market information system that pools together and systematizes the information stemming from different data sources into easy-to-understand occupational outlooks (description of occupations most demanded in the labour market, type of skills and qualifications required, working conditions and earning scales). This labour market information system will serve to: i) inform the design of education and training programmes (see paragraph 2.2 below), ii) shape the design of youth employment services and programmes (see chapter 4) and iii) provide the content of career education services (see policy outcome 1.2).

Specifically:

- The Ministry of Labour and Social Welfare (MLSW) should improve the management process of collection and processing the information provided by other data producers (Statistical Office of Montenegro, employment services, social security institute, Ministry of Education, etc.) and to disseminate it to end-users in partnership with the Employment Agency of Montenegro (EAM) and the Ministry of Education (MoE);
- The EAM should upgrade its job vacancy recording system to feed the LMIS with reliable information on jobs and occupations most demanded in the labour market;
- The Education Information System – managed by the MoE – should provide the LMIS with data on education and adult learning programmes as well as job placement rates of graduates (based on the results of the tracer studies to be undertaken in the next period);
- The information provided by the LMIS (occupational outlooks, skills most demanded, growing economic sectors, etc.) should be disseminated to end-users through: i) dedicated web pages hosted by the MLSW, the MoE and the EAM as well as social networking tools (Smartphone apps, chats and others); ii) career education services (in schools); iii) counselling and guidance services (in EAM local offices); iv) youth information offices; and v) awareness raising campaigns organized jointly by partner institutions and organizations.

Implementation of this recommendation – under the responsibility of the MLSW, the EAM and the MoE – will result in better employment outcomes for youth (especially for secondary and tertiary education graduates); lower rates of vertical mismatch among young workers; and shorter transition periods from school to work.

Recommendation 1.2. Young people should have access to quality career education and guidance services

Public authorities are well aware that the introduction of career education as part of the school curriculum – including entrepreneurship learning and rights at work – would: i) improve youth employability and enhance their labour market prospects (see Box 2.2. for examples)[10]; ii) inform students and families about the realities of the national labour market so that they can make more realistic career choices; iii) convey the idea that vocational education and training is primarily a pathway to labour market entry, rather than a means to access university education (and this would also affect enrolment choices); and iv) link individual interests and aspirations to career options.

Box 2.2: Career education as a tool to ease the transition to work

In United States, Career Academies have become a widely-used high school reform initiative that aims to keep students engaged in school and prepare them for successful transitions to post-secondary education and employment. Serving high school students from grade 9 or 10 through grade 12, Career Academies are organized as small learning communities, combine academic and technical curricula around a career theme, and establish partnerships with local employers to provide work-based learning opportunities. An impact evaluation carried out in 2004 found that Career Academies increased earnings of participants by 18 per cent over non-participants, totalling more than $10,000 in additional earnings for participants over the 48-month follow-up period. The impact on earnings resulted from the combined effect that the programme had on the number of months employed, hours worked and hourly wages. In other words, Career Academies help youth obtain better-paying jobs.

In Germany, Job Information Centres (JIC) provide young people with very detailed and comprehensive information on occupations, employment and income prospects, local labour market conditions and educational pathways. The primary target group of JICs are students of secondary schools, who will soon enter the labour market. Around 70 percent of all visitors are students who visit a JIC with a school class and their (head) teacher. The empirical estimates suggest that the availability of a job information centre causes a large and significant increase in the likelihood of experiencing upward educational mobility (8-12 percentage points), and improves chances of acquiring the highest general school degree. Young people who went to school in an administrative district with a JIC are also less likely to become unemployed.

To summarize, available evidence indicates that career education and guidance has an impact on a numbered of outcomes.

- It can enhance the development of human capital by encouraging participation and success in the education and training system. The skills developed through career education increased success in job hunting by 30 per cent.
- Career education and guidance can play an important role in providing youth with access to intelligence that is outside of their immediate social network. It can also support the acquisition of social capital by brokering access to networks (e.g. potential employers) and providing access to mentoring and insights about how to penetrate career networks.
- A final area in which career guidance can offer economically relevant benefits for youth is by supporting smooth and rapid transitions to further learning and work. Young people engaged in job searching as a result of career education and guidance are 2.7 times more likely to get a job compared to non-participants.

▶ The content of curriculum education programmes typically combines life skills learning (self-awareness, communication, problem-solving, time management, team work) with the exploration of careers, occupations and economic sectors as well as job navigation skills See Guidance and career education of the Ontario (Canada) curriculum (downloadable at http://www.edu.gov.on.ca/eng/curriculum/secondary/guidance910currb.pdf) for an example of career education curriculum and Corbanese V., Rosas G., Surfing the labour market: Job search skills for young people, ILO, Geneva 2012 for labour market oriented topics.

10 The content of curriculum education programmes typically combines life skills learning (self-awareness, communication, problem-solving, time management, team work) with the exploration of careers, occupations and economic sectors as well as job navigation skills See Guidance and career education of the Ontario (Canada) curriculum (downloadable at http://www.edu.gov.on.ca/eng/curriculum/secondary/guidance910currb.pdf) for an example of career education curriculum and Corbanese V., Rosas G., Surfing the labour market: Job search skills for young people, ILO, Geneva 2012 for labour market oriented topics.

The Ministry of Education (MoE) is already undergoing piloting activities to prepare teachers and teaching material for this new cross-curricula subject, which will be grounded on the information stemming from the LMIS. The objective of this outcome is, therefore, to provide quality career guidance services to young people when they are at schools and when they enter into the labour market. The achievement of this outcome is a shared responsibility between the MoE (for students at all levels of the education system) and the EAM (for young people registering as unemployed). It envisages:

- Introducing career education as part of the school curricula from 9th grade onward; and
- Delivering of labour market information, career guidance and employment counselling services to all newly-registered young unemployed.

The achievement of this policy outcome should result in better employment outcomes for youth (measured in terms of employment and unemployment levels); lower rates of vertical mismatch and shorter transition periods from school to work.

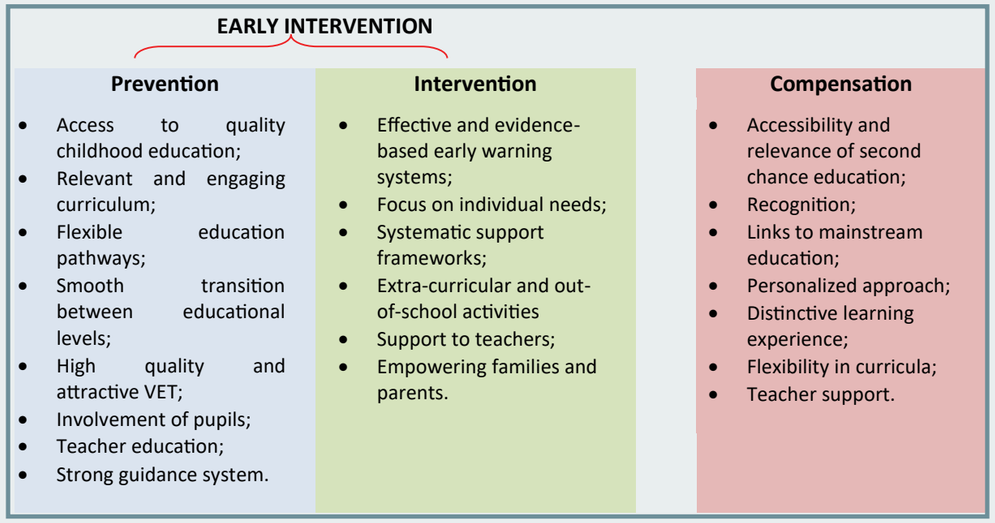
Recommendation 1.3: Adult learning programmes and second chance topportunities should be enhanced to redress skills mismatches

The recommendations detailed above are preventative (i.e. they aim at avoiding that skills mismatches occur for the next generation of young workers). To remedy skills mismatches for young people who are already in the labour market (as workers or unemployed) it is necessary to expand adult training programmes and second chance opportunities.

Countries in the European Union typically deploy a double pronged approach that combines the implementation of "compensation" measures within the formal education and training system (which are normally part of comprehensive strategies to reduce early school leaving) with the design of skills training programmes as part of Active Labour Market Policies (ALMPs) targeting youth and adults and managed by the Public Employment Services (these latter are examined in Chapter 4 of this White Paper). Today comprehensive strategies to reduce early school leaving (ESL) address the entire education system and include intervention and compensation measures taking place at the level of individual schools (see Figure 2.1)[11].

11 European Commission, Reducing early school leaving: Key messages and policy support. Final Report of the Thematic Working Group on Early School Leaving, 2013. For a complete synopsis of recent country practices on early school leaving see European Commission/EACEA/Eurydice/Cedefop, Tackling Early Leaving from Education and Training in Europe: Strategies, Policies and Measures. Eurydice and Cedefop Report, Luxembourg, 2014. But "early intervention" is also advocated as a means to avoid long-term unemployment among youth and the problems associated with it. The rationale is that as the unemployment spell increases, the young individual loses contact with the labour market, working habits weaken, skills deteriorate and job search intensity decreases. The longer the unemployment spell, the more intensive and complex the interventions required.

Figure 2.1: Key features of strategies to reduce early school leaving



▶ Source: Council Recommendation of 28 June 2011 on policies to reduce early school leaving, OJC 191, 2011; European Commission, Reducing early school leaving: Key messages and policy support. Final Report of the Thematic Working Group on Early School Leaving, 2013.

Compensation measures aim at re-engaging young people who left school early or failed to achieve a recognized qualification into education and training. This is done through second chance schemes, but also through mainstream education re-integration programmes and programmes combining practical work experiences with schooling. Effective second chance schemes share a number of common features:

- Individualized approach that: i) is focused on personal development (with opportunities to develop key skills); ii) grants access to specialised support (such as psychological or emotional support), counselling, career guidance and financial aid; and iii) adopts alternative learning methods such as cooperative learning, peer learning and project work.
- Recognition of learning: Second chance schemes provide young people with qualifications that are recognised in the labour market as well as access to formal education/training pathways.
- Flexibility of curricula: The curriculum is innovative, relevant and flexible in terms of the structure and timing of provision. Teachers use learning approaches that respond to the needs of individual students. National legislation allows for greater autonomy for staff to decide study programmes and mobility of students within the system and includes measures to allow students to return to mainstream education. This is especially important in VET oriented second chance schemes.

Box 2.3: Compensation measures

In France, Second Chance Schools were established in the late 1990s to provide initial education for youth 18-25 who had left the education system without a qualification. The further development of second chance schools was also one of the measures deployed to mitigate the impact of the global economic crisis on youth employment in 2009. These schools i) designed customised programmes outside traditional school schemes; ii) developed specific and dedicated training programmes for youth; iii) provided a sustained and comprehensive support; and iv) used work placements in firms as a learning method. About 59 per cent of youth who had completed the programme had a positive outcome (22 per cent enrolled in additional training, 11 per cent got an apprenticeship place, and 26 per cent found a job in the open labour market).

The Programes de Qualificación Professional Inicial (PQPI) In Cataluña aims to re-enrol high-school dropouts back into formal education and provide them with employment-related skills to improve their chances of finding a job. Compared to high schools, the programme provides learning in smaller groups (from 10 to 15), more tutoring from professors, a wider range of different specializations related to the labour market and 150 to 250 hours of real work experience. In 2008-2009, the programmes hadbpositive impacts – after 12 months – on the return to the educational system, with a significant increases in the level of enrolments (around 10 per cent for private centres and 5-6 per cent for public centres) and also, albeit to a lesser degree, in increases in the graduation rates (1.5 per cent).

Many EU countries have recently reformed their second chance education to introduce or improve compensatory provision. In Denmark, Cyprus and Poland a wide range of measures have been taken to improve the quality and attractiveness of vocational education and training programmes, especially for those who have left the education system early. In Malta and Romania, efforts are being made to provide quality second chance education for persons with a disability, young people living in rural areas and areas with large Roma population groups. In Italy, a recent reform reorganised the adult education system. Former centres and evening classes were merged into the new Centres for Adult Education (CPIA) offering personalised learning paths to improve adults' competences and skills. The new Centres also offer opportunities for young people to obtain their lower and upper secondary qualification or get a certificate of attendance from the first two years of upper secondary school (i.e. the certificate of completion of compulsory education).

▶ Source: OECD, Off to a good start: Jobs for youth, OECD, Paris, 2010; Iasco J., Casado D., Sanz J., Todeschini F. A., The effect of active labor market policies targeted at youth: evidence from Catalonia, October 2012; European Commission/EACEA/Eurydice/Cedefop, Tackling Early Leaving from Education and Training in Europe: Strategies, Policies and Measures, 2014, op.cit.

As outlined above – and to remedy the situation of young people who failed to acquire labour market qualifications, this recommendation envisages the establishment of second chance programmes by the MoE (vocational and non-vocational) as well as the expansion of adult (on and off-the-job) skills development programmes by the EAM (targeting youth registered as unemployed). The achievement of this outcome – under the potential primary responsibility of the MoE and EAM – should results in decreasing vertical mismatch rates and better employment outcomes for low-skilled youth.

RECOMMENDATIONS TO ENHANCE THE RELEVANCE OF THE EDUCATIONAL OUTCOMES

The experience of countries that succeeded in improving the quality and relevance of their education system (Poland, the Netherlands, Sweden and Slovakia) shows that this requires: i) systemic reform (i.e. delaying tracking into general and vocational education, introducing career education at an early age and changing resource allocation mechanisms); ii) a re-design of curricula (i.e. new learning standards, striking a balance between vocational and general skills, introducing mandatory work experience and standardized assessment); and iii) skilled and motivated teachers (teaching competence standards, teaching practices and continuous in-service training). Reforms, however, need to be informed by solid labour market information and an understanding of the skills that employers need (see Box 2.4 below).

Box 2.4: Which skills are most demanded by employers?

In recent years, a number of studies have attempted to identify which skills most determine success in the labour market. This work has led to the classification of skills into cognitive, non-cognitive and technical skills. Cognitive skills include basic skills (literacy and numeracy) generally provided by basic/elementary education and higher-level skills (including, among others, analytical skills, critical skills, foreign languages, listening skills), which should be provided by the education system mostly at secondary level. Cognitive skills are necessary, but not sufficient to ensure higher wages and greater employability. They must be complemented by non-cognitive skills. These comprise socio-emotional skills (including adaptability, honesty, integrity, commitment, creativity) and are associated with behaviours, attitudes and personality traits, which are developed since childhood. Technical skills (advanced vocational, job-specific and technical), acquired during education or on-the-job complete the skills portfolio. They are abilities associated with the specific knowledge to carry out an occupation and are a sub-set of cognitive skills.

A recent analysis of enterprise surveys shows that employers value most socio-emotional and higher-order cognitive skills (especially oral communication, ethics, punctuality and honesty). This holds across countries (developed vs. emerging), type of firms (small vs. large, manufacturing vs. service) and workers' profiles (managers vs. workers, less vs. more educated workers). Technical skills are ranked as third most important, but they emerge strongly for Western and Eastern Europe, but not in other regions and in the US.

This research highlights two main conclusions. First, the skills development process necessarily begins at birth and continues throughout the life cycle. Certain skills demanded by employers are formed in childhood and other skills can only be developed once foundational skills are there. Waiting until school completion to develop job-relevant skills is too late. Second, the skills most demanded by employers are largely taught and refined in secondary school, which argues for general education until these skills are formed.

In terms of labour market outcomes, the recent empirical literature, both in the US and in Europe, supports the view that non cognitive ability is a prerequisite for avoiding failure in the labour market and for ensuring higher earnings. The determinants of non-cognitive skills include factors that cannot be affected by policy (like parental background and education; socioeconomic and individual characteristics such as individual innate ability) and others that can be changed (such as teacher quality and class size; the institutional settings of schools, including the presence of accountability systems and school autonomy). There is also evidence that the development of non-cognitive skills continues after school, in particular in the workplace, and that some of these non-cognitive skills can be developed though specific training. The evidence on the effect of programmes to develop non-cognitive skills, however, is still limited and mixed, with some programmes yielding good results (like the JobCorps in US and the EPIS programme in Portugal) but at high costs.

▶ Source:, Cunningham W., Villaseñor P., Employer voices, Employer demands, and implications for public skills development policy, Policy research working paper No 6853,World Bank Washington D.C., 2014; Brunello G., Schlotter M., Non Cognitive Skills and Personality Traits: Labour Market Relevance and their Development in Education & Training Systems, IZA Discussion Paper No. 5743, 2011.

Recommendation 1.4: The implementation of education reforms should be accelerated - and especially the reshaping of curricula, the introduction of work-based learning and the improvement of teachers' training -to make education pay for all

The fact that the quality of education appears to be improving only slowly is due partly to the complexity of curriculum reform and partly to the economic structure of the country, still reliant on micro enterprises and the operations of certain economic sectors (trade and other services).

Education programmes, therefore, should strive to achieve a balance between technical, vocational and general subjects to respond to the needs of a changing labour market (see Box 2.5. below).

Box 2.5: Curriculum reform in Poland

The 1999 education reform in Poland changed the structure of primary and secondary education and introduced a new curriculum.

The primary cycle lasts six years, followed by three years of comprehensive lower secondary school for all students, before a vocational tracking decision is made. By delaying the vocational stream choice by one year and shortening the duration of this track by another year, Poland revamped its secondary education system to make it more suitable for the competencies needed by a knowledge economy.

In 2008, the national core curriculum for general education and school vocational training programmes underwent further reform. The new curriculum aims to shift from narrow, subject-related requirements to more general, transversal skills defined by learning outcomes. The focus is now on experiments, scientific inquiry, problem-solving, reasoning and collaboration. The learning outcomes determine the examination standards, which also shifted from assessment of knowledge to evaluation of more general skills. The new curriculum framework for general education sets the same programme requirements for the first grade of all types of upper secondary schools (vocational and general). In vocational education and training, a new classification of occupations was adopted in consultation with the social partners. Each occupation is divided into a specific set of partial qualifications which are the subjects of validation and certification through exams organised by the Examination Boards. Partial qualification exams can be taken by students during their studies or by adults who gained experience through practice or who have completed out-of-school courses. The new regulations also increased the autonomy of schools to develop their own sets of programmes. Schools were granted flexibility in managing the instruction time defined for subjects in the curriculum framework, the only requirement being the attainment of the outcomes defined in the national curriculum.

▶ Source: World Bank, Successful education reform: Lessons from Poland, World Bank Knowledge Brief, Vol 34, 2010;

This should be accompanied by work-based learning for vocational students (i.e. the practical application of the skills learnt in a real work setting) and internship opportunities for university students (Box 2.6). The availability of post-secondary (non-tertiary) vocational education programmes (one-two years) would provide students with general secondary education, not progressing to tertiary level, the possibility to enter the labour market with recognized qualifications. These actions, combined with the introduction of career education starting from the 9th grade, would shift students' tracking decision and improve skills matching and labour market opportunities for youth.

Box 2.6: Making education relevant for the world of work

A common curriculum that equips all students with core employability skills and delays tracking (general/vocational) to upper secondary education can contribute to quality and equity. Inequality in learning outcomes decreased in countries with a comprehensive system (e.g. Canada, New Zealand and Turkey). In Poland, delaying school tracking by one year led to an increase in students' performance and a significant decrease in the share of low performing students enrolled in vocational schools, (from 21.4 per cent to 15 per cent in three years). Core subjects undertaken by all students include languages, sciences, social studies and practical subjects. These latter are not only focused in providing students with occupational skills, but also at fostering transferable skills.

A strong link between technical and vocational education and labour market needs. It is no longer sufficient to educate young people to meet current needs; public policies should anticipate skills needs and align education and training provision with the changing needs of the labour market. In countries undergoing rapid structural change, short-term sectoral skills forecasts based on employers' surveys may be particularly useful for providing up-to-date information about current demand.

Combining vocational subjects with work-based learning opportunities. In many countries employers consider work experience the most important criterion for recruitment and if students have the possibility to combine school-based education with periods of work experience (apprenticeship and internships), they can accelerate their transition to work. If not managed, however, both apprenticeship and internship can exacerbate inequalities. In Europe, for instance, around 50 per cent of all internships are unpaid. Most young people, therefore, rely on parental support to undertake this form of work experience, effectively excluding youth who cannot afford these costs.

Career counselling and guidance can help young people take informed decision about school and work. In developed countries, the challenge is to provide sufficient resources and quality of service delivery. Although many schools offer career counselling, it tends to focus more on education decisions than on occupation choices. In countries where there is no career education, initiatives such as career fairs, school visits to workplaces and partnerships with local employers have shown positive results.

▶ Source: UNESCO, Youth and skills: Putting education to work, Education for All (EFA) Global Monitoring Report, UNESCO, Paris, 2012

The competence of teaching staff is – together with curriculum reform – is one of the key features of quality education systems. Recent reforms in European countries in this area have focused on new qualification standards, career progression and revision of salary scales to make the profession more attractive (Box 2.7).

Box 2.7: Teachers' training in Europe

The Netherlands introduced the Teachers' Programme 2013-20 (Lerarenagenda) to improve the teaching profession and promote excellence in education. The main points of the programme are: 1) attracting high performing students into teacher training programmes; 2) improving teacher pre-service programmes; 3) providing development pathways; 4) developing support for teachers at the start of their careers; 5) developing schools as learning organisations; 6) helping teachers maintain and develop their skills and qualifications; and 7) sustaining a teachers' professional organisation.

The revision of career progression paths and the increase of teachers' salaries have been a common policy trends in a number of OECD countries. In 2013, for instance, Sweden, Estonia and the Slovak Republic increased teachers' salary in compulsory and upper secondary school, with a view to attract more qualified individuals toward the profession.

▶ Schleicher, A. (ed.), Preparing teachers and developing school leaders for the 21st Century: Lessons from around the world, OECD, Paris 2012.

The actions outlined above should also be complemented by the further development of the education information system. This would: i) provide information on the relevance of educational outcomes (tracking system and tracer studies to verify the labour market status of students exiting the education system) and enrich career education choices; and ii) set the stage for setting up an early warning system for student at risk of poor outcomes.

Box 2.8: Education Information Management Systems

In the Netherlands, each student has a unique reference number administered by a nation-wide system (Basic Record Database for Education, BRON) that tracks the progression of all pupils. Youth registered on the BRON system as being of compulsory school age but not attending education or training and not holding a basic qualification are classified as early school leavers. The BRON system captures a broad range of variables (including age, gender, place of residence, ethnic origin, education and school type). Aggregate data is available at national, regional and local levels and for each individual school and training institution.

The Estonian Educational Information System (EHIS) is a national register that, since 2005, consolidates information on the education system, including information on institutions, pupils, teachers, graduation and curricula. Local governments can use this system to access information on the pupils living in their territory, and on those who moved to another area. The register tracks each student's education career and it is linked with other web-based data management systems (health and social insurance funds, VET and higher education system, unemployment fund). In the next few years the EHIS will start collecting data on output and impact indicators to measure performance of graduates in the labour market.

In Luxembourg, a digital national pupil register and a systematic procedure developed by the Ministry of Education with the services of the Local Action for Youth (Action Locale pour Jeunes, ALJ) is able to identify young people leaving school without a diploma. Monthly lists are produced which are then used by ALJ to follow-up on early school leavers and provide individualized assistance to return to education or enter the labour market.

Portugal has a national database (Sistema de Informação e Gestão da Educação e Oferta Formativa, SIGO) that collects, on a monthly basis, information on students (age, special needs), on parents (profession and employment status as well as education level) and on student activity (absences, class, school year, evaluation). Data is accessible at individual, school, regional and national level and is delivered on a business intelligence system that supports school managers and other decision makers. This information system is being upgraded (Sistema Integrado de Gestão dos Alunos, SIGA) to manage data of the whole education and training system (including private schools and universities) and to exchange data with the unemployment and social security register to measure labour market outcomes of students leaving the education system.

▶ Source: European Commission, Reducing early school leaving: Key messages and policy support, op.cit 2013; Lao-Peetersoo B., Introduction to the Estonian Education Information System (EHIS), Ministry of Education and Research of Estonia, 2014.

To summarize, the policy actions to be undertaken under this recommendation include:

- The modernization of the VET secondary and post-secondary curricula to embed vocational anon-vocational skills and work-based learning;
- The upgrading of teachers' recruitment and training processes to improve the quality of educational outcomes (already planned under the current education reform process);
- The regular monitoring of the relevance of education outcomes to labour market requirements (tracking system and tracer studies); and
- Researching feasibility of introducing a post-secondary, non-tertiary programme to help students to acquire vocational qualification or comply with the criteria to access university education[12].

The achievement of this outcome – under the potential primary responsibility of the MoE – should result in decreasing vertical mismatch rates and better employment outcomes for youth with different educational attainment levels.

12 This task will be undertaken also in light of the results that the new enrolment rules at university level (Applicable from 2017).

3. RECOMMENDATIONS TO PROMOTE THE QUANTITY AND QUALITY OF JOBS

One of the most important determinants of youth employment is the strength of the economy as a whole (i.e. the overall level of aggregate demand)[13]. There is a clear and negative short-run relationship between unemployment and output. This relationship is stronger for youth, which suggests that youth unemployment rates are more sensitive to changes in output[14].

Fiscal policy measures to support aggregate demand have different effects on employment on the basis of the channel used (cuts in taxes or public spending)[15]. A lowering of personal tax rates, for example, increase disposable income of consumers and increases consumer spending, but the effect is higher is the tax cuts target individuals at the bottom of the income scale. Personal income tax reductions have a larger effect on Gross Domestic Product (GDP) than other tax cuts (like taxes on consumption or on enterprises).

Similarly, an increase in government expenditures causes an increase in the demand of output (goods and services) of firms[16]. Firms will respond by employing more workers (and other factors of production) to meet the higher demand for their products and services. This, in turn, will expand national output and employment.

Box 3.1. Expansionary fiscal policies and youth employment

In response to the financial and economic crisis of 2008-09, most countries embarked on unprecedented levels of fiscal expansion. The size of the stimulus was particularly large in Asia and the Pacific (9.1 per cent of GDP), while Central and Easter Europe and Former Soviet Republics the stimulus equalled 4.3 per cent and in advanced economies 3.4 per cent of GDP. The fiscal packages implemented – albeit with different composition at national level – included: i) labour market measures; ii) transfers to low-income individuals and households; iii) infrastructure spending; iv) tax cuts; and, v) additional measures to boost the aggregate demand. Broadly speaking, advanced economies focussed mostly on tax cuts and labour market measures while developing and emerging economies invested more in infrastructure spending. Evaluation of country efforts reveals that countries that showed relatively better GDP and employment recovery had implemented bigger stimulus packages as a percentage of GDP.

In terms of employment, there are only some general estimates available, none focused specifically on young people. In United States, for instance, the stimulus is estimated to have created approximately 2.7 million jobs; while in Europe the effect of the fiscal package was insufficient to offset large job losses (the employment rate declined by 2.1. per cent between 2008 and 2009). In Asia, the V-shaped economic recovery helped most countries alleviate the unemployment levels. However, the quality of employment is diminishing and the fiscal stimulus measures appeared to have been ineffective in combating poverty. In Latin America and the Caribbean, the fiscal stimulus has helped ease the impact of job loss with unemployment decreasing in many countries.

Since 2010, the policy strategy has shifted its focus away from job creation and concentrated instead on cutting the fiscal deficit and reducing the size of government debt.

In European countries, cutting fiscal deficits was deemed essential for calming financial markets. In countries not overly affected by the crisis this remedy was applied for pre-emptive reasons: fiscal deficits were reduced to avert any negative reactions from financial markets. This approach was intended to pave the way for greater investment and growth, along with lower fiscal deficits. In reality, these measures – implemented in context of weak demand and banking deleveraging processes – failed to stimulate private investment.

13 Ball L. M., Leigh D., Loungani P., Okun's Law: Fit at Fifty?, NBER Working Paper No. 18668, January 2013.
14 OECD, Investing in Youth in Brazil, OECD, Paris, 2014
15 For a complete review of the effects of macroeconomic policies on youth employment see ILO, Decent work for youth: A training Package, ILO, Geneva 2016.
16 In economic theory, government spending (G) represents the purchasing of goods and services by the government for government uses (i.e. building roads, providing school services, buying equipment for defence and police). In the case of government transfers, the government gives individuals/households (consumers) money and consumers decide how to spend it. Government transfers work as a negative tax: when they increase, disposable income increase and the multiplier depends on propensity to consume and save.

Austerity measures resulted in weaker economic growth, increased volatility and a worsening of banks' balance sheets leading to a further contraction of credit, lower investment and, consequently, more job losses. This, in turn, adversely affected government budgets, thus increasing the demand for further austerity. Many emerging and developing countries –to compensate for weaker prospects for exporting to advanced economies – pursued a strategy of boosting domestic demand. But event in these countries, labour markets and investment have been affected by the global economic weakening, undermining the possibility for creating better jobs.

Empirical research shows that the increase in youth unemployment rates between 2009 and 2011 tended to be higher in OECD countries that underwent strong fiscal tightening measures. The results show that a one percentage point increase in the structural fiscal balance increased the youth unemployment rate by 1.5 percentage points.

▶ Source: ILO,EU and IILS, A review of global fiscal stimulus, ILO Geneva, EC-IILS Joint Discussion Paper Series No 5, 2011; ILO, World of Work Report 2012, ILO, Geneva 2012; Matsumoto M., Hengge M., Islam I., Tackling the youth employment crisis: A macroeconomic perspective, ILO, Geneva, Employment Working Paper Number 124, 2012; Ball L., Leigh D., Loungani, P., Painful medicine, Finance and Development, No 48(3), 2011.

Expansionary fiscal policies, however, may have negative consequences on the government budget balance (deficit). This is especially the case for tax cuts in countries where tax evasion and informality are widespread. But even countries that have little fiscal space available – i.e. those with persistent budget deficits and increasing public debt – may pursue moderately expansionary fiscal policies to promote employment if the measures pursue the double pronged objective to reduce the tax burden while expanding the tax base (i.e. fighting tax evasion and informality) and increase infrastructure investment.

Infrastructure investment is the single item that has the largest effect on employment and is exposed to lower trade-offs. This is due to the short-to medium-term effect of infrastructure investment on economic growth and employment (direct, indirect and induced job creation) as well as its aggregate supply impact (increase of capital stock).

In terms of sectoral growth, no country has achieved transformation without employing targeted and selective government policies to change the economic structure and boost economic dynamism. In successful country examples, the State has played a proactive role in building markets, nurturing enterprises, encouraging technological upgrading, supporting learning processes, removing infrastructural bottlenecks to growth, and providing finance (Costa Rica, Brazil and East Asian countries). Traditionally, manufacturing has been the leading sector in structural transformation. Growth in manufacturing creates new jobs and, given the higher productivity of the sector, these jobs tend to have better quality with higher wages. The job multiplier effect of industry on the overall economy, however, depends on the average wages and labour conditions in the sectors that are more strongly linked with it.

But sectoral policies may entail a number of trade-offs. For instance, the transformation of the agricultural sector is typically centred on increasing productivity, which leads to employment losses, rather than gains. Similarly, the tourism sector has a high youth employment potential, but it is also one of the sector more exposed to informality and poor working conditions. In countries where economic and sectoral development policy options are limited, the improvement of the investment climate is often pursued as a means to promote employment growth. These policies should focus on key constraints in enterprise set-up and growth. These often relate to access to credit, the rule of law, the unfair competition exerted by firms operating in the informal economy and tax administration (rather than on tax rates).

As shown in Chapter 1 of this paper, certain areas of the investment climate in Montenegro have improved in recent years, but much still remains to be done to ease enterprise establishment and growth, the provision of financial and non-financial services to enterprises and the reduction of administrative burden.

The policy outcomes to be pursued, therefore, revolve around: i) maximizing the job creation potential of infrastructure investment and public procurement actions; ii) the development of a package of incentives to boost job creation; iii) the enactment of measures to improve working conditions in job-creating sector and reduce informality.

Recommendation 2.1: Prioritize analysis of investment policies prioritize and their impact on employment and knowledge development

The authorities are seeking to accelerate growth also through new infrastructure projects (the Bar-Boljare highway that will connect the seaport of Bar to Serbia).

Given the well-documented benefits of infrastructure development projects on employment, it is expected that this investment will create a number of direct, indirect and induced job places (see Box 3.2). Precise estimates are not available, but this job creation potential may have limited effect on employment, if not well managed. Often, in fact, the fall-out of infrastructure investment on local employment is minimal, if individuals do not have the skills and experience demanded by the enterprises engaged in infrastructure development projects or when the working conditions are not attractive for the local workforce.

To maximize the benefits of infrastructure development projects (and, in general, public procurement) it is necessary to include in the awarding procedure a number of additional criteria (for example the overall number of jobs that will be generated for the local workforce and vulnerable groups; the value added the project will bring in terms of acquisition of knowledge, technology and management practices). This will ensure that public investment pays off not only in terms of capital stock (its long-term effect on aggregate supply), but also in terms of short-term aggregate demand increases. Moreover, and once the infrastructural investment has been approved, it is necessary to : i) identify the skills and occupations that will be required in the short term by firms engaged in the infrastructural project (direct job creation); industries supplying equipment and material (indirect job creation); and enterprises producing the consumer goods that will be demanded by the workers employed by the other two sectors (induced job creation); ii) deliver training programmes for youth for the occupations related to the infrastructural development project and industries supplying material and equipment; and iii) provide incentives to enterprises for the recruitment of young workers (targeted reduction of non-wage labour costs).

Box 3.2. Effect of public investment on employment: Country experiences

In United States, a newly released report examines the impact of infrastructure investment on overall economic activity and job creation according to sources of financing (government debt, tax increases and cuts to government transfers) and type of investment (energy efficiency investments and traditional infrastructure projects in transportation and utilities). The data shows that the largest short-term boost to gross domestic product and jobs comes from financing new investment in traditional infrastructure through new government debt (3 million net new jobs by the end of the first year, with the increased levels then sustained over the seven-year life of the investment). The research also found that the jobs created would be skewed towards men, adult workers (25 years and older), and workers with less than four-year university education. Young workers would fill between 7.4 and 9.5 per cent of the new jobs generated by the infrastructure investment (due to their lack of construction and manufacturing skills).

In Europe, the European Commission and the European Investment Bank launched a three-year Investment Plan to support economic growth and job creation. The Plan targets infrastructure (broadband and energy networks) as well as transport infrastructure; education, research and innovation; renewable energy; and small firms and ventures that employ young people. According to the estimates, the Plan has the potential to add € 330-410 billion to Europe gross domestic product (1 percentage point each year) and create approximately 1.3 million new jobs in three years.

In Latin America, the direct and indirect short-term employment generation potential of infrastructure capital investment projects was estimated at around 40,000 annual jobs per US$1billion investment, depending upon such variables as the mix of subsectors in the investment program; the technologies deployed; local wages for skilled and unskilled labour; and the degrees of leakages to imported inputs. Within the various sub-sectors of intervention (energy, water management, sewage system), highway construction is the one that generates most jobs, due to the spending of workers employed directly and those employed by industries supplying construction material and equipment.

In the Middle-East and North Africa (MENA) region, infrastructure investment is a potential source of immediate jobs and a boost to long-term growth and employment. In addition to employing one-fifth of the regional workforce (over 18 million individuals), the infrastructure sector has the potential of creating, in the short-run, 2.5 million direct and indirect infrastructure-related jobs just by meeting the estimated annual investment needs (US$1 billion). In the long-run, the employment response induced by infrastructure investment equal to one percentage point additional growth is 9 million jobs over ten years.

A research on the effects on growth and poverty of an increase of 20 per cent in the ratio of public infrastructure investment to GDP in China shows that output would be 4 percentage points higher as a result of improved long-run productivity, while the national poverty headcount ratio (at the international line of USD 1.25 per day) would be 2 percentage points lower. The poverty reducing effects of infrastructure investment largely arise from increasing wages.

▶ Source: Bivens, J., The short- and long-term impact of infrastructure investment on employment and economic activity in the US economy, Economic Policy Institute, Briefing Paper 374, Washington D.C. 2014; European Commission; European Investment Bank, The Investment Plan: Questions and answers, Brussels, 2014; Estache A., Ianchovichina E., Bacon R., Salamon I., Infrastructure and employment creation in the Middle East and North Africa, World Bank, Washington D.C., 2013; Zhang Y., Wang X., Chen K., Growth and distributive effects of public infrastructure investments in China, Partnership for Economic Policy, Working Paper 7, 2012; Schwartz J. Z., Andres L. A., Dragoiu G., Crisis in Latin America: Infrastructure Investment, Employment and the Expectations of Stimulus, World Bank, Policy Research Working Paper 5009, World Bank, Washington D.C., 2009

The policy actions to be undertaken, therefore, include: i) the refinement of public procurement eligibility criteria to take into account the likely impact on employment, technology and knowledge building; and ii) the availability of training programmes as well as hiring incentives to boost youth employment through infrastructural projects.

The implementation of this recommendation is a shared responsibility among the Ministry of Economy, the Ministry of Finance, the MLSW and EAM. Its achievement should result in better employment outcomes for youth (measured in terms of employment and unemployment levels by occupation and lower informality rate).

Recommendation 2.2: Create a package of incentives to promote the capacity of enterprises to generate jobs for youth

In the last five years, Montenegro has improved the institutional, regulatory and operational environment for small and medium size enterprises (SMEs). Technical standards were harmonized with the EU acquis, business registration requirements were eased, tax payment procedures were simplified and financial instruments to promote innovation were introduced (see Box 3.3)[17].

Box 3.3. What makes a country competitive?

Switzerland topped the Global Competitiveness Index 2015-16 for the seventh consecutive year. The country leads the innovation pillar, thanks to the quality of its research institutions, high spending on research and development by companies and strong cooperation between the academic world and the private sector. The other factors that contribute to Switzerland's innovation system include the level of business sophistication and the country's capacity to nurture and attract talent. The country has an excellent education system and an efficient labour market, with high levels of collaboration between workers and employers and a good balance between employee protection and flexibility. Swiss public institutions are highly effective and transparent and competitiveness is further promoted by good infrastructure and connectivity as well as highly developed financial markets. Last but not least, Switzerland's macroeconomic environment is among the most stable worldwide at a time when many developed countries continue to struggle in this area.

The Global Competitiveness Index places Germany among the five most competitive economies in the world, due to the efficiency of the labour and financial markets and an improving macroeconomic environment (positive budget balance and reduction in government debt at 73 percent of GD). The country leads in the more complex areas of competitiveness, namely businesses sophistication and use of latest technologies in the production process. The country's innovation system is characterized by high levels of company spending on R&D and a supportive research environment, including business collaboration with universities and strong scientific research institutions. This is supported by good quality on-the-job training, high readiness to adopt new technologies, and successful use of ICTs.

The Netherlands scored fifth in the global ranking, thanks to a generalized improvement in areas such as education, infrastructure and institutions. The Dutch economy remains one of the most sophisticated and innovative in the world, with an open and efficient goods market. Although its macroeconomic environment improved, the Netherlands has yet to recover from the bursting of its domestic real estate bubble in 2009, which left it with the highest household debt in the eurozone and GDP levels still below those of 2008.

▶ Source: World Economic Forum, Global Competitiveness Report 2015-16, Davos, 2016.

Despite the progress highlighted above, there are still a number of barriers to private sector development, which will need to be addressed to improve overall competitiveness.

First, some administrative procedures (especially for obtaining permits and licences and paying taxes) remain costly and time-consuming. The possibility for firms to file taxes online and the further simplification of administrative requirements would reduce the cost of doing business especially for micro and small firms.

17 For a review of recent investment climate reforms see OECD, SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe, OECD Paris, 2016.

Second, by failing to comply with existing regulations, firms in the informal economy are often able to undercut the market share of formal firms, even when they use inefficient production techniques. As a result, formal firms are less able to fully exploit economies of scale, limiting their growth and productivity. Policies that place firms on equal footing can increase competitive intensity and productivity. Competition authorities can play an important role in this process by identifying overly burdensome labour, tax and product regulations, which encourage firms to operate informally and can co-operate with other government agencies to strengthen enforcement.

Third, access to credit remains difficult for small enterprises with limited credit history. The approval of reforms for leasing, factoring and export financing would encourage the use of these financing options.

Fourth, the availability of quality non-financial support for SMEs (including training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion) needs to be further strengthened.

Finally, the participation in global value chains can improve the growth, efficiency and innovation capacity of small firms, but this process needs to be supported by quality services to: i) identify firms' competitive strengths, ii) upgrade in-house technology, iii) comply with strict product quality standards; and iv) take up larger and more complex sets of tasks (see Box 3.4). In addition, cluster initiatives allow for economies of scale as well as developing an experienced pool of skilled labour and a network of firms cooperating in complementary areas. By doing so, they strengthen their competitive advantages and become attractive sites for Foreign Direct Investment (FDI).

Box 3.4. Cooperation within value chains in the tourism sector

In Austria, about 99 per cent of all establishments in the tourism sector are SMEs of which more than 90 per cent employ less than 10 workers. The increasing global competition has prompted half of these SMEs to initiate or to join an inter-company co-operation venture. Approximately 97 per cent of these ventures involve co-operation in the fields of marketing, advertising and distribution, while 26 per cent realise savings by joint cost management measures (joint purchasing or joint investments, collaboration in the allocation of staff members for administrative, accounting or controlling tasks, etc.). More than two thirds of the co-operation ventures insist on compliance with specific quality criteria by all partner establishments.

In the Australian tourism industry, the Internet proved to be an opportunity as well as a threat for SMEs. Some firms have benefited, as it has allowed them to enter the value chain, make themselves known and compete and interact with the larger firms. The internet has enabled SMEs to market their service worldwide without relying on and paying commission to third parties and has also created an opportunity for niche travel agencies that provide high-level customised service for tourists requiring complex arrangements. But the internet has also impacted negatively retail travel agents and hotel operators. The shortening of booking periods has made it hard for forward planning, cash-flow, staffing and other related measures. Furthermore, prospective travellers have expectations of technology being factual and up-to-date which makes it important for SMEs to ensure that Internet sites are up-to-date, fast and with good links.

▶ Source: OECD, Enhancing the Role of SMEs in Global Value Chains, OECD, Paris, 2008

In countries where non-wage labour costs are too high, their reduction has increasingly been considered as a tool for reducing unemployment and informality, especially among youth. A number of reasons are typically put forward to explain a high level of labour taxes, including: (i) high social security contributions to finance social transfers; (ii) high reliance on labour taxes to finance overall public spending; and (iii) a narrow tax base (due to the low levels of formal employment), which requires higher taxes to cover social transfers. In Montenegro, it appears that at least two of these factors play a role in keeping labour costs high (see Table 3.1).

Table 3.1: Central Government revenues and expenditures, as percentage of GDP, 2015

Revenues	**40.4**	**Expenditures**	**39.9**
Taxes	25.2	Gross salaries and other personal	10.6
Personal income tax	3.6	Use of goods and services	4.7
Corporate income tax	1.3	Interest payments	2.4
Property taxes	0.4	Subsidies to enterprises	0.6
Value added tax	12.5	Other current outflows	1.2
Excises	4.7	Social security transfers	13.7
Taxes on international trade	0.6	Other transfers	6.2
Local government taxes	1.8	Repayment of guarantees	0.0
Other taxes	0.2	Reserves	0.4
Social security contributions	10.9		
Nontax revenues	4.1		
Grants	0.3		

▶ Source: IMF, Montenegro: 2015 Article IV Consultation, IMF Country Report No. 16/79, IMF, Washington D.C., 2016

First, social security contributions represent the second largest source of revenues in the country, after the Value Added Tax (VAT). These revenues, however, are outpaced by social security outlays (amounting to 13.7 per cent of GDP). Second, revenues from social security contributions represent three and eight times those collected on personal and corporate income, respectively (pointing to a narrow tax base).

An analysis of labour costs in the countries of Central and Eastern Europe found that youth unemployment tends to be higher in countries where payroll taxes are higher[18]. This is confirmed by a research on social security-driven tax wedges in Russia and Ukraine, which estimates that a 10 per cent reduction of the tax wedge for low-skilled workers would result in 6 per cent employment growth and reduce informality, more widespread among young workers compared to adults[19].

Country practices show that there are three main means to lower non-wage labour costs: i) improve system efficiency by revising eligibility criteria, limiting system abuse, strengthening revenue collection, and reducing informality (see also next policy option); ii) limit the insurance-based portion of the social

18 Cazes, S., Nesporova, A. (eds), Fleksigurnost: Relevantan pristup u Centralnoj i Istočnoj Evropi. Ženeva, 2007
19 M. Gora et al, Poreski klin zasnovan na socijalnoj sigurnosti i njegovi efekti na zapošljavanje i neformalno zapošljavanje, Njemački institut za ekonomska istraživanja, DIW, Berlin, 2008.

protection system by moving to general tax-financed universal benefits (this could be done, for example by moving health insurance to the universal system and fund it with general revenues); and iii) reduce payroll taxes (via hiring subsidies) for low skilled and young workers, thus making their recruitment more attractive for employers[20]. Targeted tax reductions have been implemented in a number of countries, including Belgium, France, and the Netherlands (see Box 3.5). These programmes, however, need to be carefully designed to minimize deadweight, substitution and stigma effects.

Box 3.5. Payroll tax cuts and employment subsidies in Sweden, Canada and Turkey

To address the effects of the global economic crisis on youth employment, Sweden introduced a large scale labour tax reduction targeting youth. The tax rate for employers hiring young workers was reduced in two steps. The first reduction lowered the payroll tax rate by 11 percentage points for employees who, at the start of the year, had turned 18 but not 25 years of age. In 2009, the reduction was extended to encompass all individuals who at the start of the year had not yet turned 26 years of age. At the same time, the rate was reduced with an additional 6 percentage points for the eligible individuals. Lowering payroll taxes for young workers has a small impact on employment. For the whole target group, the relative employment increase was around 2.7 per cent in 2007 and 1.4 per cent in 2008. For 25-year-olds, the effect was roughly one per cent, both in 2007 and in 2008. Furthermore, there is no evidence of any additional effect on employment of the 2009 extended reduction. The tax cut had no impact at all for foreign-born individuals, or for individuals registered as unemployed. One reason is that, for the group of uneducated, inexperienced young workers, labour costs are still too high, even with the payroll tax reduction in place.

The Youth Hires programme in Canada temporarily decreased the labour costs of hiring young persons (aged 18 to 24) by about 3.5 per cent in 1999–2000. This subsidy came in the form of an automatic refund of employers' contributions to the unemployment insurance fund. The evaluation found a 3.5 per cent increase in the employment rate of the target group, relative to the control group (aged 25 to 29). However, there was also evidence that the increase in young persons' employment came at the expense of these slightly older individuals. Hence, the net impact of the tax reduction was probably closer to 2.5 per cent.

The Employment Package of 2008 in Turkey included a generous subsidy for youth (aged 18 to 29) who had not been formally employed during the preceding six months in the form of a reduction of employers' payroll taxes. The subsidy applied exclusively to new hires that increased firms' employment, and it lasted for five years, covering initially all payroll taxes – equivalent to about 15 per cent of labour costs – and subsequently decreasing in five annual steps to zero. The evaluation found a positive impact on formal employment (4 per cent increase) in employment probability for eligible youth. This increase is mainly due to youth moving from unemployment and inactivity into formal employment. Only about one-quarter of the impact was due to employers formalizing informal workers. The impact of the programme over a two-year period presents positive results as it increased the hiring rate of youth (aged 25 to 29) by 1.3 percentage points.

▶ Source: Egebark J., Kaunitz N. Do payroll tax cuts raise youth employment?, Institute for Evaluation of Labour Market and Education Policy (IFAU) Working Paper 2013/27; Webb M., Sweetman A.,; Warman C., How targeted is targeted tax relief? Evidence from the unemployment insurance youth hires program, Queen's Economics Department Working Paper, No. 1298, 2012.; Betcherman G., Daysal N. M., Pagés C. Do Employment Subsidies Work? Evidence from Regionally Targeted Subsidies in Turkey, IZA Discusssion Paper No. 3508, 2008

20 Gray C., Lane T., Varoudakis A. (eds), Fiscal policy and economic growth: Lessons for Eastern Europe and Central Asia, World Bank, Washington D.C. 2007

To stimulate youth employment, therefore, three range of intervention will be pursued:

- Remaining red tape barriers will be identified and addressed to help firms growth and generate new job places;
- Firms creating new jobs will be provided with a fast track access to publicly-funded financial and non-financial services, and
- The EAM may provide a package of incentives aimed at reducing the cost of hiring young workers and at providing them with the skills required to carry out job tasks (mix of on-the-job training and hiring subsidies). Priority will be giving to youth with low-skills, longer unemployment spells or facing additional barriers to labour market entry. Hiring subsidy, in addition, will be made more generous for firms investing in youth employment in less developed regions.

The implementation of this recommendation will be under the responsibility of the Ministry of Economy, the Ministry of Finance, the MLSW and EAM. Its achievement should result in an improving competitiveness ranking for Montenegro (World Competitiveness Index); as well as better employment outcomes for youth (measured in terms of employment and unemployment levels and lower informality rate).

Recommendation 2.3: Enact measures to improve conditions of work and fight informality to improve the quantity and quality of jobs available for youth

The Employment and Social Reform Programme (2015-2020) notes that a large number of seasonal jobs are generated each year in Montenegro (around 20,000), but these are mainly taken up by foreign worker. This occurs because most of these jobs are characterized by poor conditions of work (low earnings, long hours and limited job tenure and career opportunities). To improve the attractiveness of jobs in priority economic sectors (tourism, agriculture and energy) a number of steps are required. First, it is necessary to map all the occupations that are usually provided by these economic sectors and assess the types of jobs available (see Box 3.6 for the items that could be considered for benchmarking the quality of jobs).

The second step is to understand what drives employers to offer sub-standard conditions of work (low profit margins, workers' productivity, management practices and so on). The third and final step is to engage in social dialogue to progressively improve conditions of work (mainly earnings, hours of work, labour market security and safety at work).

Box 3.6. Measuring the quality of jobs

Job quality has attracted increasing interest in academic, statistical and policy circles, and various measurement frameworks have been developed over the last decade by international organisations, such as the ILO, UNECE, Eurofound and the OECD. In all these frameworks, four items emerge as key for the definition of quality jobs:

Earnings: The first dimension of job quality relates to earnings as they contribute directly to workers' material well-being. To understand whether a job fulfil this quality criterion one can benchmark the average monthly wage the job pays against: i) the minimum wage, and ii) the national average monthly wage. If the wage level of the job under assessment is below the minimum wage, or below or at 2/3 of the average wage (i.e. it is a low-paid job), the job does not fulfil quality criteria.

Hours of work: under this criterion there are two measures that are useful to understand whether the job under assessment is decent, namely: i) usual hours worked (per week) and ii) excessive hours of work (i.e. more than 48 hours worked per week). The usual hours of work of the job under scrutiny should be in line with the national average of hours usually worked (as measured by the Labour Force Survey) and be lower than the threshold established at international level for excessive hours of work (48 per week).

Labour market security: Insecurity in the labour market is related to: i) the risk of becoming unemployed, ii) the expected duration of unemployment, and iii) the degree to which unemployment benefits compensate for lost earnings during unemployment. The first indicator requires calculations on the monthly inflows of individuals into unemployment (i.e. the availability of monthly Labour Force Surveys), for which there is no data currently in Montenegro.

The expected duration of unemployment is given by the formula: Expetected duration=(Stock of unemployed)/(Inflows into unemployment). In Montenegro the expected duration of unemployment is 36.3 months, while the unemployment benefit is accessible to workers that have been continuously and formally employed for at least 12 months (or 18 months with breaks), is available for a maximum of 12 months (for workers with at least 25 years of work) and the level of the benefit is set at 40% of the minimum wage (or €77, well below the poverty line of €186.45). In short, labour market insecurity is a common feature of all jobs in Montenegro, but one can consider that jobs that preclude workers the possibility to access the unemployment benefit (i.e. all jobs with tenure below 12 months, or informal jobs) are not to be consider of sufficient quality.

Safe work environment: This criterion can be measured through the data of the Inspectorate, (rate of fatal and non-fatal accidents on yearly basis) on the occupation of interest.

▶ Source: ILO, Decent Work Indicators: Concepts and Definitions, ILO Manual, First edition, Geneva, 2012; Cazes, S et al., Measuring and Assessing Job Quality: The OECD Job Quality Framework, OECD Social, Employment and Migration Working Papers, No. 174, OECD, Paris. 2015; Hijzen, A., Menyhert B., Measuring Labour Market Security and Assessing its Implications for Individual Well-Being, OECD Social, Employment and Migration Working Papers, No. 175, OECD, Paris. 2016

The School-to-Work Transition Survey revealed that nearly two third of all young workers (15-29) are engaged informally (i.e. 18,935 young workers). The loss to the State in terms of foregone taxes and social security contribution payments on a yearly basis ranges between €57.7 million (if all young informal workers are employed at the minimum wage) and €92.7 million (if all young informal working are earning at the average wage), or 1.6 to 2.6 per cent of the 2014 national output. This without accounting for the social costs that working in the informal economy entails for young workers (loss of productivity, skills deterioration, lower pension outlays, exploitation and poverty).

If the extent of informality were to be reduced, this would free fiscal space to implement most of the reforms that are needed to support private sector development, reduce the tax wedge, promote overall and youth employment and ensure adequate levels of social protection.

The experience of countries that succeeded in increasing the pace of formal job creation shows that this is generally the result of a combination of a number of policies – as well as demographic factors. In Brazil, for example, the rising formality of the 2000s was due to: i) macroeconomic policies that pursued inclusive growth (i.e. redistributive measures and expansion of the social safety net to reduce inequality); ii) demographic shifts and education policies have reduced the supply of youths in the labour market, who typically occupy precarious jobs (the Bolsa Familia is a household cash benefit conditional on children attending school); iii) micro-level policy interventions that changed the behaviour of firms and individuals (introduction of the SIMPLES law, which simplified and lowered taxes for small- and medium-sized enterprises, improved labour inspection as well as greater awareness about workers' rights among young workers). The SIMPLES law introduced a progressive tax structure (which taxed companies at differentiated, but reduced rates according to their gross sales) and the use of a single form for the collection of state, federal and municipal taxes. The estimates on the impact of this legislation show that it contributed to the formalization of close to 500,000 micro enterprises in the span of five years, accounting for 2 million jobs[21].

Research in other countries has shown that informal employment responds more to the strength of enforcement and to a lesser extent to tax rates. There are, however, differences across countries and sectors. In Asian counties, for instance, informal employment in the service sector responds to both changes in tax rates and enforcement, while manufacturing informal employment responds only to enforcement[22].

Improved labour inspection in Brazil, for example, was not due to an increase in the number of labour inspectors, but rather to changes in the incentive structure as well as new methods for meeting inspection targets. The reform introduced a bonus system by which a substantial percentage of inspectors' salaries were tied to individual performance targets as well the total performance of the labour inspectorate. The new system made explicit the goal of formalizing workers, the collection of employer contributions as well as the number of workers covered in inspection. The reform also envisaged the development of teams of inspectors dedicated to tackling specific problems, usually tied to a particular sector. The objective was not merely to inspect and sanction, but rather to find ways to work with firms so that they could address the problem at hand, be it informality or work accidents.

Applying this finding to Montenegro (where the service sector prevails and where most informality is likely to occur) would require: 1) a reshaping of the tax administration system for micro and small enterprises (focusing more on the simplification of the administrative procedures, rather than on rates); and 2) a strengthening of the inspection system[23].

The improvement of conditions of work and the fight against informality are a joint responsibility of the MLSW, the MoF, the social partners and the General Inspectorate. The implementation of this recommendation will result in lower informality and better employment opportunities for youth.

21 Berg J., Laws or luck? Understanding rising formality in Brazil in the 2000s, ILO Brasilia, 2010.
22 Ihrig J., Moe K. S., Tax Policies and Informal Employment: The Asian Experience, Asia Economic Journal, Vol. 15, 2001.
23 These two policy actions are in line with the recommendations of the 2016 Human Development Report, centred on informal employment. See UNDP, Informal work: from challenge to solutions, National Human Development Report, Podgorica 2016

4. RECOMMENDATIONS TO IMPROVE THE DESIGN OF ACTIVE LABOUR MARKET POLICIES TARGETING YOUTH

Young people entering the labour market face a higher risk of unemployment than older individuals, are more likely to switch between unemployment, training and working, and are more likely to enter temporary or precarious types of employment. The negative consequences of extended unemployment spells early in one's career are well documented. Unemployment is directly associated with financial hardship, psychological distress and social exclusion, whilst early unemployment spells have negative effects such as lower future wages, lower labour market attachment, and a higher propensity to engage in criminal activities[24].

The immediate monetary costs of youth unemployment accruing from youth neither in education nor in employment (NEET) in European Union countries were estimated at around one per cent of GDP annually[25]. This is why policy makers in many countries have increasingly used active labour market policies (ALMPs) as a tool to smooth the school-to-work transition process, prevent extended spells of unemployment or the complete withdrawal from the labour market, and promote entry into stable employment relationships[26]. This is evidenced by the increasing share of young (15-24) unemployed who are referred to ALMPs in Europe (from less than 20 per cent of total participants in the late 1990s to nearly one third of all participants, with peaks of 40 per cent in countries most affected by the global economic crisis, like Spain, Portugal and Ireland)[27].

There are large differences in the design of ALMPs across countries, particularly in the scope and type of interventions and the resources invested. Training programmes, job subsidies and entrepreneurship incentives exist in most countries and they often target young people. Countries in the Organization for Economic Co-operation and Development (OECD) allocate the larger share of available resources to public employment services and training programmes. This reflects the increased reliance on activation strategies, requiring unemployed individuals or social benefit recipients to actively search for jobs and participate to programmes aimed at their labour market re-integration.

But irrespective of the type of interventions deployed and the resources allocated, active labour market policies are not always successful in increasing employment probabilities and earnings, and especially so for young people. The evaluation of youth employment initiatives around the world shows that the most effective interventions are those that offer a comprehensive package of services which are tailored to both the needs of young people and the requirements of the labour market. In addition, there are three additional features that are crucial to improve the effectiveness of ALMPs for youth, namely early intervention, targeting and sound monitoring and evaluation.

Early intervention – i.e. the identification of risk factors and the deployment of support services at the very beginning of the unemployment spell–is often advocated as a means to avoid long-term unemployment among youth and the problems associated with it. The rationale is that as the unemployment spell increases, the young individual loses contact with the labour market, working habits weaken, skills deteriorate and job search intensity decreases. The longer the unemployment spell, the more intensive and complex (and, therefore, costly) the interventions that are necessary to help young jobseekers re-enter the labour market. One approach to avoid long-term unemployment among youth is to offer assistance to all as soon as the unemployment spell starts (or soon thereafter). This approach (universal provision), however, may generate deadweight losses as it provides assistance also to those young people who would be able to find a job on their own. It is also impractical in countries that have insufficient resources to provide assistance to all young people who need it.

24 See Goldsmith, A., Veum J., Darity W., "Unemployment, joblessness, psychological well-being and self-esteem: Theory and evidence" The Journal of Socio-Economics, No 26, 1997; Kahn, L. B., "The long-term labor market consequences of graduating from college in a bad economy" Labour Economics, 17(2), 2010; Gregg, P., "The Impact of Youth Unemployment on Adult Unemployment in the NCDS" The Economic Journal, 111(475), 2001; Bell B., Bindler A., Machin S., "Crime Scars: Recessions and the Making of Career Criminals" CEP Discussion Papers No1284, Centre for Economic Performance, LSE, 2014.

25 These costs do not include future costs and foregone payments due to the lowered labour market attachment in the long-run. See Eurofund, NEETs: Young people not in employment, education or training: Characteristics, costs and policy responses in Europe, Discussion paper, The European Foundation for the Improvement of Living and Working Conditions, 2011.

26 Caliendo M., Schmidl R., Youth Unemployment and Active Labor Market Policies in Europe, IZA Discussion Paper No. 9488, 2015

27 Ibid.

Today, the prevailing approach is targeting, meaning that the provision of employment assistance is differentiated across population groups, based on individual circumstances and the barriers faced in entering the labour market. The rationale for targeting active labour market policies is twofold: first individuals differ in their employability (e.g. their ability to obtain and sustain employment) and equity principles demand that support be provided to those who most need it; second, scarce resources need to be allocated as efficiently as possible to attain public policy objectives. Impact evaluation evidence shows that generalized programmes (i.e. based simply on the age criterion) are likely to carry high deadweight losses (i.e. participants would have found a job also without the intervention) and substitution effects (subsidized individuals replace others that would have been hired in the absence of the subsidy).

Finally, monitoring and evaluation systems are key to inform policy-makers about whether the outcomes of ALMPs warrant their costs and which interventions work better for which categories of young unemployed.

In terms of what works for youth, the findings of impact evaluation studies carried out in OECD countries in the last ten years highlight the following points:

- Counselling, guidance and job search assistance are effective for most young people (if labour demand is relative strong). These services increase the transition to employment (by 20 per cent) as well as the duration of employment (by 10 per cent). More frequent meetings with a caseworker increases job search intensity and transition rates to employment. Lower caseloads (to around the international benchmark of one staff every one hundred unemployed) increase the probability of youth moving into jobs. Job search monitoring is also effective, but sanctioning (i.e. the withdrawal of benefits in lack of active job search) tends to push young people in into jobs with lower wages and career prospects.

- The most effective way to deliver skills training is to mix training modalities and include additional support services. The interaction of in-classroom and workplace training increases the likelihood of positive impact by 30 percentage points, while adding also employment services increase the probability of positive outcomes by 53 percentage points. The duration of training courses should be based on the skill/occupational area, the level of skill participants already have and the different components of the training programmes. Programmes that are too long risk high locking-in effects.

- Hiring subsidies (both employer- and employee-side wage subsidies) tend to produce strong employment and wage effects, but also induce deadweight losses and substitution effects (from 20 to 70 per cent according to the design). These subsidies work better when they have a strong skills training component (to compensate for the initial lower productivity of young workers). Finally, the generosity of the subsidy (amount and/or duration) needs to be adjusted according to individual characteristics and local circumstances (higher amounts and/or longer duration in poorer regions or for different groups).

- Self-employment schemes are suitable for a small share of young unemployed (around 2 per cent). Participants are typically better educated individuals in their late twenties. In terms of impact, the measures that are more successful build on approaches tailoring support activities to individual needs and combine business and vocational training, financing, business developing service and mentoring.

In light of the above, there are three broad policy outcomes to be pursued to improve employment service delivery for youth, namely: i) the development of a dedicated employment service line targeting youth, grounded on profiling, early intervention and tiered service delivery principles; ii) the adjustment of the design and funding of youth employment programmes (and especially internship and hiring subsidies) on the basis of the findings of the LMIS and regular performance monitoring and impact evaluation exercises; and iii) the upgrading of services delivered to employers to expand the range of vacancies captured by the employment services.

Recommendation 3.1: Develop a dedicated employment service line, grounded on profiling, early intervention and tiered service delivery principles to target the needs of young people

Employment services are considered among the most cost-effective measures to help young people find jobs. The objective of these services – which include labour market information, job placement, counselling and guidance and job search training – is to reduce job search costs by "matching" enterprises looking for workers (labour demand) to individuals searching for jobs (labour supply) and vice versa. Today most of these services are provided through a combination of ICT tools and face-to-face interaction with practitioners of the Public Employment Services (PES).

The spreading of information and communication technology (ICT) has eased enormously the dissemination of labour market information and job search advice (through internet pages and IT-based applications). In many countries, the internet has become the primary means for job search, especially among young people. Impact evaluation research shows that young jobseekers (23 to 29 years old) using internet for job search have unemployment spell lasting on average 25 per cent less compared to individuals who do not use it[28]. Using the most common form of internet job search, – i.e. sending out resumes or filling applications – increases a worker's job-finding probability by about 20 per cent. Using the internet to contact friends and relatives for job search purposes raises the job-finding rate by 36 per cent.

But not all young jobseekers have the means, the access or the work-readiness skills needed to use ICT-based tools. Many still require individualized assistance and face-to-face mentoring to navigate the job market. This is why many countries have introduced a specialized line of employment services targeting youth. These service lines include both ICT-based tools (for independent job search) and individualized assistance provided by PES staff – specifically trained to assist young people or belonging to the youth group targeted. In Slovenia, for instance, the Employment Service trained 28 employment advisors from existing staff and hired an additional 40 for working with registered young unemployed. In Lithuania, more than 80 youth workers of the job centres were trained specifically to deal with youth facing particular risks. In Bulgaria, the Employment Service trained young people (predominantly from Roma backgrounds) to provide basic employment advice and mentor young people through their job search process.

There are two main difficulties in the delivery of employment services: (i) identifying –out of a large pool of young unemployed – those who are most "at-risk" in the labour market, and (ii) providing them with the "right" type of employment assistance, i.e. the combination of employment services and programmes that will ensure a successful (re)entry in the labour market. Four types of approaches are typically used by Public Employment Services to identify at-risk individuals:

- Eligibility rules: individuals are channelled towards re-employment support on the basis of compliance with certain criteria (for example age, educational attainment, length of unemployment spell). The advantage is that the development of clear-cut eligibility rules makes this system relatively cheap to implement. However, the approach is somewhat indiscriminate as the specific needs of individuals are overlooked.
- Caseworker's assessment: the caseworker (typically a staff of the Public Employment Service) uses his/her own judgment to direct the unemployed individual towards the type of intervention that the caseworker feels most appropriate. While such a process may be more responsive to individual needs, it is still highly subjective, more expensive to implement and difficult to evaluate.
- Screening: the caseworker attempts to score the individual's employability using psychological-based techniques, and, on the basis of the score attained, the young individual is directed towards specific interventions. This approach again relies on caseworker assessment and, therefore, is not fully objective.
- Statistical profiling: a numerical probability score based on individual characteristics determines the referral of an unemployed person to further assistance. Specifically, the score ranks each individual in terms of his/her risk of becoming long-term unemployed. The score is used (usually by the staff of the Public Employment Services) to identify those who are most in need of their assistance. The main disadvantages of statistical profiling is the quantity and quality of statistical data required to ensure the accuracy of probability risk; the initial costs of establishing the probability model and the periodic adjustment of the model to changing economic and labour market circumstances.

The matching of the young person at risk to the services and programmes most likely to achieve the desired labour market result – i.e. targeting – is done by the casework on the basis of his/her experience and the results of performance monitoring and impact evaluations of available services and programmes (see Box 4.1).

28 Kuhn P., Mansour H., Is Internet Job Search Still Ineffective? IZA Discussion Paper No. 5955, September 2011

Box 4.1. Identification of youth at risk in Portugal and the former Yugoslav Republic (FYR) of Macedonia

The profiling system used by the Instituto do Emprego e Formação Profissional (the Public Employment Service) of Portugal classifies unemployed individuals registered in a local employment office, into three categories (high risk, moderate risk and low risk), based on the probability of remaining in the unemployment register for 12 months or more. Individuals classified at low risk are those who have 20 per cent or less probability to become long-term unemployed; moderate risk individuals are those with a long-term unemployment probability ranging from 20 and 40 per cent and high risk individuals have a probability of 40 per cent and over to become long-term unemployed. The probability coefficients, different for men and for women, take into consideration age, educational attainment, work experience, unemployment history, geographical location, proximity to the labour market, disability, family situation and social benefits. For each category of jobseekers, there is a recommended list of services and programmes the casework may consider, as shown in the table below. The final assignment, however, remains at the discretion of the caseworker.

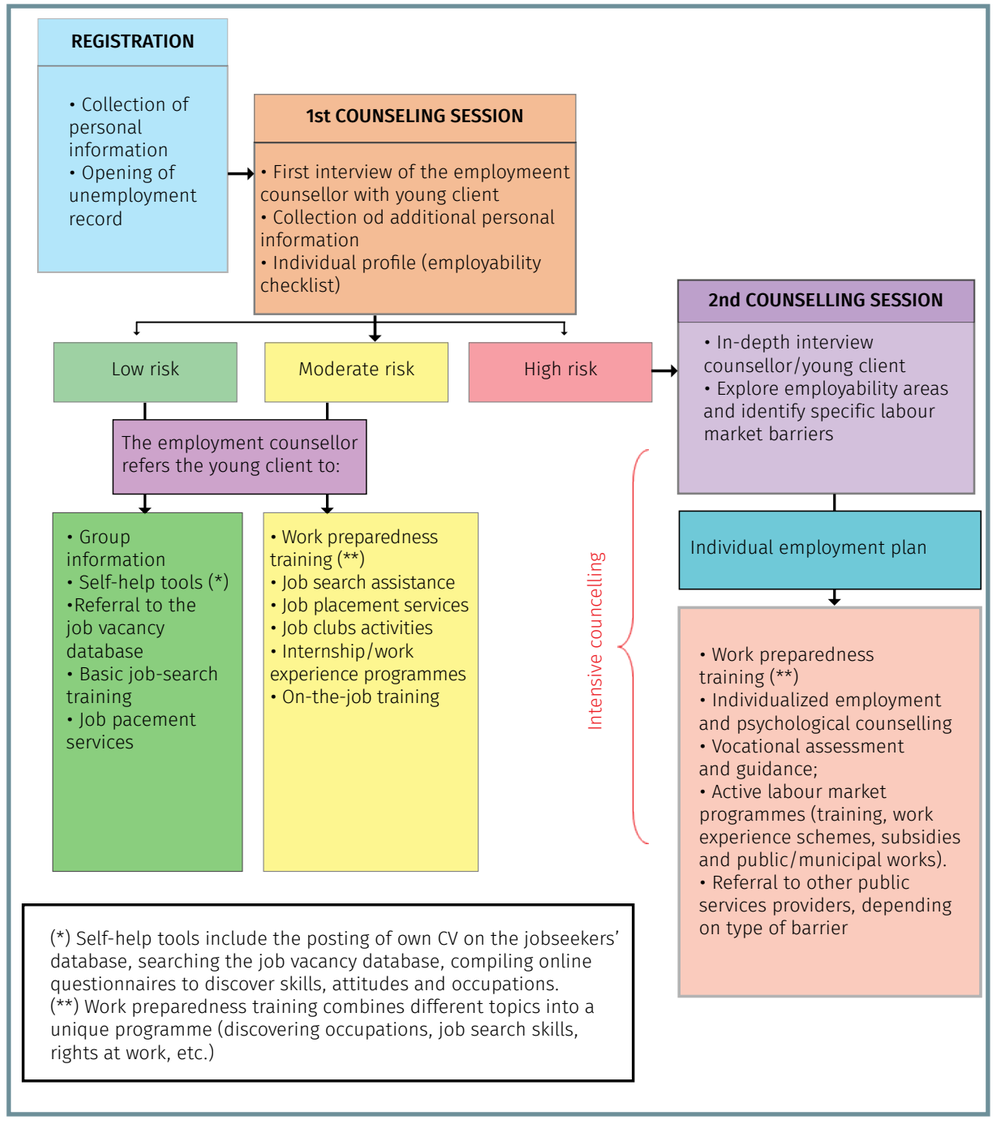
Profile	Probability of LTU
Low risk For this category, the recommended approach includes: job search training, job placement (home or abroad), motivation training, training to set up a small business and continuous vocational training.	≤ 20%
Moderate risk Individuals at moderate risk of long-term unemployment may be referred to all the services and programme already listed above, plus apprenticeship, internship, work experience programmes, job subsidies, vocational skills training (differentiated for target group), self-employment/entrepreneurship training and pre and post-placement mentoring.	20%-40%
High risk Individuals most at risk in the labour market may be referred to any of the services and programmes available to the first two categories of unemployed, plus core work skills and self-esteem training, intensive employment counselling and guidance, literacy and numeracy training, skills training including apprenticeship, job subsidies for new labour market entrants and community-based works.	≥ 40%

In the FYR of Macedonia, the Employment Service Agency introduced a new workflow for providing assistance to youth (15-29) at risk of poor labour market outcomes. This new workflow is based on the use of an Employability Checklist, divided into five key areas: education and training; vocational qualifications; workplace skills; job search and work-readiness skills and other factors. This checklist helps counsellors to categories young jobseekers into three groups (directly employable, with moderate barriers and facing significant barriers). To each category of young unemployed corresponds a specific sequence of employment services and programmes. Directly employable jobs seekers, for example, are referred to group information, self-help tools, basic job-search training and job placement services. Those facing significant barriers are referred to individualized and intensive counselling, individual employment planning with a view to select the most effective combination of services and programmes (including psychological assistance, referral to other public service providers, skills training, internship, hiring subsidies and so on).

▶ Source: Instituto do Emprego e Formação Profissional, IP, Departamento de Emprego, Profiling: Construção do modelo, Lisbon, Mimeo 2013; ILO Individual employment planning targeting youth at risk: Guidelines and tools, ILO mimeo, 2015.

The use of profiling or screening approaches to identify those youth at risk of long-term unemployment would allow the Employment Agency of Montenegro (EAM) to: i) intervene early and reduce the cost of long school-to-work transition periods; and ii) maximize the limited human and financial resources available to the service[29]. The sequence of employment services to be provided to youth registered with the EAM is shown in Figure 4.1 below:

Figure 4.1. Service line targeting youth in the EAM



29 The loss of personal income of school to work transition periods lasting 20 months was estimated at € 36.6 million. This figure is derived by multiplying the total number of youth exposed to long transition periods (around 5,000 youth) by the average youth wage as determined by the School-to-Work Transition Survey (€345) and by the length of transition (20 months).

Box 4.2. Effect of intensive counselling on unemployment duration in France

The research aimed at assessing the effect of the four main counselling schemes offered to French unemployed, in raising the transition rate from unemployment to work and lowering recurrence into unemployment.

In the basic skill assessment ("Evaluation") – lasting one day – the counsellor helps the unemployed assess his/her professional skills, based on testing and simulated work environment.

The "Bilan de competences approfondi" is aimed at individuals with a professional experience who have difficulties finding a job corresponding to their skills. It lasts 20 hours on average, over a maximum period of 42 days. A personal adviser helps the individual analyse his/her past experience, identify skills and match them with a new employment project compatible with the state of the labour market.

Job-search support ("Objectif emploi" and similar schemes) is aimed at individuals having a well-defined employment project, but experiencing difficulties in their job search, with the aim of finding rapidly a ("long-term") job. It lasts up to three months. The individual is assigned a personal advisor who helps him define the course of actions, teaches job-search methods (for instance, résumé writing), provides logistic support, proposes job offers or interviews, contacts directly employers and so on. Some actions can be group-based.

Project support ("Objectif projet" and similar schemes) is aimed at individuals who wish or have to change profession, but need time and help to define a new employment project. It also lasts three months during which the unemployed person has frequent contacts with a personal adviser. This type of assistance is targeted to lower ability workers who have stronger difficulties with the labour market and need regular follow-up.

The evaluation found that there are significant favourable effects on both unemployment duration and recurrence, but the impact on unemployment recurrence is stronger. In particular, the programme shifts the incidence of recurrence, one year after employment, from 33 to 26 per cent. All schemes are particularly efficient for individuals with some unemployment experience. Assessment schemes are more efficient for young jobseekers, probably because new entrants are less informed and need help to fit their search strategy with the labour demand.

▶ Source: Crépon B., Dejemeppe M., Gurgand M., Counseling the Unemployed: Does It Lower Unemployment Duration and Recurrence? IZA Discussion Paper No. 1796, October 2005

The introduction of this new sequence of service delivery, however, requires that local employment offices be equipped with the necessary infrastructure and IT tools and be provided sufficient human and financial resources to manage the tasks. Furthermore, it requires that all offices are capable to deliver a minimum range of quality employment services to both unemployed and employer clients. To this end, it a functional assessment will be carried out (mapping of EAM local employment offices in terms of infrastructure, human resources, IT and service delivery capacity), which will serve to design a multi-annual development plan to modernize the EAM service delivery system. This plan will also include a human resource development strategy to professionalize the delivery of employment services and programmes.

The responsibility to implement this recommendation rests mainly with the Employment Agency of Montenegro and the Ministry of Labour and Social Welfare with the backing of the Ministry of Finance (funding allocation). The achievement of this outcome will results in improved youth employment and unemployment levels, lower rate of youth long-term unemployment and shorter transition from school to work.

Recommendation 3.2: Adjust the design and funding of active labour market policies to respond to youth needs and labour market requirements

The design of the youth employment programmes to be provided to unemployed youth will reflect on the one hand the barriers individuals faced in the labour market (as detected by the employability checklist) and the demand of the labour market (as determined by the LMIS), on the other. At the same time – the results of the impact evaluation currently being implemented on the ALMPs offered in the last few years – will serve to adjust targeting and delivery mechanism. The portfolio of programmes that will be available at the EAM will, in any case, include labour market training (including internship/traineeship); hiring subsidies; and self-employment schemes.

a) Labour market training and internship programmes

The objective of labour market training is to enhance the employability of individuals and increase their productivity. Training programmes can be relatively costly, their impact may be limited when job opportunities are scarce and they may give raise to deadweight losses (i.e. young workers would have found jobs also without the training programme) and locking-in effects (participants decrease job search efforts during participation thus lowering their chances to find work). More importantly, training programmes organized or supported by PES cannot substitute for general education and cannot remedy the shortcoming of the educational system.

The design of training programmes needs to take into account: i) the type of skills different groups of young people require to enter the labour market, ii) skills assessment and recognition/certification mechanisms; iii) the mode of training delivery (classroom, work-based or a mix); iv) the duration of the programme (sufficient to provide skills but not too long to minimize lock-in effects); and v) other support services (counselling and job search assistance, child care support, compensation during the training period).

Success of training programmes is deeply related with the content of the skills provided and how well they serve the local labour demand (demand-driven design). This is normally achieved by: i) using labour market information to identify emerging sectors and occupational areas (through employers' survey or sectoral committees); ii) involving enterprises or group of enterprises in identifying occupational competencies, validating vocational standards and providing part of the training on-the-job; iii) including core employability skills (problem-solving, team work, communication and time management) as part of the training; and iv) ensuring that the competency assessment leads to a recognized qualification.

Evidence indicate that programme designs that combine different training approaches have a higher probability of yielding positive labour market impacts on employments and/or earnings outcomes of trainees. In particular, the interaction of in-classroom and workplace training increases the likelihood of positive labour market impact by 30 percentage points, and when training is combined with counselling and guidance and placement services, the probability of finding a job increases by 53 percentage points[30].

30 Fares J., Puerto O.S., 2009. Towards comprehensive training. World Bank, Washington D.C., Social Protection Discussion paper No 0924

Box 4.3: Training programmes targeting youth in Latin America

As in other regions of the world, young people in Latin America and the Caribbean (LAC) face greater difficulties than adults in the labour market. In this region, the unemployment rate among young people is three times higher than the adult rate and the informality rate for young workers reaches 50 per cent. In the early 1990s Chile introduced a new type of training programme targeting youth (Jóvenes), which became a model for other countries in the region (Venezuela, Argentina, Paraguay, Peru, the Dominican Republic, Colombia, Panama and Haiti). Although these job training programmes differ in their design, they have the following common features:

- Their goal is to increase the probability that beneficiaries find a formal job and to improve the quality of employment;
- Their target population is usually composed of young people with few years of education, either unemployed or underemployed, who come from middle or low socio-economic strata;
- They are financed with public funds, although training itself is delegated to firms or to private vocational training centres;
- They introduce elements that aim at a demand-oriented training; meaning training on skills demanded by employers in the labour market;
- They provide training that include one to three month classroom-based technical training courses in lower-skilled trades, and/or one to three month classroom-based training in core employability skills, and/or one to three months on-the-job training; and
- They provide labour intermediation services through which programme beneficiaries are matched to firms that have vacancies or provide internships.

These programmes can affect the working conditions of young people through two mechanisms. First, the vocational training services provided in the classroom or the workplace can enhance the human capital and productive skills of the beneficiaries. Second, by providing labour intermediation services, the programmes can reduce the costs of job-seeking for the young worker and the costs of recruitment for employers. Moreover, they can also reduce the costs for firms of gathering information about potential employees if participation in the program is a signal of quality.

The results of the impact evaluations carried out in Colombia (Jóvenes en Acción) in the Dominican Republic (Juventud y Empleo) and in Panama (Procajoven) found that these programmes can generate positive impacts on the employment situation of participants. The evidence from Panama and Colombia shows positive impact on employment, working hours and labour income, while in the Dominican Republic and Colombia the results point to an increase in job formality (17 per cent and 5 percentage points, respectively) and on wages (23 per cent higher for young men and 33 per cent higher for young women).

▶ Source: González-Velosa C., Ripani L., Rosas-Shady D., How can job opportunities for young people in Latin America be improved? Inter-American Development Bank, Labor Markets and Social Security Unit, Technical Notes, 2012

A traineeship (or internship) is a period of work experience (from a few weeks up to 6 months) during which the individual receives training and gains experience in a specific field or career area[31].

Internships vary in duration and can be paid or unpaid. Traineeship programmes as part of active labour market policies were introduced across many European countries with the objective to ease the transition of young people to the world of work (see Box 4.4. below). These programmes are usually targeted at: (i) young unemployed; (ii) early school leavers and low skilled or unqualified youth who have difficulties in entering the labour market; (iii) young people at risk of social exclusion (e.g. youth with migrant and/or ethnic minority backgrounds, those from socially and economically disadvantaged households, young people living in deprived and/or remote areas, young people with physical and/or learning disabilities, etc.); and (iv) young graduates facing difficulties in finding a job.

Most forms of traineeships share a number of common characteristics, including: (i) the learning objective; (ii) the practical element of learning; and (iii) the temporary character of the placement. Traineeships have a number of key features. First they can be part of an education or training programme, or involve work-based training organised by education and training institutions and/or public employment services. Second, the practical work-related training aims at complementing theoretical education, enhance employability and/or allow participants to acquire a first work experience. Third, duration is variable, but much shorter than apprenticeship programmes. Fourth, not always there is a traineeship agreement regulating the placement, especially for postgraduate traineeships. In traineeships linked to ALMPs, the trainee terms and conditions are generally set out in traineeship agreements between the Public Employment Service, the partner providers and trainees. In most European countries, the traineeship agreement is not an employment contract. The trainee is considered a pupil, student or a person who is working on a temporary basis to acquire on-the-job experience relevant to his/her studies and/or need to acquire a first work experience. Hence, the legal position of a trainee is not equal to the legal position of a regular employee or apprentice. In addition, and in contrast to apprentices, trainees are not always remunerated, and – where they are – the level of remuneration varies widely. Finally, traineeship programmes often do not lead to a formal qualification.

The main difficulties in the design of traineeship programmes as part of ALMPs are to: i) ensure that the traineeship provides learning and work experience to the young person and that employers do not use the scheme as a form of cheap labour; and ii) avoid the "carousel" effect, i.e. the young person alternates periods of open unemployment and participation to traineeship schemes.

31 ILO, Glossary on key terms on learning and training for work, ILO, Geneva, 2006.

Box 4.4: What is the effect of traineeship (internship) schemes?

Employment outcomes of traineeships are not well documented, also due to the great variety of schemes. Overall, the most effective traineeships were found to be those undertaken during education and those linked to well-structured active labour market policies (ALMPs).

The employment outcomes of traineeship programmes delivered as part of ALMPs range from 13 per cent (Greece) to 90 per cent (Cyprus) with schemes aimed at graduates securing the best employment outcomes (for example in Ireland, Portugal, Romania, Spain, Belgium). In part, these results are associated with the employer incentives granted during and after the completion of the scheme if the trainee is retained in the job. The most common form of such post-completion subsidies is total or partial exemption for the employer from social security contributions (hiring subsidy).

The review of the main traineeship programmes in the EU member states have identified a number of factors which most often contribute to their success:

- A strong institutional and regulatory framework and the engagement of social partners;
- Close alignment to labour market needs, with a balanced mix of theoretical learning and practical, work-related experience;
- Flexible and individualized delivery to meet the needs of different groups of young people;
- High quality guidance, support and mentoring;
- Good matching of beneficiary with partner organization(s); and
- Existence of a traineeship agreement and certification procedures.

▶ Source: European Commission, 2013. Apprenticeship and traineeship schemes in EU27: Key success factors. A guidebook for policy planners and practitioners, Employment, Social Affairs and Inclusion

b) Hiring subsidies

Wage subsidies provide incentives to employers for hiring new workers or keeping employees who might otherwise be laid off by lowering the cost of labour. These interventions usually take the form of social security payment offsets or monetary grants to enterprises to cover part or all the labour cost for the individual hired. They can also take the form of vouchers that employers can redeem when creating a new position or that the unemployed can use whist job searching.

As these interventions usually carry significant "deadweight" effects (subsidized workers would have been hired also without the incentive), they are typically targeted to the long-term unemployed, areas/sectors with high unemployment, and groups of workers facing particular barriers in gaining a foothold in the labour market. A generalized subsidy to reduce the cost of hiring young workers simply based on the age criterion, therefore, is likely to be ineffective in the medium to long run. Conversely, a subsidy that is too narrowly targeted may generate a "stigmatization" effects, i.e. low take up by employers, as participants to the programme are perceived as unemployable.

Temporary hiring subsidies are more efficient than open-ended ones. The duration of the subsidy should reflect the type of problems that it intends to overcome. Subsidies of short duration (six months or less) are useful for overcoming employers' initial reluctance to hire due to the absence of signals on youth productivity. Medium-term and longer subsidy periods (from nine months up to two years) can allow young workers to develop the necessary skills and increase their productivity. Subsidized employment beyond this learning-by-doing period tends to be cost-ineffective as it leads to deadweight losses.

Imposing conditions on employers can help reducing unintended responses that reduce the effectiveness of subsidies. The conditionalities typically imposed on recruiting firms include: i) the obligation to pay back the subsidies if the hired worker is dismissed during the subsidy period; ii) the extension of the contract of the subsidized worker after the expiry of the subsidy (usually for a period at least equal to the duration of the subsidy); iii) the non-dismissal of workers in the period preceding the granting of the subsidy. To ensure that the subsidies contribute to the long-term integration of youth, further rules can make it compulsory for employers to provide training or other forms of skills development to the subsidized worker.

Whereas there are numerous programmes around the world that either subsidize the employment of young persons in the form of apprenticeships or combine formal classroom training with work experience programmes, the number of wage subsidy programmes with a substantial on-the-job training element is rather limited. The primary example of this type of programme was the wage subsidy option within the UK New Deal for youth, targeting individuals aged 18 to 24 who had been unemployed for at least six months. Following a mandatory four-month job-search programme, this scheme guaranteed a flat-rate wage subsidy for employers over a 26-week period (equivalent to about 40 per cent of starting wages) and employers were obliged to offer the young person training for at least one day per week (for which employers received a flat-rate reimbursement). This wage subsidy option led to a 20 per cent increase in outflows to jobs and only about one-fifth of this impact was due to the job-search programme element of the policy. The medium-term effects were also positive, with participants about 20 per cent less likely to be unemployed after 18 months, indicating that employers had retained previously subsidized workers on completion of the programme.

Similarly, the subsidized on-the-job training for youth in France, implemented in different forms since the mid-1980s, yielded a positive impact. Youth were hired on a fixed-term employment contract (for at least six months and up to two years) during which firms were obliged to provide training for at least 15–20 per cent of the young person's time and, in return, employers were exempted from payroll taxes and training costs were reimbursed by the state. The short subsidy (six month contract) increased the re--employment probability of participants by 20 per cent, while longer contracts (one year) increased employment and wage prospects by just 5 per cent.

These studies suggest that a combination of on-the-job training and subsidized work is particularly effective for re-integrating low-skilled, disadvantaged youth and can lead to long-lasting benefits. Conversely, the hiring subsidies introduced to promote the employment probabilities of young university graduates present substantial deadweight and substitution effects (Box 4.5)[32].

32 The deadweight loss of hiring subsidies (i.e. the resources invested in the programmes go to beneficiaries that would have been hired also in the absence of the programme) is around 20-30% when the subsidy is targeted to long-term unemployed). Displacement effects (i.e. the employment generated by the subsidy displace or crowd our regular employment) range from 20% (Ireland) to 60% (Sweden). When the employer is required to reimburse the subsidy in case of dismissal, deadweight is lower (20-30%).

Box 4.5: Do subsidies work for young university graduates?

The Stage d'Initiation à la Vie Professionelle (SIVP) is a 12 month hiring credit aimed at promoting the recruitment on first-time graduate job-seekers in Tunisia. To be eligible, the individual needed to have been registered with the PES for a period of at least three months. An exception to this rule was made for graduates whose degrees were considered to face particular recruitment difficulties (agricultural sciences; chemistry; electrical engineering; manufacturing; civil engineering; mining; law; Arabic; and Islamic studies). Eligible firms needed to be registered (i.e. part of the formal sector) and the number of subsidies received depended on the firm's size. About two thirds of the graduate's wages were paid by the employer, and the government subsidised the other third. During the programme period, the employer would also be exempt from social security contributions. The evaluation found that those who benefited from the subsidy were less likely to be jobless (–8.0 percentage points), less likely to be unemployed (–9.8 percentage points); and they are still significantly more likely to find a job in the private sector (by 21.5 percentage points). Employment impacts were largest for women, for those residing outside Tunis and its surroundings, and for those spending the first three months after graduation unemployed. However, one key conclusion is that the design of the programme had probably large deadweight losses (over 60 per cent). This is primarily because individuals self-selected into the programme and subsidies were allocated on a first-come first-served basis - meaning that the most employable graduates would probably have been more likely to benefit.

The Jordan New Opportunities for Women provided young community college graduates with either i) a voucher that would pay an employer a subsidy equivalent to the minimum wage for up to 6 months if they hired the graduate; or ii) 45 hours of employability skills training designed to provide them with the soft skills (effective communication and business writing kills, team-building and team work skills, time management, positive thinking, excellence in providing customer service, and C.V. and interviewing skills); or iii) both interventions. The wage subsidies led to large short-term gains in employment, with a 25 percentage point increase in employment in the capital city and 50 percent increase outside of it but almost entirely in jobs not registered with social security. After 14 months, the voucher no longer had any impact on employment probability in the capital city. The soft skills training had no short-term impact on employment.

▶ Source: Broecke S., Tackling graduate unemployment in North Africa through employment subsidies: A look at the SIVP programme in Tunisia, IZA Journal of Labor Policy 2013, 2:9; Groh, M., Nandini K., McKenzie D.. Vishwanath T., "Soft skills or hard cash? The impact of training and wage subsidy programs on female youth employment in Jordan", World Bank Policy Research Working Paper no. 6141, 2012

c) Self-employment programmes

Self-employment programmes (training, grants and loans) have the objective to support young people to open a business. These programmes generally include advice on viable business ventures; training courses on how to establish and manage a small business; non-refundable grants; (refundable) credits; and specialized services (marketing, finance, export markets, supply chains and so on). Very few among the unemployed typically take up self-employment opportunities (generally around 2-3 per cent of the unemployed). Participants are typically better educated men in their late twenties. Another problem is the potential displacement effect, whereby small businesses that do not receive assistance are disadvantaged in relation to those that are supported.

A meta-analysis of the impact of entrepreneurship programmes found a wide variation in programme effectiveness across different interventions depending on types of beneficiaries and country context. Overall, entrepreneurship programmes have a positive impact for youth and on business knowledge and practice, but no immediate translation into business set-up, expansion or increased income.

Combinations of different intervention types matters. With respect to training programmes, vocational and business training work better than financial training, and can be further improved by combining financing support and counselling. In terms of financing, there are little variations in effectiveness of cash, in-kind grants, and microcredit. A package promoting skills with financing support seems to have larger impacts on labour market activity. For young women, the largest effects come from providing access to credit, suggesting that access to credit may be the largest constraint faced by women in setting up a business venture. Overall, involving the private sector for the delivery of programs and evaluating the program in the longer term appear to be more closely associated with improved effects of programmes.

Box 4.6: Funding mechanisms and youth entrepreneurship

The difficulties that young people and other vulnerable groups of the population (unemployed, women, persons with disabilities, minority groups) face in obtaining finance for business start-ups have been addressed by government agencies through grants, soft and micro loans and loan guarantees.

- Grant-based schemes can be an important source of finance for people who lack access to bank loans. The main drawback of these schemes is "moral hazard", i.e. the beneficiary is not entirely liable for the money or for the consequences of his/her actions.
- Soft loans provide credit at no or very low interest terms. There are generally no collateral requirements, although there may be eligibility criteria such as having a business plan, demonstrating commitment, ability to repay the loan and having reasonable equity participation.
- Micro loans are small loans, mostly offered by micro finance institutions such as credit unions and non-governmental organizations. The demand for micro-credit still vastly exceeds supply, especially for young entrepreneurs.
- In loan guarantee schemes the government assumes some or all of the credit risk involved in lending to young entrepreneurs. This is potentially an efficient means to facilitate young people's access to conventional financing.

Despite the resources invested in schemes to ease the access to finance, there is little evidence on their impact and especially so for young entrepreneurs. Available evidence shows that the effect of loan guarantees is stronger on credit conditions (and especially for small and medium size enterprises) rather than on credit expansion. Although young entrepreneurs are often an explicit target group of micro-finance institutions, their access to these finance tools is rather limited. In the European Union, youth represent only 10 per cent of micro-credit clients. A recent review of the impact of micro-credit schemes in middle income countries finds that most programme have a strong effect on the creation of new businesses, but little impact on employment creation, business profit and capital stock.

In Peru, the programme Formación Empresarial de la Juventud was found to increase the probability of young participants to have their own business by 30 percentage points, while the programme Calificación de Jóvenes Creadores de Microempresas increased the probability of business survival over one year by 39 percentage points. Both programmes combined entrepreneurship training, business support and credit facilities.

In Europe, there is scant evaluation evidence on the impact of entrepreneurship development interventions targeting youth (CréaJeunes in France, the Prince's Trust Enterprise programme in the UK and the Junior Achievement Company Program in Sweden). All these programmes were found to have little or no effect, with substantial deadweight and substitution effects.

▶ Source: OECD and European Commission, Entrepreneurial activities in Europe. Policy brief on access to business start-up finance for inclusive entrepreneurship, Brussels and Paris 2014; Grimm M., Paffhausen A.L. Do Interventions targeted at micro-entrepreneurs and small and medium-sized firms create jobs? A systematic review of the evidence for low and middle income countries, IZA Discussion Paper No 8193, 2014; Cho Y, Honorati M., Entrepreneurship programs in developing countries: A meta regression analysis, IZA Discussion Paper No 7333, 2013; EUROFOUND, Start-up support for young people in the EU: From implementation to evaluation, Publications Office of the European Union, Luxembourg, 2016.

The effectiveness of youth employment services and programmes depends – aside from the specific the features of the different types of interventions – also by the existence of a monitoring and evaluation system that regularly provides information on what works and for whom.

Monitoring and evaluation are the processes that allow policy-makers and programme managers to assess how an intervention evolves over time (monitoring); examine how effectively a programme was implemented and whether the expected results were achieved (performance monitoring or measurement); and to determine whether the changes in well-being are due to the programme intervention and to the programme alone (impact evaluation). Monitoring and evaluation of employment programmes are usually accompanied by information on their costs to judge benefits, identify which intervention has the highest rate of return and improve resource allocation. This is normally done through cost-benefit (total benefits of an intervention compared to its total costs) or cost-effectiveness analysis (which compares the relative performance in terms of costs of two or more programmes). An important component of these exercises is the appraisal of the quality of jobs that participants get at the end of the programme (measured in terms of wage progression, career advancement opportunities and stability of the employment relation).

Performance monitoring allows measuring the performance of ALMPs across individuals, types of intervention and geographical areas. This type of monitoring system works through performance indicators, i.e. concise quantitative and/or qualitative measures that allow calculating the results of the programme against the situation before the programme was implemented (baseline). Since what characterizes employment programmes is their labour market objective, the results are usually measured in terms of increases in employment (employment rate of participants after the programme), employment-related earnings (wage level of participants after the programme), as well as average cost incurred per participant employed.

To operationalize a performance monitoring system, the records of programme participants (information on individual characteristics such as age, sex, education level, other labour market barriers – early school leaving, long-term unemployed or degree of disability) are combined with figures of individual outcomes (employment and earnings) at follow-up, gathered either through existing administrative data or through follow-up surveys. In the monitoring done through administrative data, the information on programme participants is checked against the data of social security contribution, national insurance, employment service or payroll tax agency after the intervention has ended. Administrative data, however, do not capture participants that are (self)-employed in the informal economy. If figures on employment and earnings cannot be derived from administrative data sources, a follow-up survey on programme participants is typically organized to verify their labour market status and level of earnings after attending the programme. The sequence and format of the survey questionnaire is similar to those of the national Labour Force Survey.

An impact evaluation measures the effect of a youth employment programme by establishing causality between the changes in terms of employment/earnings and the programme. The causal impact of a programme is the difference between the outcome (result) with the programme and the same outcome without the programme. To estimate the counterfactual (e.g. what would have happened without the programme) comparison (or "control") groups are used. Impact evaluation exercises are the only means to know whether a programme is having the expected effect on young beneficiaries and to understand the extent of distortions (deadweight loss and substitution).

Box 4.7: Monitoring and evaluation of youth employment programmes in FYR of Macedonia

The FYR of Macedonia introduced publicly-financed active labour market programmes in 2007. The portfolio of programmes included on-the-job training, self-employment schemes and hiring subsidies. In 2012 the country requested the assistance of the International Labour Office (ILO) to strengthen the ALMP performance monitoring system and conduct a survey-based monitoring exercise to understand which programme was performing better. The findings of this exercise showed that:

- The programmes work better for men, in the age group 25 to 45 (e.g. prime age individuals) with secondary education and higher;
- The overwhelming majority of participants were able to get jobs soon after the programme end, but the effect diminished over time, especially so for hiring subsidies (with 57 per cent having lost the job they had gained after the programme);
- Self-employment yielded the higher returns (with an average share of 61.3 per cent of participants employed) followed by training (44.2 per cent of participants) and subsidies (33.5 per cent);
- All programmes work reasonably well in terms of earnings, with most participants earning net wages/incomes in the MKD 8,000-12,000 bracket. Approximately 22 per cent of participants had earnings below the statutory minimum wage, with participants to training slightly more likely to be earning low wages.

As a result of these findings, the design of the above mentioned programmes was adjusted to make them more responsive to the needs of unemployed individuals.

In 2014, the ILO provided technical assistance to the Ministry of Labour to conduct an impact evaluation exercise on a selection of ALMPs implemented by the Employment Service Agency in the period 2008-2012 (self-employment, internship, on-the-job training, hiring subsidies, training for advanced IT skills and training for deficient occupations). The evaluation found that the on-the-job training and internship programme increased employment probabilities (by 38 per cent and 27 per cent, respectively) and that hiring subsidies and training for deficient occupations had a negative impact (lower employment probability of participants compared to non-participants). For training in advanced IT skills and the self-employment programme there was no impact. As a result of these findings, the design of poorly performing measures was changed.

Source: ILO, Performance monitoring of active labour market programmes implemented in 2007-2010, ILO Skopje, 2012; Mojsoska-Blazevski, N., Petreski, M., Impact evaluation of active labour market programs in FYR Macedonia: Key findings ILO DWT and Country Office for Central and Eastern Europe, Budapest, 2015

Finally, countries that succeeded in addressing national youth unemployment challenges have progressively increased the funds invested in ALMPs as well as the share of funding earmarked for youth services and programmes. To this end, the EAM will progressively increase the funding allocation devoted to young unemployed, to reach 30 per cent of total funding by 2020.

The responsibility to implement this recommendation rests mainly with the Employment Agency of Montenegro and the Ministry of Labour and Social Welfare with the backing of the Ministry of Finance (funding allocation). The achievement of this outcome will result in improved youth employment and unemployment levels, lower rate of youth long-term unemployment and shorter transition from school to work.

Recommendation 3.3: The EAM should improve the quality of services provided to employers and provide young unemployed clients with a reliable outlook of job vacancies

The data of the school-to-work transition shows the importance of social connections in finding a job. Those young people who do not have strong social connections tend to experience a more difficult transition to the world of work. To break this cycle, it is necessary for the local employment offices to become one of the main channels used by young jobseekers. This, however, requires the capacity of EAM offices to expand the range of job vacancies they are able to capture in the open labour market.

The EAM approach to employers will be re-examined. Most employment services in Europe use multi-channel strategies for the delivery of services to employers. These strategies combine face-to-face contacts with different e-channels, including self-service options (e.g. the possibility to post vacancies directly in the public employment service database). But personal contact is still regarded as extremely important, especially with respect to more complex and firm-specific advisory services. A more pro-active approach towards employers posting vacancies would envisage the offering of assistance to carry out job task analysis to better formulate the vacancy announcement, personalized screening and pre-selection of candidates and advice to comply with legal requirements. Many employers appreciate the personalized assistance and expertise that employment counsellors could provide and such assistance can also foster long-term relations with employers and promote the acquisition of new employer clients. This task, however, requires that each local office carry out regular mapping exercises of employers that are active in their catchment area with a view to establish contact and offer specialized services.

Another key challenge for the EAM is to overcome the stereotype of dealing only with low level jobs and to increase its penetration of the vacancy market. One way of achieving this is to develop partnerships with Private Employment Agencies (PrEAs) and the media. Many employment services in Europe share vacancies and curricula vitae in real time by using web services technology and/or Human Resources Extensible Mark-up Language (HRXML)[33]. An example of web services XML software is the European Job Mobility Portal that allows real-time access to jobs in over thirty countries[34]. The same approach could be used by the EAM to allow searches from its own portal to the portals of private employment agencies and newspaper vacancy databases. This has the potential to radically increase the EAM share of the vacancy market and to attract more young jobseekers towards the service. This, however, requires the EAM to progressively improve its job vacancy data management system and a strengthening of job mediation services to maximize youth recruitment opportunities.

The responsibility to implement this recommendation rests mainly with the Employment Agency of Montenegro and the Ministry of Labour and Social Welfare with the backing of the Ministry of Finance (funding allocation). The achievement of this outcome will results in improved youth employment and unemployment levels, lower rate of youth long-term unemployment and shorter transition from school to work.

33 Some European employment services HR-XML (human resources-related data exchange) to electronically transfer curricula vitae and vacancies in a seamless way from private to public employment services. The system allows to exchanging CVs and vacancies over the internet in agreed electronic formats. Examples of PrEAs involved in this system with the PES include Adecco, Manpower and Ranstad. Employers using HR-XML include Microsoft and Oracle.

34 http://ec.europa.eu/eures/main.jsp?acro=job&lang=en&catId=482&parentCategory=482

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